

TOWN OF ESSEX, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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Independent Auditors' Report



Certified Public Accountants

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Essex, Massachusetts

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 fiscal year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Essex, Massachusetts' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 19, 2013 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 13) and general fund budgetary comparison and certain pension and other post employment benefits information (located on pages 53 through 59) 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.

Sullivan, Day & Company, LLC

February 19, 2013

Management's Discussion and Analysis

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, 2012.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$30,506,927 (net assets). Of this amount, \$17,063,218 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets decreased by \$111,373 in the current fiscal year.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$1,289,658, or 10.4%, of total general fund expenditures and transfers out.
- The Town's total bonded debt decreased by \$1,341,860 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 assets** presents information on all of the Town's non-fiduciary assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The **statement of activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise 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, earned but unused vacation leave, 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*). 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 15-17 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 77 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 and community preservation (special revenue) funds, each of which are considered to be major funds. Data from the other 75 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 18-21 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, which are considered to be major funds.

The basic proprietary funds financial statements can be found on pages 22-24 of this report.

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 25-26 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 27-52 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 53-59 of this report.

Government-Wide Financial Analysis

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

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$30,506,927 at the close of the fiscal year and are summarized as follows:

| | <i>Governmental Activities</i> | | <i>Business-Type Activities</i> | | <i>Total</i> | |
|---|--------------------------------|--------------|---------------------------------|---------------|---------------|---------------|
| | 2012 | 2011 | 2012 | 2011* | 2012 | 2011* |
| Assets | | | | | | |
| Current assets..... | \$ 3,832,786 | \$ 3,419,049 | \$ 3,605,219 | \$ 3,553,211 | \$ 7,438,005 | \$ 6,972,260 |
| Noncurrent assets (excluding capital assets)..... | 310,915 | 336,292 | 12,852,154 | 13,721,248 | 13,163,069 | 14,057,540 |
| Capital assets (net)..... | 3,163,196 | 3,214,660 | 27,430,553 | 28,097,440 | 30,593,749 | 31,312,100 |
| Total assets..... | 7,306,897 | 6,970,001 | 43,887,926 | 45,371,899 | 51,194,823 | 52,341,900 |
| Liabilities | | | | | | |
| Current liabilities (excluding debt)..... | 491,012 | 280,497 | 499,226 | 548,469 | 990,238 | 828,966 |
| Noncurrent liabilities (excluding debt)..... | 800,460 | 643,786 | 156,343 | 121,133 | 956,803 | 764,919 |
| Current debt..... | 131,242 | 131,301 | 1,409,700 | 1,406,559 | 1,540,942 | 1,537,860 |
| Noncurrent debt..... | 573,407 | 704,649 | 16,626,506 | 17,887,206 | 17,199,913 | 18,591,855 |
| Total liabilities..... | 1,996,121 | 1,760,233 | 18,691,775 | 19,963,367 | 20,687,896 | 21,723,600 |
| Net Assets | | | | | | |
| Invested in capital assets (net of related debt)..... | 2,672,320 | 2,572,970 | 9,397,468 | 8,806,796 | 12,069,788 | 11,379,766 |
| Restricted..... | 1,373,921 | 1,311,171 | - | - | 1,373,921 | 1,311,171 |
| Unrestricted..... | 1,264,535 | 1,325,627 | 15,798,683 | 16,601,736 | 17,063,218 | 17,927,363 |
| Total net assets..... | \$ 5,310,776 | \$ 5,209,768 | \$ 25,196,151 | \$ 25,408,532 | \$ 30,506,927 | \$ 30,618,300 |

* Certain reclassifications have been made to net assets for consistency with the current year presentation.

A portion of the Town's net assets (39.6%) reflects its investment in capital assets (e.g., land, 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 assets (4.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (55.9% or \$17,063,218) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$1,264,535 may be used to support governmental activities and \$15,798,683 may be used to support business-type activities.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Assets

For the fiscal year ended June 30, 2012, the Town's total net assets decreased by \$111,373, compared to a decrease of \$327,637 in the prior fiscal year. These amounts are summarized as follows:

| | <i>Governmental Activities</i> | | <i>Business-Type Activities</i> | | <i>Total</i> | |
|--|--------------------------------|-------------------|---------------------------------|------------------|-------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Revenues | | | | | | |
| <i>Program Revenues:</i> | | | | | | |
| Charges for services..... | \$ 476,859 | \$ 474,793 | \$ 1,536,149 | \$ 1,590,277 | \$ 2,013,008 | \$ 2,065,070 |
| Operating grants and contributions..... | 330,355 | 346,250 | 631,463 | 666,692 | 961,818 | 1,012,942 |
| Capital grants and contributions..... | 197,784 | 60,725 | - | - | 197,784 | 60,725 |
| <i>General Revenues:</i> | | | | | | |
| Real estate and personal property taxes..... | 10,599,592 | 10,550,804 | - | - | 10,599,592 | 10,550,804 |
| Motor vehicle and other excise taxes..... | 477,338 | 512,585 | - | - | 477,338 | 512,585 |
| Conomo Point lease revenue..... | 319,740 | 110,141 | - | - | 319,740 | 110,141 |
| Penalties and interest on taxes..... | 50,263 | 44,959 | - | - | 50,263 | 44,959 |
| Community preservation surcharges..... | 42,697 | 41,891 | - | - | 42,697 | 41,891 |
| Grants and contributions not restricted to specific programs..... | 287,322 | 294,763 | - | - | 287,322 | 294,763 |
| Unrestricted investment income..... | 11,209 | 12,639 | - | - | 11,209 | 12,639 |
| Total revenues..... | 12,793,159 | 12,449,550 | 2,167,612 | 2,256,969 | 14,960,771 | 14,706,519 |
| Expenses | | | | | | |
| General government..... | 1,329,962 | 1,130,451 | - | - | 1,329,962 | 1,130,451 |
| Public safety..... | 2,165,143 | 2,119,697 | - | - | 2,165,143 | 2,119,697 |
| Education..... | 7,373,980 | 7,438,018 | - | - | 7,373,980 | 7,438,018 |
| Public works..... | 1,053,203 | 1,113,533 | - | - | 1,053,203 | 1,113,533 |
| Health and human services..... | 261,180 | 246,291 | - | - | 261,180 | 246,291 |
| Culture and recreation..... | 200,447 | 157,089 | - | - | 200,447 | 157,089 |
| Debt service - interest..... | 14,546 | 14,245 | - | - | 14,546 | 14,245 |
| Sewer..... | - | - | 1,949,810 | 2,011,085 | 1,949,810 | 2,011,085 |
| Water..... | - | - | 723,873 | 748,856 | 723,873 | 748,856 |
| Youth..... | - | - | - | 54,891 | - | 54,891 |
| Total expenses..... | 12,398,461 | 12,219,324 | 2,673,683 | 2,814,832 | 15,072,144 | 15,034,156 |
| Change in net assets before transfers..... | 394,698 | 230,226 | (506,071) | (557,863) | (111,373) | (327,637) |
| Transfers, net..... | (293,690) | (367,241) | 293,690 | 367,241 | - | - |
| Change in net assets before extraordinary item..... | 101,008 | (137,015) | (212,381) | (190,622) | (111,373) | (327,637) |
| <i>Extraordinary item - transfer of Youth Enterprise OPEB to governmental activities</i> | - | (16,988) | - | 16,988 | - | - |
| Change in net assets..... | 101,008 | (154,003) | (212,381) | (173,634) | (111,373) | (327,637) |
| Net assets - beginning of year..... | 5,209,768 | 5,363,771 | 25,408,532 | 25,582,166 | 30,618,300 | 30,945,937 |
| Net assets - end of year..... | \$ 5,310,776 | \$ 5,209,768 | \$ 25,196,151 | \$ 25,408,532 | \$ 30,506,927 | \$ 30,618,300 |

Governmental activities increased the Town's net assets by \$101,008. In the prior year, governmental activities decreased the Town's net assets by \$154,003. The key element of this change was the decrease in the use of reserves to fund the general fund budget (approximately \$316,000).

Business-type activities decreased the Town's net assets by \$212,381. In the prior year, business-type activities decreased the Town's net assets by \$173,634. The key element of this change was a decrease in the sewer enterprise subsidy from the general fund (approximately \$68,000).

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 \$3,145,776, an increase of \$225,844 in comparison with the prior year. Approximately \$1,290,000 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$429,990)
- Restricted (\$1,031,598)
- Committed (\$328,924)
- Assigned (\$65,606)

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 \$1,289,658, while total fund balance was \$1,709,000. 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 10.4% of total general fund expenditures and transfers out, while total fund balance represents 13.7% of that same amount.

The balance of the Town's general fund increased by \$56,890 during fiscal year 2012. Although the Town recognized an approximate \$905,000 budgetary surplus (excluding encumbrances and continuing appropriations), approximately \$615,000 of reserves was utilized for spending during the fiscal year.

Financial highlights of the Town's other major governmental fund is as follows:

The fund balance of the community preservation fund (special revenue) increased by \$33,294 during the current fiscal year. This is attributable to community preservation surcharges (\$43,107), intergovernmental revenues (\$11,144), investment income (\$543) and expenditures of \$21,500.

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 assets of the sewer and water enterprise funds at the end of the year amounted to \$15,252,753 and \$545,930, respectively. The sewer and water enterprise funds had decreases in net assets for the year of \$210,175 and \$2,206, respectively.

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

General Fund Budgetary Highlights

The original general fund budget of \$12,393,781 was increased by \$186,930 (1.5%) during the fiscal year. The following table summarizes the increase:

| <u>Purpose of Increase</u> | <u>Amount</u> | <u>Funding Source</u> |
|--|---------------|------------------------------|
| Conomo Point consulting services..... | 60,000 | Unassigned fund balance |
| Police cruiser..... | 31,000 | Unassigned fund balance |
| Replenish finance committee FY13 reserve fund..... | 30,000 | Unassigned fund balance |
| Public safety radios..... | 28,500 | Unassigned fund balance |
| Replenish finance committee FY12 reserve fund..... | 20,000 | Unassigned fund balance |
| Police modular unit..... | 20,000 | Unassigned fund balance |
| Conomo Point appraisal services..... | 17,000 | Unassigned fund balance |
| Unemployment benefits..... | 15,000 | Unassigned fund balance |
| Public works radios..... | 11,500 | Unassigned fund balance |
| Town events labor & expenses..... | 10,000 | Unassigned fund balance |
| Harbormaster outboard motor..... | 7,400 | Transfer from waterways fund |
| Interest on short-term debt..... | 2,315 | Unassigned fund balance |
| Chapter 90 fund deficit..... | 1,137 | Unassigned fund balance |
| Shellfish boat engine repairs..... | 116 | Unassigned fund balance |
| Decrease in sewer enterprise fund subsidy..... | (67,038) | Reduction in tax levy |
| Total increase..... | \$ 186,930 | |

During the year, general fund revenues, other financing sources and transfers out 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 \$767,000.

*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 \$30,593,749 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year totaled \$718,351, or 2.3% (a \$51,464 decrease for governmental activities and a \$666,887 decrease for business-type activities).

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

- Main Street boardwalk construction in progress (\$86,100)
- Capital lease of public works dump truck (\$35,515)
- Purchase of police cruiser (\$31,000)

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

| | <i>Governmental Activities</i> | | <i>Business-Type Activities</i> | | <i>Total</i> | |
|--|--------------------------------|--------------|---------------------------------|---------------|---------------|---------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land..... | \$ 133,095 | \$ 133,095 | \$ 2 | \$ 2 | \$ 133,097 | \$ 133,097 |
| Land improvements..... | 448,622 | 482,781 | - | - | 448,622 | 482,781 |
| Buildings and improvements..... | 1,394,013 | 1,446,758 | 828,633 | 902,979 | 2,222,646 | 2,349,737 |
| Machinery, vehicles and equipment..... | 804,019 | 843,971 | 66,479 | 62,719 | 870,498 | 906,690 |
| Infrastructure..... | 297,343 | 308,055 | 26,535,439 | 27,131,740 | 26,832,782 | 27,439,795 |
| Construction in progress..... | 86,104 | - | - | - | 86,104 | - |
| Total capital assets..... | \$ 3,163,196 | \$ 3,214,660 | \$ 27,430,553 | \$ 28,097,440 | \$ 30,593,749 | \$ 31,312,100 |

Additional information on the Town's capital assets can be found in Note 5 on pages 39-40 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$18,591,855, which is backed by the full faith and credit of the Town, and is summarized as follows:

| | <i>Governmental Activities</i> | | <i>Business-Type Activities</i> | | <i>Total</i> | |
|-------------------------------|--------------------------------|------------|---------------------------------|---------------|---------------|---------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| General obligation bonds..... | \$ 205,000 | \$ 275,000 | \$ 1,325,000 | \$ 1,440,000 | \$ 1,530,000 | \$ 1,715,000 |
| MWPAT notes..... | 346,949 | 373,250 | 16,562,206 | 17,692,765 | 16,909,155 | 18,066,015 |
| State House notes..... | 152,700 | 152,700 | - | - | 152,700 | 152,700 |
| Total bonds and notes..... | \$ 704,649 | \$ 800,950 | \$ 17,887,206 | \$ 19,132,765 | \$ 18,591,855 | \$ 19,933,715 |

The Town's total bonded debt decreased by \$1,341,860 (6.7%) 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 \$39,934,230.

Additional information on the Town's long-term debt can be found in Note 9 on pages 43-45 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the fiscal year 2013 general fund operating budget was influenced by five major factors: employee salary increases, increased "new growth", level-funded state receipts, limitations on the property tax levy imposed by Proposition 2 1/2, and the Manchester Essex Regional School District budget apportionment. Revenue from leased property at Conomo Point is another factor that the Town is closely monitoring as we head toward fiscal year 2014.

Approximately 60% of municipal employees are covered by collective bargaining agreements (CBAs) in three different unions (AFSCME, the Essex Police Benevolent Association - EPBA, and the Teamsters). All three CBAs are set to expire on June 30, 2013 and bargaining for successor agreements has commenced. The actual percentage increase to union and non-union salaries and wages was 2.0% between fiscal year 2012 and fiscal year 2013 (excepting the EPBA, which had a zero percent increase).

In fiscal year 2012, the Commonwealth of Massachusetts provided the Town with \$233,294 in State Cherry Sheet aid. This amount was \$16,869, or 6.8%, lower than received in fiscal year 2011. This follows a 6.6% increase from fiscal year 2010 to fiscal year 2011. \$234,037 in State aid is expected for fiscal year 2013, representing essentially level funding. The Commonwealth is no longer funding the Quinn Bill and is considering a mid-fiscal year decrease to fiscal year 2013 state aid.

Property taxes in Massachusetts' municipalities are limited to a levy growth of 2 ½ percent plus a factor for "new growth", unless the voters elect to approve an increase for operating expenses or debt service for a specific project. Spending was impacted from an increase in "new growth" from \$53,946 in fiscal year 2011 to \$104,437 in fiscal year 2012. However, \$133,947 in "new growth" has been certified for fiscal year 2013. Voters approved an one-time capital exclusion for \$190,000 to purchase a fire truck and a \$600,000 debt exclusion for renovations to Town Hall.

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 2013, the Essex apportionment increased by 2.5% (\$152,417) and totaled \$6,329,146. Also in fiscal year 2013, a debt assessment from the District relative to the new Manchester Essex Regional High School building construction of \$761,705 comes due and is covered by a debt exclusion outside of the Proposition 2 ½ limit. This assessment represents a \$19,655 decrease from the fiscal year 2012 assessment of \$781,360.

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 current leaseholders. The Selectmen offered 121 bridge leases and, ultimately, 119 leaseholders signed. Bridge leases will be offered annually, likely for a total of three, one-year terms. 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. Years two and three are expected to generate approximately \$578,000 and \$723,000, as affected by: a) approximately 40 properties in the southern area of Conomo Point being sold to the tenants (as per more recent Special Legislation and a 2012 Annual Town Meeting vote), and b) approximately 80 bridge leases that remain in the northern area taking a phased-in approach to rent increases. It is possible that the northern area will be sold and/or long-term leased again in the future but it's status is simply not known at this time since Town Meeting action will dictate the issue's future. This issue has the potential to be revenue-positive or revenue-negative and will include such factors as property sale proceeds, new lease revenue, loss of lease revenue, redistribution of taxes, development of vacated property, substantial legal fees, and other complex issues.

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.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2012

| ASSETS | Primary Government | | |
|--|-------------------------|--------------------------|---------------|
| | Governmental Activities | Business-type Activities | Total |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 2,011,933 | \$ 2,196,201 | \$ 4,208,134 |
| Restricted cash and cash equivalents..... | 1,177,487 | 3,121 | 1,180,608 |
| Receivables, net of allowance for uncollectible amounts: | | | |
| Real estate and personal property taxes..... | 261,432 | - | 261,432 |
| Tax liens..... | 180,198 | - | 180,198 |
| Motor vehicle and other excise taxes..... | 27,667 | - | 27,667 |
| Community preservation surcharges..... | 1,373 | - | 1,373 |
| Water..... | - | 270,135 | 270,135 |
| Sewer..... | - | 237,860 | 237,860 |
| Special assessments..... | - | 782,534 | 782,534 |
| Departmental and other..... | 31,578 | - | 31,578 |
| Intergovernmental..... | 122,812 | 115,368 | 238,180 |
| Loans..... | 18,306 | - | 18,306 |
| Total current assets..... | 3,832,786 | 3,605,219 | 7,438,005 |
| Noncurrent assets: | | | |
| Receivables, net of allowance for uncollectible amounts: | | | |
| Real estate tax deferrals..... | 71,832 | - | 71,832 |
| Special assessments..... | - | 10,858,865 | 10,858,865 |
| Intergovernmental..... | - | 1,993,289 | 1,993,289 |
| Loans..... | 211,269 | - | 211,269 |
| Tax foreclosures..... | 27,814 | - | 27,814 |
| Capital assets not being depreciated..... | 219,199 | 2 | 219,201 |
| Capital assets, net of accumulated depreciation..... | 2,943,997 | 27,430,551 | 30,374,548 |
| Total noncurrent assets..... | 3,474,111 | 40,282,707 | 43,756,818 |
| Total assets..... | 7,306,897 | 43,887,926 | 51,194,823 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Warrants payable..... | 170,850 | 18,212 | 189,062 |
| Accrued payroll..... | 66,416 | 11,212 | 77,628 |
| Tax refunds payable..... | 165,428 | - | 165,428 |
| Other liabilities..... | 25,101 | - | 25,101 |
| Accrued interest..... | 6,301 | 465,315 | 471,616 |
| Capital lease obligations..... | 43,256 | - | 43,256 |
| Compensated absences..... | 13,660 | 4,487 | 18,147 |
| Short-term notes payable..... | - | 149,000 | 149,000 |
| Long-term bonds and notes payable..... | 131,242 | 1,260,700 | 1,391,942 |
| Total current liabilities..... | 622,254 | 1,908,926 | 2,531,180 |
| Noncurrent liabilities: | | | |
| Capital lease obligations..... | 117,717 | - | 117,717 |
| Compensated absences..... | 122,936 | 40,385 | 163,321 |
| Net OPEB obligation..... | 559,807 | 115,958 | 675,765 |
| Long-term bonds and notes payable..... | 573,407 | 16,626,506 | 17,199,913 |
| Total noncurrent liabilities..... | 1,373,867 | 16,782,849 | 18,156,716 |
| Total liabilities..... | 1,996,121 | 18,691,775 | 20,687,896 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt..... | 2,672,320 | 9,397,468 | 12,069,788 |
| Restricted for: | | | |
| Community preservation..... | 238,096 | - | 238,096 |
| Loans..... | 229,575 | - | 229,575 |
| Ambulance..... | 316,785 | - | 316,785 |
| Permanent funds: | | | |
| Expendable..... | 41,070 | - | 41,070 |
| Nonexpendable..... | 200,415 | - | 200,415 |
| Other specific purposes..... | 347,980 | - | 347,980 |
| Unrestricted..... | 1,264,535 | 15,798,683 | 17,063,218 |
| Total net assets..... | \$ 5,310,776 | \$ 25,196,151 | \$ 30,506,927 |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| Functions/Programs | Expenses | Program Revenues | | | | Net (Expense)/ Revenue |
|-------------------------------------|---------------|-------------------------|--|--|----|------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | | |
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| General government..... | \$ 1,329,962 | \$ 241,998 | \$ 16,729 | \$ 11,144 | \$ | (1,060,091) |
| Public safety..... | 2,165,143 | 192,029 | 28,695 | - | | (1,944,419) |
| Education..... | 7,373,980 | - | 258,406 | - | | (7,115,574) |
| Public works..... | 1,053,203 | 4,911 | - | 186,640 | | (861,652) |
| Health and human services..... | 261,180 | 32,526 | 14,037 | - | | (214,617) |
| Culture and recreation..... | 200,447 | 5,395 | 12,488 | - | | (182,564) |
| Debt service - interest..... | 14,546 | - | - | - | | (14,546) |
| Total governmental activities..... | 12,398,461 | 476,859 | 330,355 | 197,784 | | (11,393,463) |
| Business-type activities: | | | | | | |
| Sewer..... | 1,949,810 | 814,941 | 631,005 | - | | (503,864) |
| Water..... | 723,873 | 721,208 | 458 | - | | (2,207) |
| Total business-type activities..... | 2,673,683 | 1,536,149 | 631,463 | - | | (506,071) |
| Total primary government..... | \$ 15,072,144 | \$ 2,013,008 | \$ 961,818 | \$ 197,784 | \$ | (11,899,534) |

(continued)

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | Primary Government | | |
|--|----------------------------|-----------------------------|-----------------|
| | Governmental Activities | Business-type Activities | Total |
| Changes in net assets: | | | |
| Net (expense)/revenue (from previous page)..... | \$ (11,393,463) | \$ (506,071) | \$ (11,899,534) |
| <i>General revenues:</i> | | | |
| Real estate and personal property taxes..... | 10,599,592 | - | 10,599,592 |
| Motor vehicle and other excise taxes..... | 477,338 | - | 477,338 |
| Lease revenue..... | 319,740 | - | 319,740 |
| Penalties and interest on taxes..... | 50,263 | - | 50,263 |
| Community preservation surcharges..... | 42,697 | - | 42,697 |
| Grants and contributions not restricted to specific programs..... | 287,322 | - | 287,322 |
| Unrestricted investment income..... | 11,209 | - | 11,209 |
| Transfers, net | (293,690) | 293,690 | - |
| Total general revenues and transfers..... | 11,494,471 | 293,690 | 11,788,161 |
| Change in net assets..... | 101,008 | (212,381) | (111,373) |
| Net assets - beginning of year..... | 5,209,768 | 25,408,532 | 30,618,300 |
| Net assets - end of year..... | \$ 5,310,776 | \$ 25,196,151 | \$ 30,506,927 |

(concluded)

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

| ASSETS | General | Community Preservation | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------------|-----------------------------------|--------------------------------|
| Cash and cash equivalents..... | \$ 2,011,933 | \$ - | \$ - | \$ 2,011,933 |
| Receivables, net of allowance for uncollectible amounts: | | | | |
| Real estate and personal property taxes..... | 261,432 | - | - | 261,432 |
| Real estate tax deferrals..... | 71,832 | - | - | 71,832 |
| Tax liens..... | 180,198 | - | - | 180,198 |
| Motor vehicle and other excise taxes..... | 27,667 | - | - | 27,667 |
| Community preservation surcharges..... | - | 1,373 | - | 1,373 |
| Departmental and other..... | 566 | - | 31,012 | 31,578 |
| Intergovernmental..... | - | - | 122,812 | 122,812 |
| Loans..... | - | - | 229,575 | 229,575 |
| Tax foreclosures..... | 27,814 | - | - | 27,814 |
| Restricted assets: | | | | |
| Cash and cash equivalents..... | 24,812 | 236,723 | 915,952 | 1,177,487 |
| TOTAL ASSETS..... | \$ 2,606,254 | \$ 238,096 | \$ 1,299,351 | \$ 4,143,701 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Warrants payable..... | \$ 102,564 | \$ - | \$ 68,286 | \$ 170,850 |
| Accrued payroll..... | 66,416 | - | - | 66,416 |
| Tax refunds payable..... | 165,428 | - | - | 165,428 |
| Other liabilities..... | 25,101 | - | - | 25,101 |
| Deferred revenue..... | 537,745 | 1,373 | 31,012 | 570,130 |
| TOTAL LIABILITIES..... | 897,254 | 1,373 | 99,298 | 997,925 |
| FUND BALANCES: | | | | |
| Nonspendable..... | - | - | 429,990 | 429,990 |
| Restricted..... | 24,812 | 236,723 | 770,063 | 1,031,598 |
| Committed..... | 328,924 | - | - | 328,924 |
| Assigned..... | 65,606 | - | - | 65,606 |
| Unassigned..... | 1,289,658 | - | - | 1,289,658 |
| TOTAL FUND BALANCES..... | 1,709,000 | 236,723 | 1,200,053 | 3,145,776 |
| TOTAL LIABILITIES AND FUND BALANCES..... | \$ 2,606,254 | \$ 238,096 | \$ 1,299,351 | \$ 4,143,701 |

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2012

| | |
|---|---------------------|
| Total governmental fund balances (page 18)..... | \$ 3,145,776 |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds..... | 3,163,196 |
| Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds..... | 570,130 |
| In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due..... | (6,301) |
| 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..... | (704,649) |
| Capital lease obligations..... | (160,973) |
| Compensated absences..... | (136,596) |
| Net OPEB obligation..... | (559,807) |
| Net assets of governmental activities (page 15)..... | \$ <u>5,310,776</u> |

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | General | Community Preservation | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------------|-----------------------------------|--------------------------------|
| REVENUES | | | | |
| Real estate and personal property taxes..... | \$ 10,529,064 | \$ - | \$ - | \$ 10,529,064 |
| Motor vehicle and other excise taxes..... | 480,710 | - | - | 480,710 |
| Tax liens..... | 99,388 | - | - | 99,388 |
| Community preservation surcharges..... | - | 43,107 | - | 43,107 |
| Charges for services..... | 142,056 | - | 79,741 | 221,797 |
| Intergovernmental..... | 511,078 | 11,144 | 224,200 | 746,422 |
| Special assessments..... | - | - | 4,911 | 4,911 |
| Penalties and interest on taxes..... | 50,263 | - | - | 50,263 |
| Licenses and permits..... | 147,328 | - | - | 147,328 |
| Fines and forfeitures..... | 16,465 | - | - | 16,465 |
| Lease revenue..... | 319,740 | - | - | 319,740 |
| Departmental..... | 72,039 | - | 28,881 | 100,920 |
| Contributions..... | - | - | 54,001 | 54,001 |
| Investment income..... | 11,094 | 543 | 949 | 12,586 |
| TOTAL REVENUES..... | 12,379,225 | 54,794 | 392,683 | 12,826,702 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government..... | 1,069,666 | - | 11,732 | 1,081,398 |
| Public safety..... | 1,676,538 | - | 27,580 | 1,704,118 |
| Education..... | 7,042,643 | - | - | 7,042,643 |
| Public works..... | 801,525 | - | 118,464 | 919,989 |
| Health and human services..... | 165,167 | - | 22,218 | 187,385 |
| Culture and recreation..... | 98,989 | 21,500 | 18,288 | 138,777 |
| Pension benefits..... | 508,224 | - | - | 508,224 |
| Employee benefits..... | 515,316 | - | - | 515,316 |
| Property and liability insurance..... | 75,983 | - | - | 75,983 |
| State and county charges..... | 26,199 | - | - | 26,199 |
| Debt service: | | | | |
| Principal..... | 96,301 | - | - | 96,301 |
| Interest..... | 13,635 | - | - | 13,635 |
| TOTAL EXPENDITURES..... | 12,090,186 | 21,500 | 198,282 | 12,309,968 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | 289,039 | 33,294 | 194,401 | 516,734 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in..... | 119,451 | - | 60,710 | 180,161 |
| Sale of capital assets..... | 2,800 | - | - | 2,800 |
| Transfers out..... | (354,400) | - | (119,451) | (473,851) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | (232,149) | - | (58,741) | (290,890) |
| NET CHANGE IN FUND BALANCES..... | 56,890 | 33,294 | 135,660 | 225,844 |
| FUND BALANCES AT BEGINNING OF YEAR..... | 1,652,110 | 203,429 | 1,064,393 | 2,919,932 |
| FUND BALANCES AT END OF YEAR..... | \$ 1,709,000 | \$ 236,723 | \$ 1,200,053 | \$ 3,145,776 |

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | |
|--|-------------------|
| Net change in fund balances - total governmental funds (page 20)..... | \$ 225,844 |
| <p>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.</p> | |
| Capital outlays..... | 220,803 |
| Depreciation..... | (272,267) |
| <p>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p> | |
| | (36,344) |
| <p>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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p> | |
| Bond maturities..... | 96,301 |
| Capital lease proceeds..... | (35,515) |
| Capital lease maturities..... | 81,679 |
| <p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p> | |
| | (911) |
| <p>Some expenses reported in the statement 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:</p> | |
| Net OPEB obligation..... | (162,539) |
| Compensated absences..... | (16,043) |
| Changes in net assets of governmental activities (page 17)..... | \$ <u>101,008</u> |

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

JUNE 30, 2012

| | <u>Business-Type Activities - Enterprise Funds</u> | | |
|--|--|-------------------|----------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 1,900,385 | \$ 295,816 | \$ 2,196,201 |
| Restricted cash and cash equivalents..... | 3,121 | - | 3,121 |
| Receivables, net of allowance for uncollectible amounts: | | | |
| User charges..... | 237,860 | 270,135 | 507,995 |
| Special assessments..... | 768,124 | 14,410 | 782,534 |
| Intergovernmental..... | 115,368 | - | 115,368 |
| Total current assets..... | <u>3,024,858</u> | <u>580,361</u> | <u>3,605,219</u> |
| Noncurrent assets: | | | |
| Receivables, net of allowance for uncollectible amounts: | | | |
| Special assessments..... | 10,768,656 | 90,209 | 10,858,865 |
| Intergovernmental..... | 1,993,289 | - | 1,993,289 |
| Capital assets not being depreciated..... | - | 2 | 2 |
| Capital assets, net of accumulated depreciation..... | <u>26,558,065</u> | <u>872,486</u> | <u>27,430,551</u> |
| Total noncurrent assets..... | <u>39,320,010</u> | <u>962,697</u> | <u>40,282,707</u> |
| Total assets..... | <u>42,344,868</u> | <u>1,543,058</u> | <u>43,887,926</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Warrants payable..... | 8,465 | 9,747 | 18,212 |
| Accrued payroll..... | 2,276 | 8,936 | 11,212 |
| Accrued interest..... | 465,315 | - | 465,315 |
| Compensated absences..... | 1,790 | 2,697 | 4,487 |
| Short-term notes payable..... | - | 149,000 | 149,000 |
| Long-term bonds and notes payable..... | <u>1,230,700</u> | <u>30,000</u> | <u>1,260,700</u> |
| Total current liabilities..... | <u>1,708,546</u> | <u>200,380</u> | <u>1,908,926</u> |
| Noncurrent liabilities: | | | |
| Compensated absences..... | 16,115 | 24,270 | 40,385 |
| Net OPEB obligation..... | 36,968 | 78,990 | 115,958 |
| Long-term bonds and notes payable..... | <u>16,346,506</u> | <u>280,000</u> | <u>16,626,506</u> |
| Total noncurrent liabilities..... | <u>16,399,589</u> | <u>383,260</u> | <u>16,782,849</u> |
| Total liabilities..... | <u>18,108,135</u> | <u>583,640</u> | <u>18,691,775</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt..... | 8,983,980 | 413,488 | 9,397,468 |
| Unrestricted..... | <u>15,252,753</u> | <u>545,930</u> | <u>15,798,683</u> |
| Total net assets..... | <u>\$ 24,236,733</u> | <u>\$ 959,418</u> | <u>\$ 25,196,151</u> |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | <u>Business-Type Activities - Enterprise Funds</u> | | |
|---|--|-------------------|----------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
| OPERATING REVENUES | | | |
| Charges for services..... | \$ 552,984 | \$ 708,938 | \$ 1,261,922 |
| Penalties and interest..... | 261,956 | 12,272 | 274,228 |
| TOTAL OPERATING REVENUES..... | 814,940 | 721,210 | 1,536,150 |
| OPERATING EXPENSES | | | |
| Cost of service and administration..... | 567,437 | 622,186 | 1,189,623 |
| Depreciation..... | 600,551 | 86,286 | 686,837 |
| TOTAL OPERATING EXPENSES..... | 1,167,988 | 708,472 | 1,876,460 |
| OPERATING INCOME (LOSS)..... | (353,048) | 12,738 | (340,310) |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Intergovernmental..... | 628,907 | - | 628,907 |
| Investment income..... | 2,098 | 458 | 2,556 |
| Interest expense..... | (781,822) | (15,402) | (797,224) |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET..... | (150,817) | (14,944) | (165,761) |
| INCOME (LOSS) BEFORE TRANSFERS | (503,865) | (2,206) | (506,071) |
| TRANSFERS | | | |
| Transfers in..... | 293,690 | - | 293,690 |
| CHANGE IN NET ASSETS..... | (210,175) | (2,206) | (212,381) |
| NET ASSETS AT BEGINNING OF YEAR..... | 24,446,908 | 961,624 | 25,408,532 |
| NET ASSETS AT END OF YEAR..... | \$ 24,236,733 | \$ 959,418 | \$ 25,196,151 |

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|------------|---------------------|--------------|
| | Sewer | Water | Youth (Nonmajor) | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers and users..... | \$ 1,606,447 | \$ 722,070 | \$ - | \$ 2,328,517 |
| Payments to vendors..... | (411,892) | (304,607) | (2,083) | (718,582) |
| Payments to employees..... | (141,555) | (312,774) | - | (454,329) |
| NET CASH FROM OPERATING ACTIVITIES..... | 1,053,000 | 104,689 | (2,083) | 1,155,606 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Transfers in..... | 293,690 | - | - | 293,690 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds from the issuance of bonds and notes..... | - | 149,000 | - | 149,000 |
| Acquisition and construction of capital assets..... | (9,994) | (9,956) | - | (19,950) |
| Principal payments on bonds and notes..... | (1,104,651) | (196,000) | - | (1,300,651) |
| Interest expense..... | (183,659) | (15,403) | - | (199,062) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... | (1,298,304) | (72,359) | - | (1,370,663) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment income..... | 2,098 | 458 | - | 2,556 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS..... | 50,484 | 32,788 | (2,083) | 81,189 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$3,121 reported as restricted in the Sewer Enterprise Fund)..... | 1,853,022 | 263,028 | 2,083 | 2,118,133 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$3,121 reported as restricted in the Sewer Enterprise Fund)..... | \$ 1,903,506 | \$ 295,816 | \$ - | \$ 2,199,322 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES | | | | |
| Operating income (loss)..... | \$ (353,048) | \$ 12,738 | \$ - | \$ (340,310) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Changes in assets and liabilities not requiring current cash flows: | | | | |
| Depreciation..... | 600,551 | 86,286 | - | 686,837 |
| Increase in net OPEB obligation..... | 11,103 | 22,399 | - | 33,502 |
| Changes in assets and liabilities requiring current cash flows: | | | | |
| User charges..... | (19,217) | (10,963) | - | (30,180) |
| Special assessments..... | 810,724 | 11,823 | - | 822,547 |
| Warrants payable..... | 2,211 | (20,982) | (2,083) | (20,854) |
| Accrued payroll..... | (17) | 2,183 | - | 2,166 |
| Accrued compensated absences..... | 693 | 1,205 | - | 1,898 |
| Total adjustments..... | 1,406,048 | 91,951 | (2,083) | 1,495,916 |
| NET CASH FROM OPERATING ACTIVITIES..... | \$ 1,053,000 | \$ 104,689 | \$ (2,083) | \$ 1,155,606 |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | | |
| Intergovernmental debt subsidies (MWPAT)..... | \$ 734,815 | \$ - | \$ - | \$ 734,815 |
| See notes to basic financial statements. | | | | |

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

| ASSETS | Private Purpose Trust Funds | Agency Funds |
|--|-----------------------------------|-----------------|
| Cash and cash equivalents..... | \$ 383,962 | \$ 55,019 |
| Receivables, net of allowance for uncollectible amounts: | | |
| Departmental and other..... | - | 22,075 |
| Total assets..... | 383,962 | 77,094 |
| LIABILITIES | | |
| Warrants payable..... | - | 1,408 |
| Accrued payroll..... | - | 516 |
| Liabilities due depositors..... | - | 75,170 |
| Total liabilities..... | - | 77,094 |
| NET ASSETS | | |
| Held in trust for other purposes..... | \$ 383,962 | \$ - |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | <u>Private Purpose Trust Funds</u> |
|--------------------------------------|--|
| ADDITIONS | |
| Net investment income: | |
| Interest..... | \$ <u>886</u> |
| DEDUCTIONS | |
| Other..... | <u>1,270</u> |
| CHANGE IN NET ASSETS..... | (384) |
| NET ASSETS AT BEGINNING OF YEAR..... | <u>384,346</u> |
| NET ASSETS AT END OF YEAR..... | <u><u>\$ 383,962</u></u> |

See notes to basic financial statements.

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 two 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 2012 Assessment |
|--|------------------------------------|--|-----------------------------------|
| Manchester Essex Regional School District | To provide educational services | 36 Lincoln Street Manchester-by-the Sea, MA | \$ 6,958,090 |
| North Shore Technical High School | To provide educational services | 36 Log Bridge Road Middleton, MA | 84,553 |

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 above.

The North Shore Technical High School is governed by a fifteen 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 above.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement 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.

D. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide and enterprise fund financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 that are restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

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

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

Fund Financial Statements

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

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 *community preservation fund* is a special revenue fund used to account for the 0.5% local real estate tax surcharge on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes. Property exempt from the surcharge consists of the first \$100,000 of all residential property and also property owned by low income residents or seniors with low or moderate income as defined by Massachusetts Department of Revenue (DOR) guidelines. Disbursements from this fund must originate from the Community Preservation Committee and approved by Town Meeting.

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

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

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

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

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

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

The following proprietary funds are reported:

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

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

The *youth enterprise fund* is reported as a nonmajor fund and is used to account for the youth commission activities. This fund is only presented in the statement of cash flows as the fund was discontinued July 1, 2011.

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.

E. Deposits 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.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Real Estate Taxes, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st 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 1st, November 1st, February 1st and May 1st 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 0.5% 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 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

Water and Sewer Charges and Utility Liens

Water 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 user charges are recorded as receivables in the fiscal year of the levy and are recorded under the accrual basis of accounting. Water utility liens are processed quarterly and are included as a lien on the property owner's tax bill.

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. Sewer user charges are recorded as receivables in the fiscal year of the levy and are recorded under the accrual basis of accounting. Sewer 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 various loan programs to residents that provide assistance to comply with Title V (related to septic systems) requirements. Loans are recorded as receivables upon issuance.

G. 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 liens
- Motor vehicle and other excise taxes
- Departmental and other

As of June 30, 2012, the allowance for uncollectible accounts for personal property taxes, motor vehicle and other excise taxes and departmental and other accounts receivable 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 and utility liens
- Special assessments
- Loans

Intergovernmental receivables are considered 100% collectible.

H. 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.

I. 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.

J. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, 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) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

| Capital Asset Type | Estimated Useful Life (in years) |
|--|---|
| 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.

K. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

Transactions of a buyer/seller nature between and within 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.

L. Interfund Transfers

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

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. 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 and within funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

M. Deferred Revenue

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide financial statements (full accrual).

*N. Net Assets and Fund Balances*Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net Assets)

Net assets are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

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

"Loans" represents outstanding septic loans receivable.

"Ambulance" represents amounts restricted within the ambulance special revenue fund.

"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.

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.

O. 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 assets. Material bond premiums and discounts are deferred and 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.

P. 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 enterprise (proprietary) funds is retained in the funds.

Q. Compensated Absences

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

Government-Wide and Proprietary Funds Financial Statements

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

Governmental Funds Financial Statements

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

R. 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.

S. 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.

T. Total Column

Government-Wide Financial Statements

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

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 2012 approved budget for the general fund authorized \$12,393,781 in appropriations and other amounts to be raised. During fiscal year 2012, supplemental appropriations totaling \$186,930 were authorized.

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

B. Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2012, expenditures exceeded appropriations for state and county charges.

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

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

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, 2012, the Town's deposits were not exposed to custodial credit risk.

Investments Summary

The Town's investments at June 30, 2012 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

| Investment Type | Fair Value | Investment Maturities (Yrs) |
|--------------------------------|---------------|--------------------------------|
| | | Less Than 1 |
| <u>Debt Securities:</u> | | |
| External investment pools..... | \$ 118,345 | \$ 118,345 |

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.

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, 2012 the Town's investments were not exposed to custodial credit risk.

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, 2012, the Town's debt securities were not rated by a national credit rating organization.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2012, 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..... | \$ 261,432 | \$ - | \$ 261,432 |
| Real estate tax deferrals..... | 71,832 | - | 71,832 |
| Tax liens..... | 559,556 | (379,358) | 180,198 |
| Motor vehicle and other excise taxes..... | 27,667 | - | 27,667 |
| Community preservation surcharges..... | 1,373 | - | 1,373 |
| Departmental and other..... | 53,652 | - | 53,652 |
| Intergovernmental..... | 122,812 | - | 122,812 |
| Loans..... | 229,575 | - | 229,575 |
| | <u>\$ 1,327,899</u> | <u>\$ (379,358)</u> | <u>\$ 948,541</u> |

At June 30, 2012, receivables for the enterprise funds consist of the following:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|--------------------------|----------------------|------------------------------------|----------------------|
| <u>Receivables:</u> | | | |
| Water..... | \$ 270,135 | \$ - | \$ 270,135 |
| Sewer..... | 237,860 | - | 237,860 |
| Special assessments..... | 11,641,399 | - | 11,641,399 |
| Intergovernmental..... | 2,108,657 | - | 2,108,657 |
| | <u>\$ 14,258,051</u> | <u>\$ -</u> | <u>\$ 14,258,051</u> |

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

| | General Fund | Other Governmental Funds | Total |
|--|-------------------|--------------------------------|-------------------|
| <u>Receivable type:</u> | | | |
| Real estate and personal property taxes..... | \$ 302,066 | \$ - | \$ 302,066 |
| Tax and utility liens..... | 180,198 | - | 180,198 |
| Motor vehicle and other excise taxes..... | 27,667 | - | 27,667 |
| Community preservation surcharges..... | - | 1,373 (a) | 1,373 |
| Departmental and other..... | - | 31,012 (b) | 31,012 |
| Tax foreclosures..... | 27,814 | - | 27,814 |
| Total..... | \$ 537,745 | \$ 32,385 | \$ 570,130 |

(a) Community Preservation Fund (Major Fund)

(b) Nonmajor Governmental Funds

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------------|-----------------|---------------------|
| Governmental Activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 133,095 | \$ - | \$ - | \$ 133,095 |
| Construction in progress..... | - | 86,104 | - | 86,104 |
| Total capital assets not being depreciated..... | 133,095 | 86,104 | - | 219,199 |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | 693,530 | - | - | 693,530 |
| Buildings and improvements..... | 3,475,866 | 16,313 | - | 3,492,179 |
| Machinery, vehicles and equipment..... | 1,908,791 | 118,386 | (40,276) | 1,986,901 |
| Infrastructure..... | 341,896 | - | - | 341,896 |
| Total capital assets being depreciated..... | 6,420,083 | 134,699 | (40,276) | 6,514,506 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (210,749) | (34,159) | - | (244,908) |
| Buildings and improvements..... | (2,029,108) | (69,058) | - | (2,098,166) |
| Machinery, vehicles and equipment..... | (1,064,820) | (158,338) | 40,276 | (1,182,882) |
| Infrastructure..... | (33,841) | (10,712) | - | (44,553) |
| Total accumulated depreciation..... | (3,338,518) | (272,267) | 40,276 | (3,570,509) |
| Total capital assets being depreciated, net..... | 3,081,565 | (137,568) | - | 2,943,997 |
| Total governmental activities capital assets, net..... | \$ 3,214,660 | \$ (51,464) | \$ - | \$ 3,163,196 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------|-----------|-------------------|
| Business-Type Activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 2 | \$ - | \$ - | \$ 2 |
| <u>Capital assets being depreciated:</u> | | | | |
| Buildings and improvements..... | 2,957,000 | - | - | 2,957,000 |
| Machinery, vehicles and equipment..... | 169,426 | 19,950 | (33,779) | 155,597 |
| Infrastructure..... | 29,815,100 | - | - | 29,815,100 |
| Total capital assets being depreciated..... | 32,941,526 | 19,950 | (33,779) | 32,927,697 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings and improvements..... | (2,054,021) | (74,346) | - | (2,128,367) |
| Machinery, vehicles and equipment..... | (106,708) | (16,189) | 33,779 | (89,118) |
| Infrastructure..... | (2,683,359) | (596,302) | - | (3,279,661) |
| Total accumulated depreciation..... | (4,844,088) | (686,837) | 33,779 | (5,497,146) |
| Total capital assets being depreciated, net..... | 28,097,438 | (666,887) | - | 27,430,551 |
| Total business-type activities capital assets, net..... | \$ 28,097,440 | \$ (666,887) | \$ - | \$ 27,430,553 |

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

Governmental Activities:

| | |
|-----------------------------|-----------|
| General government..... | \$ 40,226 |
| Public safety..... | 105,068 |
| Education..... | 29,430 |
| Public works..... | 72,338 |
| Culture and recreation..... | 25,205 |

Total depreciation expense - governmental activities..... \$ 272,267

Business-Type Activities:

| | |
|------------|-----------|
| Water..... | \$ 86,286 |
| Sewer..... | 600,551 |

Total depreciation expense - business-type activities..... \$ 686,837

NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

| Transfers Out: | Transfers In: | | | |
|----------------------------------|-------------------|-----------------------------|-----------------------|-------------------|
| | General Fund | Nonmajor Governmental Funds | Sewer Enterprise Fund | Total |
| General Fund..... | \$ - | \$ 60,710 | \$ 293,690 | \$ 354,400 (1) |
| Nonmajor Governmental Funds..... | 119,451 | - | - | 119,451 (2) |
| | <u>\$ 119,451</u> | <u>\$ 60,710</u> | <u>\$ 293,690</u> | <u>\$ 473,851</u> |

(1) Represents budgeted transfers for sewer enterprise fund subsidy (\$293,690) DPW facility BAN pay-down (\$35,000) and funding of chapter 90 special revenue fund deficit (\$1,137). Also represents funding of waterways improvement fund (\$2,255) and wetland protection fund (\$2,172) and transfer of unspent balances to ambulance fund (\$16,580) and cemetery lot care fund (\$3,566).

(2) Represents budgeted transfers to fund the fiscal year 2012 operating budget from the ambulance (\$67,850), septic title V (\$26,301), cemetery lot care (\$9,700), waterways improvement (\$7,400), cemetery sale of lots (\$4,400), wetland protection (\$3,500) and cemetery perpetual care (\$300) funds.

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.

Details related to the short-term debt activity for the fiscal year ended June 30, 2012, is as follows:

Notes Payable - Governmental Funds

| Type | Purpose | Origination Date | Maturity Date | Rate % | Balance at June 30, 2011 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2012 |
|------|--------------------|------------------|---------------|--------|--------------------------|-----------------|-------------------|--------------------------|
| BAN | DPW barn roof..... | 8/06/10 | 8/05/11 | 1.20 | \$ 35,000 | \$ - | \$ (35,000) | \$ - |

Notes Payable - Enterprise Funds

| Type | Purpose | Origination Date | Maturity Date | Rate % | Balance at June 30, 2011 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2012 |
|------------|----------------------------|------------------|---------------|--------|--------------------------|-----------------|-------------------|--------------------------|
| BAN | Pond Street water mains... | 8/06/10 | 8/05/11 | 1.20 | \$ 161,000 | - | \$ (161,000) | \$ - |
| BAN | Pond Street water mains... | 8/05/11 | 8/03/12 | 1.05 | - | 149,000 | - | 149,000 |
| Total..... | | | | | \$ 161,000 | \$ 149,000 | \$ (161,000) | \$ 149,000 |

Subsequent Events

On August 3, 2012, the Town paid down \$12,000 of the Pond Street Water Mains BAN with available funds and renewed the BAN in the amount of \$137,000, at an interest rate of 0.55% with a maturity date of August 2, 2013.

NOTE 8 - LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2012:

| | Balance June 30, 2011 | Increases | Decreases | Balance June 30, 2012 | Current Portion |
|----------------------------------|-----------------------------|------------|----------------|-----------------------------|--------------------|
| Governmental Activities: | | | | | |
| Bonds and notes payable..... | \$ 800,950 | \$ - | \$ (96,301) | \$ 704,649 | \$ 131,242 |
| Capital lease obligations..... | 207,137 | 35,515 | (81,679) | 160,973 | 43,256 |
| Net OPEB obligations..... | 397,268 | 252,484 | (89,945) | 559,807 | - |
| Compensated absences..... | 120,553 | 16,043 | - | 136,596 | 13,660 |
| Total..... | \$ 1,525,908 | \$ 304,041 | \$ (267,925) | \$ 1,562,025 | \$ 188,158 |
| | | | | | |
| | Balance June 30, 2011 | Increases | Decreases | Balance June 30, 2012 | Current Portion |
| Business-type Activities: | | | | | |
| Bonds and notes payable..... | \$ 19,132,765 | \$ - | \$ (1,245,559) | \$ 17,887,206 | \$ 1,260,700 |
| Net OPEB obligations..... | 82,456 | 52,041 | (18,539) | 115,958 | - |
| Compensated absences..... | 42,974 | 1,898 | - | 44,872 | 4,487 |
| Total..... | \$ 19,258,195 | \$ 53,939 | \$ (1,264,098) | \$ 18,048,036 | \$ 1,265,187 |

Long-term liabilities of the governmental activities are generally liquidated by the general fund. Long-term liabilities of the business-type activities are generally liquidated by the sewer and water enterprise funds.

NOTE 9 - LONG-TERM DEBT

Details related to the outstanding indebtedness at June 30, 2012, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

| Project | Interest Rate (%) | Outstanding at June 30, 2011 | Issued | Redeemed | Outstanding at June 30, 2012 |
|----------------------------------|----------------------|------------------------------------|-------------|--------------------|------------------------------------|
| MWPAT - Title V Loan..... | 5.33 | \$ 48,394 | \$ - | \$ (5,431) | \$ 42,963 |
| MWPAT - Title V Loan..... | 4.90 | 23,597 | - | (1,972) | 21,625 |
| DPW Barn..... | 3.55 | 200,000 | - | (50,000) | 150,000 |
| Fire Pumper..... | 3.53 | 75,000 | - | (20,000) | 55,000 |
| MWPAT - Title V Loan..... | 0.00 | 150,000 | - | (10,000) | 140,000 |
| MWPAT - Title V Loan..... | 0.00 | 151,259 | - | (8,898) | 142,361 |
| State House Note - DPW Barn..... | 3.10 | 152,700 | - | - | 152,700 |
| Total..... | | \$ 800,950 | \$ - | \$ (96,301) | \$ 704,649 |

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

| Fiscal Year | Principal | Interest | Total |
|-------------------|-------------------|------------------|-------------------|
| 2013..... | \$ 131,242 | \$ 14,556 | \$ 145,798 |
| 2014..... | 131,291 | 10,446 | 141,737 |
| 2015..... | 126,291 | 6,348 | 132,639 |
| 2016..... | 61,194 | 3,573 | 64,767 |
| 2017..... | 38,894 | 2,097 | 40,991 |
| 2018..... | 26,194 | 1,298 | 27,492 |
| 2019..... | 26,194 | 894 | 27,088 |
| 2020..... | 26,194 | 495 | 26,689 |
| 2021..... | 20,860 | 249 | 21,109 |
| 2022..... | 20,905 | 150 | 21,055 |
| 2023..... | 20,905 | 50 | 20,955 |
| 2024..... | 18,897 | - | 18,897 |
| 2025..... | 18,897 | - | 18,897 |
| 2026..... | 18,897 | - | 18,897 |
| 2027..... | 8,897 | - | 8,897 |
| 2028..... | 8,897 | - | 8,897 |
| Total..... | \$ 704,649 | \$ 40,156 | \$ 744,805 |

Bonds Payable – Water Enterprise Fund

| Project | Interest Rate (%) | Outstanding at June 30, 2011 | Issued | Redeemed | Outstanding at June 30, 2012 |
|--|----------------------|------------------------------------|-------------|--------------------|------------------------------------|
| Refunding Water Treatment Facility.... | 3.70 | \$ 205,000 | \$ - | \$ (25,000) | \$ 180,000 |
| Refunding Water Storage Tank..... | 3.99 | 140,000 | - | (10,000) | 130,000 |
| Total..... | | <u>\$ 345,000</u> | <u>\$ -</u> | <u>\$ (35,000)</u> | <u>\$ 310,000</u> |

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

| Fiscal Year | Principal | Interest | Total |
|-------------|-------------------|------------------|-------------------|
| 2013..... | \$ 30,000 | \$ 12,300 | \$ 42,300 |
| 2014..... | 30,000 | 11,175 | 41,175 |
| 2015..... | 30,000 | 10,012 | 40,012 |
| 2016..... | 30,000 | 8,775 | 38,775 |
| 2017..... | 30,000 | 7,500 | 37,500 |
| 2018..... | 30,000 | 6,225 | 36,225 |
| 2019..... | 30,000 | 4,950 | 34,950 |
| 2020..... | 30,000 | 3,675 | 33,675 |
| 2021..... | 30,000 | 2,400 | 32,400 |
| 2022..... | 10,000 | 1,550 | 11,550 |
| 2023..... | 10,000 | 1,119 | 11,119 |
| 2024..... | 10,000 | 675 | 10,675 |
| 2025..... | 10,000 | 225 | 10,225 |
| Total..... | <u>\$ 310,000</u> | <u>\$ 70,581</u> | <u>\$ 380,581</u> |

Bonds and Notes Payable – Sewer Enterprise Fund

| Project | Interest Rate (%) | Outstanding at June 30, 2011 | Issued | Redeemed | Outstanding at June 30, 2012 |
|------------|----------------------|------------------------------------|-------------|-----------------------|------------------------------------|
| MWPAT..... | 4.43 | \$ 3,200,405 | \$ - | \$ (199,492) | \$ 3,000,913 |
| MWPAT..... | 4.43 | 3,958,829 | - | (245,600) | 3,713,229 |
| MWPAT..... | 4.43 | 1,778,447 | - | (110,418) | 1,668,029 |
| Sewer..... | 3.99 | 1,095,000 | - | (80,000) | 1,015,000 |
| MWPAT..... | 0.00 | 7,237,298 | - | (482,486) | 6,754,812 |
| MWPAT..... | 0.00 | 892,329 | - | (55,771) | 836,558 |
| MWPAT..... | 0.00 | 625,457 | - | (36,792) | 588,665 |
| Total..... | | <u>\$ 18,787,765</u> | <u>\$ -</u> | <u>\$ (1,210,559)</u> | <u>\$ 17,577,206</u> |

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

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|-------------------|---------------------|----------------------|
| 2013..... \$ | 1,230,700 | \$ 750,825 | \$ 1,981,525 |
| 2014..... | 1,251,569 | 694,940 | 1,946,509 |
| 2015..... | 1,275,049 | 637,736 | 1,912,785 |
| 2016..... | 1,300,049 | 578,997 | 1,879,046 |
| 2017..... | 1,320,049 | 519,754 | 1,839,803 |
| 2018..... | 1,340,049 | 460,266 | 1,800,315 |
| 2019..... | 1,365,050 | 399,597 | 1,764,647 |
| 2020..... | 1,385,050 | 338,659 | 1,723,709 |
| 2021..... | 1,405,049 | 277,589 | 1,682,638 |
| 2022..... | 1,430,048 | 215,377 | 1,645,425 |
| 2023..... | 1,455,048 | 151,867 | 1,606,915 |
| 2024..... | 1,465,048 | 87,389 | 1,552,437 |
| 2025..... | 650,048 | 41,300 | 691,348 |
| 2026..... | 575,048 | 20,650 | 595,698 |
| 2027..... | 92,561 | - | 92,561 |
| 2028..... | 36,791 | - | 36,791 |
| Total..... \$ | <u>17,577,206</u> | <u>\$ 5,174,946</u> | <u>\$ 22,752,152</u> |

The Town receives subsidy assistance from the MWPAT. Principal and interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2011, the Town's subsidy totaled approximately \$735,000. Future subsidies total approximately \$6,188,000. The amount of MWPAT bonds outstanding at June 30, 2012, totaled \$16,909,155.

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, 2012, the Town had the following authorized and unissued debt:

| <u>Purpose</u> | <u>Amount</u> |
|------------------------------|-------------------|
| Town hall repairs..... | \$ 600,000 |
| Pond Street water mains..... | <u>149,000 *</u> |
| Total..... | <u>\$ 749,000</u> |

* Short-term debt of \$149,000 has been issued and is outstanding at June 30, 2012 for the Pond Street water mains.

NOTE 10 - CAPITAL LEASES

The Town has entered into certain capital lease agreements for a fire truck, scott air paks with accessories and dump truck 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 machinery, vehicles and equipment before the end of the lease terms.

The following schedule presents future minimum lease payments as of June 30, 2012:

| <u>Fiscal Years Ending June 30</u> | <u>Governmental Activities</u> |
|--|------------------------------------|
| 2013..... | \$ 51,213 |
| 2014..... | 51,214 |
| 2015..... | 38,652 |
| 2016..... | <u>38,652</u> |
| Total minimum lease payments..... | 179,731 |
| Less: amounts representing interest..... | <u>(18,758)</u> |
| Present value of minimum lease payments..... | <u>\$ 160,973</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..... | \$ 442,640 |
| Less: accumulated amortization..... | <u>(131,325)</u> |
| Total..... | <u>\$ 311,315</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.

The number of participants as of July 1, 2010, the latest actuarial valuation, is as follows:

| | |
|------------------------|-----------|
| Active employees..... | 28 |
| Retired employees..... | <u>25</u> |
| Total..... | <u>53</u> |

Funding Policy - 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% and 75%, respectively. The Plan members and Town each contribute 50% towards a life insurance policy. 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.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the Town net OPEB obligation:

| | Amount |
|---|------------|
| Annual required contribution..... | \$ 311,641 |
| Interest on net OPEB obligation..... | 19,189 |
| Adjustment to annual required contribution..... | (26,305) |
| Annual OPEB cost..... | 304,525 |
| Contributions made..... | (108,484) |
| Increase in net OPEB obligation..... | 196,041 |
| Net OPEB obligation at beginning of year..... | 479,724 |
| Net OPEB obligation at end of year..... | \$ 675,765 |

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

| Fiscal Year Ending | Annual OPEB Cost (AOPEBC) | Percentage of AOPEBC Contributed | Net OPEB Obligation |
|-----------------------|---------------------------------|--|---------------------------|
| June 30, 2010*..... | \$ 392,163 | 28.9% | \$ 278,990 |
| June 30, 2011..... | 311,879 | 35.6% | 479,724 |
| June 30, 2012..... | 304,525 | 35.6% | 675,765 |

* Transition year

Funded Status and Funding Progress - The funded status of the Plan at July 1, 2010, the most recent actuarial valuation, was as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 07/01/10 | \$ - | \$ 3,513,659 | \$ 3,513,659 | 0.0% | \$ 2,794,869 | 125.7% |

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

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

The significant methods and assumptions as of the latest actuarial valuation are as follows:

| | |
|-------------------------------------|--|
| Valuation date: | July 1, 2010 |
| Actuarial cost method: | Projected Unit Credit |
| Amortization method: | Level dollar amortization over 30 years at transition |
| Remaining amortization period: | 27 years at July 1, 2010 (closed) |
| Interest discount rate: | 4.00% |
| Healthcare/Medical cost trend rate: | 8.00% in fiscal year 2011 decreasing by 1.00% for 3 years to an ultimate level of 5.00% per year |
| Projected salary increases: | 4.50% annually |

Allocation of AOPEBC - AOPEBC costs were allocated to the Town's functions as follows:

Governmental Activities:

| | | |
|--------------------------------|----|--------|
| General government..... | \$ | 38,675 |
| Public safety..... | | 95,925 |
| Education..... | | 38,066 |
| Public works..... | | 44,798 |
| Health and human services..... | | 16,140 |
| Culture and recreation..... | | 18,881 |

| | | |
|---|--|----------------|
| Total AOPEBC - governmental activities..... | | <u>252,485</u> |
|---|--|----------------|

Business-Type Activities:

| | | |
|------------|--|--------|
| Water..... | | 34,793 |
| Sewer..... | | 17,247 |

| | | |
|--|--|---------------|
| Total AOPEBC - business-type activities..... | | <u>52,040</u> |
|--|--|---------------|

| | | |
|-------------------|----|-----------------------|
| Total AOPEBC..... | \$ | <u><u>304,525</u></u> |
|-------------------|----|-----------------------|

NOTE 12 - FUND BALANCES

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

| | General | Community Preservation | Nonmajor Governmental Funds | Total Governmental Funds |
|-------------------------------------|------------------|---------------------------|-----------------------------------|--------------------------------|
| Nonspendable: | | | | |
| Loans..... | \$ - | \$ - | \$ 229,575 | \$ 229,575 |
| Permanent fund principal..... | - | - | 200,415 | 200,415 |
| Sub-total - Nonspendable..... | - | - | 429,990 | 429,990 |
| Restricted for: | | | | |
| Municipal insurance..... | 24,812 | - | - | 24,812 |
| Ambulance..... | - | - | 285,775 | 285,775 |
| General government..... | - | - | 91,965 | 91,965 |
| Public safety..... | - | - | 45,143 | 45,143 |
| Public works..... | - | - | 306,656 | 306,656 |
| Health and human services..... | - | - | 11,074 | 11,074 |
| Culture and recreation..... | - | - | 29,450 | 29,450 |
| Community preservation..... | - | 236,723 | - | 236,723 |
| Sub-total - Restricted..... | 24,812 | 236,723 | 770,063 | 1,031,598 |
| Committed to: | | | | |
| Subsequent year's expenditures..... | 256,273 | - | - | 256,273 |
| Continuing appropriations..... | 72,651 | - | - | 72,651 |
| Sub-total - Committed..... | 328,924 | - | - | 328,924 |
| Assigned to: | | | | |
| Encumbrances..... | 65,606 | - | - | 65,606 |
| Unassigned..... | 1,289,658 | - | - | 1,289,658 |
| Total fund balances..... | \$ 1,709,000 | \$ 236,723 | \$ 1,200,053 | \$ 3,145,776 |

NOTE 13 - STABILIZATION FUNDS

The Town maintains a general stabilization fund that was established under MGL Chapter 40, Section 5B. Appropriations in and out of the stabilization fund require two-thirds vote of Town meeting. Investment income is retained by the fund.

The balance of the stabilization fund at June 30, 2012 totals \$653,328 and is reported as unassigned fund balance in the general fund.

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 amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years. The Town also participates in a premium-based workers' compensation plan.

The Town has a municipal building self-insurance fund used to subsidize the Town's premium-based insurance. As of June 30, 2012, this fund had a balance of \$24,812, 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. For the year ended June 30, 2012, the Town recorded approximately \$320,000 in rental income, which is reported in the general fund as lease revenue. The following represents the future minimum lease payments to be received under operating leases at June 30, 2012:

| Fiscal Year | Amount |
|-------------|------------|
| 2013..... | \$ 726,180 |
| 2014..... | 933,660 |
| 2015..... | 518,700 |

NOTE 16 – PENSION PLAN

Plan Description – The Town contributes to the Essex Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Essex Regional Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 491 Maple Street, Danvers, Massachusetts 01923.

Funding Policy – Chapter 32 of MGL governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll. The Town's contributions to the System for the fiscal years ended June 30, 2012, 2011, and 2010 were \$326,923, \$299,371 and \$280,747 respectively, which equaled its required contribution for each fiscal year.

NOTE 17 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$258,406 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 18 - CONTINGENCIES

Various other 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, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2012.

The Town participates in a number of federal award programs. The programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 19 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, which is required to be implemented during fiscal year 2013. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34, which is required to be implemented during fiscal year 2013. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which is required to be implemented during fiscal year 2013. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which is required to be implemented during fiscal year 2013. The implementation of this Statement will require a change to the title of the Statement of Net Assets to the Statement of Net Position.
- Statement No. 65, Items Previously Reported as Assets and Liabilities, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.
- Statement No. 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25, which is required to be implemented during fiscal year 2014. Management has determined that the implementation of this Statement will not impact the basic financial statements.

- Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Town will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.

These pronouncements will be implemented by their respective implementation dates.

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | Prior Year Encumbrances and Continuing Appropriations | Original Budget | Supplemental Appropriations and Transfers | Final Budget |
|---|--|--------------------|---|-------------------|
| REVENUES | | | | |
| Real estate and personal property taxes..... | \$ - | \$ 10,720,743 | \$ (67,038) | \$ 10,653,705 |
| Motor vehicle and other excise taxes..... | - | 496,600 | - | 496,600 |
| Tax and utility liens..... | - | - | - | - |
| Charges for services..... | - | 140,000 | - | 140,000 |
| Intergovernmental..... | - | 242,917 | - | 242,917 |
| Penalties and interest on taxes..... | - | 42,200 | - | 42,200 |
| Licenses and permits..... | - | 158,400 | - | 158,400 |
| Fines and forfeitures..... | - | 13,000 | - | 13,000 |
| Lease revenue..... | - | 219,500 | - | 219,500 |
| Departmental..... | - | 34,300 | - | 34,300 |
| Investment income..... | - | 6,000 | - | 6,000 |
| TOTAL REVENUES..... | - | 12,073,660 | (67,038) | 12,006,622 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government..... | 134,391 | 1,003,006 | 109,298 | 1,246,695 |
| Public safety..... | 20,427 | 1,677,957 | 107,462 | 1,805,846 |
| Education..... | - | 7,089,458 | - | 7,089,458 |
| Public works..... | 5,036 | 882,045 | 12,225 | 899,306 |
| Health and human services..... | 156 | 191,666 | (7,167) | 184,655 |
| Culture and recreation..... | - | 99,299 | 517 | 99,816 |
| Pension benefits..... | - | 254,966 | - | 254,966 |
| Employee benefits..... | - | 590,071 | 28,183 | 618,254 |
| Property and liability insurance..... | - | 75,983 | - | 75,983 |
| State and county charges..... | - | 25,979 | - | 25,979 |
| Debt service: | | | | |
| Principal..... | - | 96,301 | - | 96,301 |
| Interest..... | - | 11,322 | 2,313 | 13,635 |
| TOTAL EXPENDITURES..... | 160,010 | 11,998,053 | 252,831 | 12,410,894 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | (160,010) | 75,607 | (319,869) | (404,272) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in..... | - | 112,051 | 7,400 | 119,451 |
| Sale of capital assets..... | - | - | - | - |
| Transfers out..... | - | (395,728) | 65,901 | (329,827) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | - | (283,677) | 73,301 | (210,376) |
| NET CHANGE IN FUND BALANCE..... | (160,010) | (208,070) | (246,568) | (614,648) |
| FUND BALANCE AT BEGINNING OF YEAR..... | 874,944 | 874,944 | 874,944 | 874,944 |
| FUND BALANCE AT END OF YEAR..... | \$ 714,934 | \$ 666,874 | \$ 628,376 | \$ 260,296 |

See notes to required supplementary information.

| Actual | Current Year Encumbrances and Continuing Appropriations | Actual and Encumbrances and Continuing Appropriations | Variance Positive/ (Negative) |
|---------------|--|--|-------------------------------------|
| \$ 10,766,550 | \$ - | \$ 10,766,550 | \$ 112,845 |
| 480,710 | - | 480,710 | (15,890) |
| 99,388 | - | 99,388 | 99,388 |
| 142,056 | - | 142,056 | 2,056 |
| 252,672 | - | 252,672 | 9,755 |
| 50,263 | - | 50,263 | 8,063 |
| 147,328 | - | 147,328 | (11,072) |
| 16,465 | - | 16,465 | 3,465 |
| 319,740 | - | 319,740 | 100,240 |
| 72,039 | - | 72,039 | 37,739 |
| 6,849 | - | 6,849 | 849 |
| 12,354,060 | - | 12,354,060 | 347,438 |
| 1,069,666 | 91,525 | 1,161,191 | 85,504 |
| 1,676,538 | 34,113 | 1,710,651 | 95,195 |
| 7,042,643 | - | 7,042,643 | 46,815 |
| 801,525 | 10,564 | 812,089 | 87,217 |
| 165,167 | 2,055 | 167,222 | 17,433 |
| 98,989 | - | 98,989 | 827 |
| 249,818 | - | 249,818 | 5,148 |
| 515,316 | - | 515,316 | 102,938 |
| 75,983 | - | 75,983 | - |
| 26,199 | - | 26,199 | (220) |
| 96,301 | - | 96,301 | - |
| 13,635 | - | 13,635 | - |
| 11,831,780 | 138,257 | 11,970,037 | 440,857 |
| 522,280 | (138,257) | 384,023 | 788,295 |
| 119,451 | - | 119,451 | - |
| 2,800 | - | 2,800 | 2,800 |
| (354,400) | - | (354,400) | (24,573) |
| (232,149) | - | (232,149) | (21,773) |
| 290,131 | (138,257) | 151,874 | 766,522 |
| 874,944 | 874,944 | 874,944 | - |
| \$ 1,165,075 | \$ 736,687 | \$ 1,026,818 | \$ 766,522 |

PENSION PLAN SCHEDULES

The following schedules provide information related to the System as a whole, for which the Town is one participating employer:

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 01/01/11 | \$ 278,332,006 | \$ 536,115,536 | \$ 257,783,530 | 51.9% | \$ 119,707,156 | 215.3% |
| 01/01/08 | 301,420,965 | 445,171,554 | 143,750,589 | 67.7% | 111,726,856 | 128.7% |
| 01/01/06 | 261,327,047 | 376,034,621 | 114,707,574 | 69.5% | 98,641,094 | 116.3% |
| 01/01/04 | 229,852,971 | 333,396,222 | 103,543,251 | 68.9% | 93,404,002 | 110.9% |
| 01/01/02 | 218,346,198 | 287,390,715 | 69,044,517 | 76.0% | 85,005,338 | 81.2% |
| 01/01/00 | 190,363,700 | 253,847,100 | 63,483,400 | 75.0% | 69,525,900 | 91.3% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

| Year Ended December 31 | Annually Required Contributions (ARC) | Percentage of ARC Contributed (%) |
|---------------------------|--|---|
| 2006 | \$ 15,274,181 | 100 |
| 2007 | 16,294,571 | 100 |
| 2008 | 16,995,636 | 100 |
| 2009 | 18,173,867 | 100 |
| 2010 | 19,566,952 | 100 |
| 2011 | 21,084,190 | 100 |

The following schedule provides information related to the Town's portion of the System's ARC:

TOWN SHARE OF SYSTEM ARC

| Year Ended June 30 | ARC | Percentage of ARC Contributed (%) | Town ARC as a Percentage of System ARC (%) |
|-----------------------|------------|---|--|
| 2007 | \$ 270,913 | 100 | 1.8% |
| 2008 | 283,647 | 100 | 1.7% |
| 2009 | 284,083 | 100 | 1.7% |
| 2010 | 280,747 | 100 | 1.5% |
| 2011 | 299,371 | 100 | 1.5% |
| 2012 | 326,923 | 100 | 1.6% |

OTHER POST EMPLOYEMENT BENEFITS SCHEDULE

The following schedule provides information related to the Town's other post employment benefits plan:

SCHEDULES OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 07/01/10 | \$ - | \$ 3,513,659 | \$ 3,513,659 | 0.0% | \$ 2,794,869 | 125.7% |
| 07/01/09 | - | 3,976,232 | 3,976,232 | 0.0% | 2,752,402 | 144.5% |

The significant change to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedules of funding progress is the decrease in the trend on medical and prescription drug costs in the 07/01/10 actuarial valuation.

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 fiscal year ended June 30, 2012, is presented below:

| | <u>Revenues</u> | <u>Expenditures</u> |
|--|----------------------|----------------------|
| Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual..... | \$ 12,354,060 | \$ 11,970,037 |
| <u>Reclassifications</u> | | |
| Activity of stabilization fund recorded in the general fund for GAAP purposes..... | 4,200 | - |
| Activity of municipal building trust fund recorded in the general fund for GAAP purposes..... | 45 | - |
| <u>Adjustments</u> | | |
| Net change in recording 60-day receipts..... | (72,058) | - |
| Net change in recording tax refunds payable..... | (165,428) | - |
| To record MTRS on-behalf payments..... | 258,406 | 258,406 |
| To record encumbrances and continuing appropriations..... | - | (138,257) |
| GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances..... | \$ <u>12,379,225</u> | \$ <u>12,090,186</u> |

NOTE B - PENSION PLAN

Additional information as of the latest actuarial valuation is as follows:

| | |
|--------------------------------|--|
| Valuation date: | January 1, 2011 |
| Actuarial cost method: | Entry age normal |
| Amortization method: | Level dollar for ERI liability for most units, 4.5% annual increases for ERI liability for other units, increasing amortization for the remaining unfunded liability. Increase in total appropriation not to exceed 8%. |
| Remaining amortization period: | As of July 1, 2011, schedules as selected by units for 2002 ERI liability, schedules as selected by units for 2003 ERI liability and 24 years for remaining unfunded liability. |
| Asset valuation method: | Sum of actuarial value at beginning of year and increase in cost value during year excluding realized appreciation or losses plus 20 percent of market value at end of year (as reported in the Annual Statement) in excess of that preliminary value, adjusted to be within 20 percent of their market value. |

Actuarial assumptions:

| | |
|-----------------------------|--|
| Investment rate of return: | 8.25% |
| Projected salary increases: | 5.00% |
| Cost of living adjustments: | 3.00% of first \$12,000 of retirement income |