

TOWN OF ESSEX, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

**TOWN OF ESSEX, MASSACHUSETTS
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INDEPENDENT AUDITORS' REPORT

To the Honorable Board of Selectmen
Town of Essex, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Essex, Massachusetts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 3 through 11) and budgetary comparison and certain pension and other postemployment benefits information (located on pages 55 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Essex, Massachusetts' internal control over financial reporting and compliance.

**CliftonLarsonAllen LLP**

Boston, Massachusetts
February 25, 2015

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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, 2014.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$37,992,887 (net position). Of this amount, \$15,660,101 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased \$1,997,972.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$1,767,279, or 13.3%, of total general fund expenditures and transfers out.
- The Town's total long-term debt decreased by \$812,860 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 position presents information on all of the Town's non-fiduciary assets, deferred outflows, liabilities and deferred inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, 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*).

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include sewer and water activities.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

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

Governmental Funds

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

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

The Town maintains 82 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, community preservation (special revenue) and Conomo Point (special revenue) funds, each of which are considered to be major funds. Data from the other 79 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 15-18 of this report.

Proprietary Funds

The Town maintains one type of proprietary fund.

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

The basic proprietary funds financial statements can be found on pages 19-21 of this report.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 22-23 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 24-53 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 55-59 of this report.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Government-Wide Financial Analysis

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

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$37,992,887 at the close of the fiscal year and are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current Assets	\$ 11,231,578	\$ 9,770,820	\$ 3,806,566	\$ 3,641,725	\$ 15,038,144	\$ 13,412,545
Noncurrent Assets (Excluding Capital Assets)	935,587	197,871	10,930,952	11,910,163	11,866,539	12,108,034
Capital assets (net)	3,806,795	3,498,002	26,136,551	26,830,266	29,943,346	30,328,268
Total Assets	15,973,960	13,466,693	40,874,069	42,382,154	56,848,029	55,848,847
Liabilities						
Current Liabilities (Excluding Debt)	481,782	901,711	531,323	501,143	1,013,105	1,402,854
Noncurrent Liabilities (Excluding Debt)	1,097,694	923,281	232,290	190,884	1,329,984	1,114,165
Current Debt	126,291	131,291	1,430,049	1,418,569	1,556,340	1,549,860
Noncurrent Debt	915,825	442,116	14,039,888	15,344,937	14,955,713	15,787,053
Total liabilities	2,621,592	2,398,399	16,233,550	17,455,533	18,855,142	19,853,932
Net Position						
Net Investment in Capital Assets	3,540,656	3,152,368	10,669,735	10,069,881	14,210,391	13,222,249
Restricted	8,122,395	6,710,111	-	-	8,122,395	6,710,111
Unrestricted	1,689,317	1,205,815	13,970,784	14,856,740	15,660,101	16,062,555
Total Net Position	\$ 13,352,368	\$ 11,068,294	\$ 24,640,519	\$ 24,926,621	\$ 37,992,887	\$ 35,994,915

A portion of the Town's net position (37.4%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements, machinery, vehicles and equipment and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (21.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (41.2% or \$15,660,101) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$1,689,317 may be used to support governmental activities and \$13,970,784 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 position, both for the government as a whole, as well as for its separate governmental and business-type activities.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Changes in Net Position

For the fiscal year ended June 30, 2014, the Town's total net position increased by \$1,997,972, compared to an increase of \$5,487,988 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues:						
Charges for Services	\$ 465,994	\$ 533,602	\$ 1,562,445	\$ 1,524,689	\$ 2,028,439	\$ 2,058,291
Operating Grants and Contributions	331,385	326,030	545,620	588,946	877,005	914,976
Capital Grants and Contributions	23,542	296,224	-	-	23,542	296,224
General Revenues:						
Real Estate and Personal Property Taxes	11,872,760	10,993,849	-	-	11,872,760	10,993,849
Motor Vehicle and Other Excise Taxes	639,696	556,851	-	-	639,696	556,851
Lease Revenue	615,398	573,188	-	-	615,398	573,188
Penalties and Interest on Taxes	38,530	69,689	-	-	38,530	69,689
Community Preservation Surcharges	43,335	45,173	-	-	43,335	45,173
Grants and Contributions not Restricted to Specific Programs	254,229	268,807	-	-	254,229	268,807
Unrestricted Investment Income	33,461	11,840	-	-	33,461	11,840
Gain on sale of capital assets	1,533	1,246	-	-	1,533	1,246
Total Revenues	14,319,863	13,676,499	2,108,065	2,113,635	16,427,928	15,790,134
Expenses						
General Government	1,430,782	1,537,975	-	-	1,430,782	1,537,975
Public Safety	2,223,949	2,274,167	-	-	2,223,949	2,274,167
Education	7,715,190	7,497,392	-	-	7,715,190	7,497,392
Public Works	1,216,750	1,110,599	-	-	1,216,750	1,110,599
Health and Human Services	277,234	271,098	-	-	277,234	271,098
Culture and Recreation	204,637	188,592	-	-	204,637	188,592
Debt Service - Interest	2,879	13,416	-	-	2,879	13,416
Sewer	-	-	1,999,197	1,948,311	1,999,197	1,948,311
Water	-	-	723,881	728,545	723,881	728,545
Total Expenses	13,071,421	12,893,239	2,723,078	2,676,856	15,794,499	15,570,095
Change in Net Position Before Special Item and Transfers	1,248,442	783,260	(615,013)	(563,221)	633,429	220,039
Special Item - Gain on Sale of Assets	1,364,543	5,267,949	-	-	1,364,543	5,267,949
Transfers, Net	(328,911)	(293,691)	328,911	293,691	-	-
Change in Net Position	2,284,074	5,757,518	(286,102)	(269,530)	1,997,972	5,487,988
Net Position - Beginning of Year	11,068,294	5,310,776	24,926,621	25,196,151	35,994,915	30,506,927
Net Position - End of Year	<u>\$ 13,352,368</u>	<u>\$ 11,068,294</u>	<u>\$ 24,640,519</u>	<u>\$ 24,926,621</u>	<u>\$ 37,992,887</u>	<u>\$ 35,994,915</u>

Governmental activities increased the Town's net position by \$2,284,074. In the prior year, governmental activities increased the Town's net position by \$5,757,518. The key element of this change was a decrease of \$3,903,406 related to the sale of various Conomo Point properties.

Business-type activities decreased the Town's net position by \$286,102. In the prior year, business-type activities decreased the Town's net position by \$269,530.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 \$10,235,546, an increase of \$1,685,580 in comparison with the prior year. \$1,747,350 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$376,944)
- Restricted (\$7,614,306)
- Committed (\$468,544)
- Assigned (\$28,402)

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 \$1,767,279, while total fund balance was \$2,321,959. 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 13.3% of total general fund expenditures and transfers out, while total fund balance represents 17.4% of that same amount.

The balance of the Town's general fund increased by \$537,921 during fiscal year 2014. The Town anticipated utilizing approximately \$948,000 of reserves to fund the budget; however, the Town ultimately recognized an approximate \$948,000 budgetary surplus (excluding encumbrances and continuing appropriations). Furthermore, tax refunds payable decreased \$530,090 due to the settlement of outstanding appellate tax board cases relating to the Conomo Point properties during the year.

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

The fund balance of the community preservation fund (special revenue) increased by \$44,078 during the current year. This is attributable to community preservation surcharges (\$43,151), intergovernmental revenues (\$23,542), investment income (\$566) and expenditures of \$23,181.

The fund balance of the Conomo Point fund (special revenue) increased by \$796,643 during the current year, which was primarily attributable to the sale of various Conomo Point properties totaling \$777,110.

Proprietary Funds

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

Unrestricted net position of the sewer and water enterprise funds at the end of the year amounted to \$13,401,857 and \$568,927, respectively. The sewer and water enterprise funds had decreases in net position for the year of \$269,891 and \$16,211, respectively.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 \$13,175,419 was increased by \$532,318 (4.0%) during the fiscal year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
Town Hall and library building renovations	\$ 260,000	Unassigned fund balance
Conomo Point legal expenses	150,000	Unassigned fund balance
Federal channel study	30,000	Unassigned fund balance
Public works dump truck	22,998	Unassigned fund balance
Harbormaster boat expenses	21,000	Transfer from waterways fund
Funding of OPEB trust fund	15,000	Unassigned fund balance
Electronic control devices	8,400	Unassigned fund balance
Open Space plan consultant	7,000	Unassigned fund balance
Town advertising expenses	5,000	Real estate and personal property taxes
Public safety consultant	5,000	Unassigned fund balance
Fire alarm wire/equipment removal	3,000	Unassigned fund balance
Funding of special stabilization funds	3,000	Unassigned fund balance
Emergency medical dispatch grant fund deficit	1,920	Unassigned fund balance
	<u>\$ 532,318</u>	

During the year, general fund revenues, other financing sources and uses exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgeted appropriations, resulting in a positive budget to actual variance of approximately \$745,000.

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 \$29,943,346 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure. The total decrease in the investment in capital assets for the current year totaled \$384,922, or 1.3% (a \$308,793 increase for governmental activities and a \$693,715 decrease for business-type activities).

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

- Town hall renovations (\$549,909)
- Purchase of a police cruiser (\$36,984)

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 133,095	\$ 133,095	\$ 2	\$ 2	\$ 133,097	\$ 133,097
Land Improvements	380,304	414,463	-	-	380,304	414,463
Buildings and Improvements	1,307,163	1,377,767	679,939	754,286	1,987,102	2,132,053
Machinery, Vehicles and Equipment	783,014	915,874	97,285	118,411	880,299	1,034,285
Infrastructure	442,253	456,394	25,359,325	25,957,567	25,801,578	26,413,961
Construction in Progress	760,966	200,409	-	-	760,966	200,409
Total Capital Assets	<u>\$ 3,806,795</u>	<u>\$ 3,498,002</u>	<u>\$ 26,136,551</u>	<u>\$ 26,830,266</u>	<u>\$ 29,943,346</u>	<u>\$ 30,328,268</u>

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 \$16,387,053, which is backed by the full faith and credit of the Town, and is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$ 665,000	\$ 135,000	\$ 1,105,000	\$ 1,215,000	\$ 1,770,000	\$ 1,350,000
MWPAT Notes	294,416	320,707	14,239,937	15,411,506	14,534,353	15,732,213
State House Notes	82,700	117,700	-	-	82,700	117,700
Total Bonds and Notes	<u>\$ 1,042,116</u>	<u>\$ 573,407</u>	<u>\$ 15,344,937</u>	<u>\$ 16,626,506</u>	<u>\$ 16,387,053</u>	<u>\$ 17,199,913</u>

The Town's total bonded debt decreased by \$812,860 (4.7%) 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 \$38,349,640.

Additional information on the Town's long-term debt can be found in Note 9 on pages 43-46 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the fiscal year 2015 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 2016.

Approximately 60% of municipal employees are covered by collective bargaining agreements (CBAs) in two different unions (AFSCME and the Essex Police Benevolent Association - EPBA). Both CBAs were renewed, effective July 1, 2013 and run for three years. The actual percentage increase to union and non-union salaries and wages was 2.0% between fiscal year 2014 and fiscal year 2015.

In fiscal year 2014, the Commonwealth of Massachusetts provided the Town with \$230,575 in State Cherry Sheet aid. This amount was \$10,965, or 4.5%, lower than received in fiscal year 2013. This follows a 3.5% increase from fiscal year 2012 to fiscal year 2013. \$247,201 in State aid is expected for fiscal year 2015, representing a 7.2% increase.

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 a decrease in "new growth" from \$133,947 in fiscal year 2013 to \$79,084 in fiscal year 2014. \$128,966 in "new growth" has been certified for fiscal year 2015.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 2015, the Essex apportionment increased by 2.8% (183,977) and totaled \$6,665,060. Also in fiscal year 2015, a debt assessment from the District relative to the new Manchester Essex Regional High School building construction of \$795,384 comes due and is covered by a debt exclusion outside of the Proposition 2 ½ limit. This assessment represents a \$15,974 decrease from the fiscal year 2014 assessment of \$811,358.

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 have been offered annually, for a total of four, one-year terms thus far. Approximately 40 properties in the southern area of Conomo Point have been or will soon be sold to the tenants (as per Special Legislation and a 2012 Annual Town Meeting vote) and the segregated proceeds from the sale of those properties to date is just over \$7.4M. In May of 2014, the Town Meeting authorized the sale of four properties in the Beach Circle neighborhood of Conomo Point. In May of 2015, the Town Meeting will likely consider authorizing the sale of the entire Robbins Island neighborhood as well. Collectively, Beach Circle and Robbins Island are known as Central Conomo Point. In calendar year one, revenue from bridge leases was \$606,300, which represents an approximate \$500,000 increase over revenue generated from the expiring leases. In calendar year two, revenue from bridge leases was \$576,916, which represents a \$29,384 decrease in revenue as compared with the year-one leases. In calendar year three, revenue from bridge leases was \$670,939, which represents a \$94,023 increase in revenue as compared with the year-two leases. Year-four leases are expected to generate approximately \$600,000. It is possible that the remaining northern area will be long-term leased again in the future but its 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.

TOWN OF ESSEX, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,490,053	\$ 2,320,919	\$ 4,810,972
Restricted Cash and Cash Equivalents	1,957,782	3,121	1,960,903
Restricted Investments	6,015,879	-	6,015,879
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	356,671	-	356,671
Tax Liens	135,969	-	135,969
Motor Vehicle and Other Excise Taxes	47,374	-	47,374
Community Preservation Surcharges	1,811	-	1,811
Water	-	279,910	279,910
Sewer	-	251,763	251,763
Special Assessments	-	815,523	815,523
Departmental and Other	22,153	-	22,153
Intergovernmental	-	135,330	135,330
Loans	16,386	-	16,386
Installment Sales	187,500	-	187,500
Total Current Assets	11,231,578	3,806,566	15,038,144
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	-	9,198,164	9,198,164
Intergovernmental	-	1,732,788	1,732,788
Loans	155,299	-	155,299
Installment Sales	380,000	-	380,000
Tax Foreclosures	400,288	-	400,288
Capital Assets not being Depreciated	894,061	2	894,063
Capital Assets, Net of Accumulated Depreciation	2,912,734	26,136,549	29,049,283
Total Noncurrent Assets	4,742,382	37,067,503	41,809,885
Total Assets	15,973,960	40,874,069	56,848,029
LIABILITIES			
Current Liabilities:			
Warrants Payable	336,120	116,879	452,999
Accrued Payroll	70,517	13,512	84,029
Other Liabilities	24,737	-	24,737
Accrued Interest	-	396,239	396,239
Capital Lease Obligations	35,260	-	35,260
Compensated Absences	15,148	4,693	19,841
Short-Term Notes Payable	-	125,000	125,000
Long-Term Bonds and Notes Payable	126,291	1,305,049	1,431,340
Total Current Liabilities	608,073	1,961,372	2,569,445
Noncurrent Liabilities:			
Capital Lease Obligations	36,917	-	36,917
Compensated Absences	136,328	42,241	178,569
Net OPEB Obligations	924,449	190,049	1,114,498
Long-Term Bonds and Notes Payable	915,825	14,039,888	14,955,713
Total Noncurrent Liabilities	2,013,519	14,272,178	16,285,697
Total Liabilities	2,621,592	16,233,550	18,855,142
NET POSITION			
Net Investment in Capital Assets	3,540,656	10,669,735	14,210,391
Restricted for:			
Capital Purposes	6,630,445	-	6,630,445
Employee Benefits	32,752	-	32,752
Community Preservation	326,810	-	326,810
Loans	171,685	-	171,685
Ambulance	351,111	-	351,111
Permanent Funds:			
Expendable	35,878	-	35,878
Nonexpendable	205,259	-	205,259
Other Specific Purposes	368,455	-	368,455
Unrestricted	1,689,317	13,970,784	15,660,101
Total Net Position	\$ 13,352,368	\$ 24,640,519	\$ 37,992,887

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

		Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense)/ Revenue	
Primary Government:						
Governmental Activities:						
General Government	\$ 1,430,782	\$ 244,509	\$ 18,425	\$ 23,542	\$ (1,144,306)	
Public Safety	2,223,949	182,024	38,481	-	(2,003,444)	
Education	7,715,190	-	248,661	-	(7,466,529)	
Public Works	1,216,750	3,341	-	-	(1,213,409)	
Health and Human Services	277,234	32,985	13,461	-	(230,788)	
Culture and Recreation	204,637	3,135	12,357	-	(189,145)	
Debt Service - Interest	2,879	-	-	-	(2,879)	
Total Governmental Activities	13,071,421	465,994	331,385	23,542	(12,250,500)	
Business-Type Activities:						
Sewer	1,999,197	855,250	545,145	-	(598,802)	
Water	723,881	707,195	475	-	(16,211)	
Total Business-Type Activities	2,723,078	1,562,445	545,620	-	(615,013)	
Total Primary Government	\$ 15,794,499	\$ 2,028,439	\$ 877,005	\$ 23,542	\$ (12,865,513)	

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
CHANGES IN NET POSITION			
Net Revenue (Expense) (from Previous Page)	\$ (12,250,500)	\$ (615,013)	\$ (12,865,513)
General Revenues:			
Real Estate and Personal Property Taxes	11,872,760	-	11,872,760
Motor Vehicle and Other Excise Taxes	639,696	-	639,696
Lease Revenue	615,398	-	615,398
Penalties and Interest on Taxes	38,530	-	38,530
Community Preservation Surcharges	43,335	-	43,335
Grants and Contributions not Restricted to Specific Programs	254,229	-	254,229
Unrestricted Investment Income	33,461	-	33,461
Gain on sale of Capital Assets	1,533	-	1,533
<i>Special Item - Gain on Sale of Lots</i>	1,364,543	-	1,364,543
<i>Transfers, Net</i>	(328,911)	328,911	-
Total General Revenues, Special Item and Transfers, Net	14,534,574	328,911	14,863,485
CHANGE IN NET POSITION	2,284,074	(286,102)	1,997,972
Net Position - Beginning of Year	11,068,294	24,926,621	35,994,915
NET POSITION - END OF YEAR	<u>\$ 13,352,368</u>	<u>\$ 24,640,519</u>	<u>\$ 37,992,887</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014**

ASSETS	General	Community Preservation	Conomo Point	Nonmajor Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 2,490,053	\$ -	\$ -	\$ -	\$ 2,490,053
Receivables, Net of Allowance for Uncollectible Amounts:					
Real Estate and Personal Property Taxes	356,671	-	-	-	356,671
Tax Liens	135,969	-	-	-	135,969
Motor Vehicle and Other Excise Taxes	47,374	-	-	-	47,374
Community Preservation Surcharges	-	1,811	-	-	1,811
Departmental and Other	-	-	-	22,153	22,153
Loans	-	-	-	171,685	171,685
Installment Sales	-	-	567,500	-	567,500
Tax Foreclosures	400,288	-	-	-	400,288
Restricted Assets:					
Cash and Cash Equivalents	57,733	325,208	47,067	1,527,774	1,957,782
Investments	-	-	6,015,879	-	6,015,879
Total Assets	\$ 3,488,088	\$ 327,019	\$ 6,630,446	\$ 1,721,612	\$ 12,167,165
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Warrants Payable	\$ 162,092	\$ 209	\$ -	\$ 173,819	\$ 336,120
Accrued Payroll	70,517	-	-	-	70,517
Other Liabilities	24,737	-	-	-	24,737
Total Liabilities	257,346	209	-	173,819	431,374
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	908,783	1,811	567,500	22,151	1,500,245
FUND BALANCES					
Nonspendable	-	-	-	376,944	376,944
Restricted	57,734	324,999	6,062,946	1,168,627	7,614,306
Committed	468,544	-	-	-	468,544
Assigned	28,402	-	-	-	28,402
Unassigned	1,767,279	-	-	(19,929)	1,747,350
Total Fund Balances	2,321,959	324,999	6,062,946	1,525,642	10,235,546
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 3,488,088	\$ 327,019	\$ 6,630,446	\$ 1,721,612	\$ 12,167,165

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Governmental Fund balances (Page 15)	\$ 10,235,546
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	3,806,795
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	1,500,245
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds and Notes Payable	(1,042,116)
Capital Lease Obligations	(72,177)
Compensated Absences	(151,476)
Net OPEB Obligation	<u>(924,449)</u>
Net Position of Governmental Activities (Page 12)	<u><u>\$ 13,352,368</u></u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2014**

	General	Community Preservation	Conomo Point	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Real Estate and Personal Property Taxes	\$ 11,441,328	\$ -	\$ -	\$ -	\$ 11,441,328
Motor Vehicle and Other Excise Taxes	642,632	-	-	-	642,632
Tax Liens	56,387	-	-	-	56,387
Community Preservation Surcharges	-	43,151	-	-	43,151
Charges for Services	158,647	-	-	77,301	235,948
Intergovernmental	506,117	23,542	-	22,978	552,637
Special Assessments	-	-	-	3,340	3,340
Penalties and Interest on Taxes	38,530	-	-	-	38,530
Licenses and Permits	152,640	-	-	-	152,640
Fines and Forfeitures	14,088	-	-	-	14,088
Lease Revenue	615,398	-	-	-	615,398
Departmental	75,901	-	19,933	21,023	116,857
Contributions	-	-	-	39,838	39,838
Investment Income	33,760	566	(400)	725	34,651
Total Revenues	13,735,428	67,259	19,533	165,205	13,987,425
EXPENDITURES					
Current:					
General Government	1,145,706	-	-	560,663	1,706,369
Public Safety	1,558,177	-	-	29,490	1,587,667
Education	7,402,610	-	-	-	7,402,610
Public Works	941,043	-	-	11,202	952,245
Health and Human Services	178,131	-	-	17,077	195,208
Culture and Recreation	109,440	23,181	-	13,195	145,816
Pension Benefits	563,134	-	-	-	563,134
Employee Benefits	494,232	-	-	-	494,232
Property and Liability Insurance	78,639	-	-	-	78,639
State and County Charges	86,805	-	-	-	86,805
Debt Service:					
Principal	131,291	-	-	-	131,291
Interest	7,561	-	-	-	7,561
Total Expenditures	12,696,769	23,181	-	631,627	13,351,577
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,038,659	44,078	19,533	(466,422)	635,848
OTHER FINANCING SOURCES (USES)					
Transfers In	122,134	-	-	295,494	417,628
Proceeds of Bonds and Notes	-	-	-	600,000	600,000
Sale of Capital Assets	1,533	-	-	-	1,533
Sale of Assets	-	-	777,110	-	777,110
Transfers Out	(624,405)	-	-	(122,134)	(746,539)
Total Other Financing Sources (Uses)	(500,738)	-	777,110	773,360	1,049,732
NET CHANGE IN FUND BALANCES	537,921	44,078	796,643	306,938	1,685,580
Fund Balances - Beginning of Year	1,784,038	280,921	5,266,303	1,218,704	8,549,966
FUND BALANCES - END OF YEAR	<u>\$ 2,321,959</u>	<u>\$ 324,999</u>	<u>\$ 6,062,946</u>	<u>\$ 1,525,642</u>	<u>\$ 10,235,546</u>

See accompanying Notes to Financial Statements.

TOWN OF ESSEX, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances - Total Governmental Funds (Page 17)	\$ 1,685,580
<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	597,541
Depreciation	(288,748)
<p>Revenues in the statement of activities that do not provide current financial resources are reported as direct inflows of resources in the governmental funds. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred inflows of resources.</p>	
	918,335
<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 position. Also, governmental funds report the effect of 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 Proceeds	(600,000)
Bond Maturities	131,291
Capital Lease Maturities	45,540
<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>	
	4,682
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>	
Net OPEB Obligation	(205,414)
Compensated Absences	(4,733)
Changes in Net Position of Governmental Activities (Page 14)	<u>\$ 2,284,074</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water (Nonmajor)	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,932,061	\$ 388,858	\$ 2,320,919
Restricted Cash and Cash Equivalents	3,121	-	3,121
Receivables, Net of Allowance for Uncollectible Amounts:			
User Charges	251,763	279,910	531,673
Special Assessments	800,440	15,083	815,523
Intergovernmental	135,330	-	135,330
Total Current Assets	<u>3,122,715</u>	<u>683,851</u>	<u>3,806,566</u>
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	9,134,047	64,117	9,198,164
Intergovernmental	1,732,788	-	1,732,788
Capital Assets not being Depreciated	-	2	2
Capital Assets, Net of Accumulated Depreciation	<u>25,392,729</u>	<u>743,820</u>	<u>26,136,549</u>
Total Noncurrent Assets	<u>36,259,564</u>	<u>807,939</u>	<u>37,067,503</u>
Total Assets	<u>39,382,279</u>	<u>1,491,790</u>	<u>40,874,069</u>
LIABILITIES			
Current Liabilities:			
Warrants Payable	104,956	11,923	116,879
Accrued Payroll	3,662	9,850	13,512
Accrued Interest	396,239	-	396,239
Compensated Absences	1,850	2,843	4,693
Short-Term Notes Payable	-	125,000	125,000
Long-Term Bonds and Notes Payable	<u>1,275,049</u>	<u>30,000</u>	<u>1,305,049</u>
Total Current Liabilities	<u>1,781,756</u>	<u>179,616</u>	<u>1,961,372</u>
Noncurrent Liabilities:			
Compensated Absences	16,654	25,587	42,241
Net OPEB Obligation	61,211	128,838	190,049
Long-Term Bonds and Notes Payable	<u>13,819,888</u>	<u>220,000</u>	<u>14,039,888</u>
Total Noncurrent Liabilities	<u>13,897,753</u>	<u>374,425</u>	<u>14,272,178</u>
Total Liabilities	<u>15,679,509</u>	<u>554,041</u>	<u>16,233,550</u>
FUND NET POSITION			
Net Investment in Capital Assets	10,300,913	368,822	10,669,735
Unrestricted	<u>13,401,857</u>	<u>568,927</u>	<u>13,970,784</u>
Total Fund Net Position	<u>\$ 23,702,770</u>	<u>\$ 937,749</u>	<u>\$ 24,640,519</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEAR ENDED JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water (Nonmajor)	Total
OPERATING REVENUES			
Charges for Services	\$ 661,026	\$ 700,313	\$ 1,361,339
Penalties and Interest	194,224	6,882	201,106
Total Operating Revenues	855,250	707,195	1,562,445
OPERATING EXPENSES			
Cost of Service and Administration	736,321	623,619	1,359,940
Depreciation	605,379	88,336	693,715
Total Operating Expenses	1,341,700	711,955	2,053,655
OPERATING (LOSS)	(486,450)	(4,760)	(491,210)
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental	544,224	-	544,224
Investment Income	921	475	1,396
Interest Expense	(657,497)	(11,926)	(669,423)
Total Nonoperating Revenues (Expenses)	(112,352)	(11,451)	(123,803)
(LOSS) BEFORE TRANSFERS	(598,802)	(16,211)	(615,013)
TRANSFERS			
Transfers In	328,911	-	328,911
CHANGE IN FUND NET POSITION	(269,891)	(16,211)	(286,102)
Fund Net Position - Beginning of Year	23,972,661	953,960	24,926,621
FUND NET POSITION - END OF YEAR	<u>\$ 23,702,770</u>	<u>\$ 937,749</u>	<u>\$ 24,640,519</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water (Nonmajor)	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 1,678,764	\$ 732,625	\$ 2,411,389
Payments to Vendors	(477,960)	(303,585)	(781,545)
Payments to Employees	(151,187)	(314,550)	(465,737)
Net Cash Provided by Operating Activities	1,049,617	114,490	1,164,107
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	328,911	-	328,911
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the Issuance of Bonds and Notes	-	125,000	125,000
Principal Payments on Bonds and Notes	(1,126,398)	(167,000)	(1,293,398)
Interest Paid	(154,345)	(11,926)	(166,271)
Net Cash Used For Capital and Related Financing Activities	(1,280,743)	(53,926)	(1,334,669)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	921	475	1,396
NET CHANGE IN CASH AND CASH EQUIVALENTS	98,706	61,039	159,745
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$3,121 Reported as Restricted in the Sewer Enterprise Fund)	1,836,476	327,819	2,164,295
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$3,121 Reported as Restricted in the Sewer Enterprise Fund)	\$ 1,935,182	\$ 388,858	\$ 2,324,040
RECONCILIATION OF OPERATING (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating (Loss)	\$ (486,450)	\$ (4,760)	\$ (491,210)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:			
Changes in Assets and Liabilities not Requiring Current Cash Flows:			
Depreciation	605,379	88,336	693,715
Increase in Net OPEB Obligation	13,366	27,905	41,271
Effect of Changes in Operating Assets and Liabilities:			
User Charges	6,119	12,415	18,534
Special Assessments	817,395	13,015	830,410
Warrants payable	93,533	(24,082)	69,451
Accrued Payroll	80	1,707	1,787
Accrued Compensated Absences	195	(46)	149
Total Adjustments	1,536,067	119,250	1,655,317
Net Cash Provided by Operating Activities	\$ 1,049,617	\$ 114,490	\$ 1,164,107
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Intergovernmental Debt Subsidies (MWPAT) - Interest	\$ 586,952	\$ -	\$ 586,952
Intergovernmental Debt Subsidies (MWPAT) - Principal	125,171	-	125,171

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 384,141	\$ 71,481
Receivables, Net of Allowance for Uncollectible Amounts:		
Departmental and Other	-	9,558
 Total Assets	 384,141	 81,039
 LIABILITIES		
Warrants Payable	-	1,152
Accrued Payroll	-	1,608
Liabilities Due Depositors	-	78,279
 Total Liabilities	 -	 81,039
 NET POSITION		
Assets Held in Trust for Other Purposes	\$ 384,141	\$ -

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014**

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Net Investment Income:	
Interest	<u>\$ 773</u>
CHANGE IN NET POSITION	773
Net Position - Beginning of Year	<u>383,368</u>
NET POSITION - END OF YEAR	<u><u>\$ 384,141</u></u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

B. Reporting Entity

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

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

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

Joint Venture

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

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

Name	Purpose	Address	Fiscal Year
			2014 Assessment
Manchester Essex Regional School District	To provide educational services	36 Lincoln Street Manchester-by-the Sea, MA	\$ 7,292,441
North Shore Technical High School	To provide educational services	36 Log Bridge Road Middleton, MA	103,985
Essex County Regional Emergency Communications Center	To provide emergency services	18 Manning Avenue Middleton, MA 01949	52,227

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity

Joint Venture (Continued)

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

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 on the previous page.

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

C. Implementation of New Accounting Principles

For the year ended June 30, 2014, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

The implementation of GASB Statement No. 65 established financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB Statement No. 65 had no retrospective reporting impact for the Town.

The implementation of GASB Statement No.'s 66 and 70 had no reporting impact for the Town.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

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

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

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

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

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

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

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

The following proprietary funds are reported:

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

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

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

The following fiduciary fund types are reported:

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

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

F. Cash and Cash Equivalents and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

Special Assessments

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable (Continued)

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

Departmental and Other

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

Intergovernmental

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

Loans

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

Installment Sales

In 2013, the Town sold three Conomo Point properties under installment sales transactions with principal balloon payments due in fiscal year 2043.

H. Allowance for Uncollectible Amounts

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

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

As of June 30, 2014, the allowance for uncollectible accounts for personal property taxes, motor vehicle and other excise taxes are immaterial and therefore not reported.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Allowance for Uncollectible Amounts (Continued)

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.

I. Inventories

Government-Wide and Fund Financial Statements

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

J. Restricted Assets

Government-Wide and Fund Financial Statements

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

K. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated 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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

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

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

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

Governmental Funds Financial Statements

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

L. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Interfund Transfers

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

Government-Wide Financial Statements

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Interfund Transfers (Continued)

Fund Financial Statements

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

N. Deferred Outflows of Resources

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

The Town does not have any items that qualify for reporting in this category.

O. Deferred Inflows of Resources

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

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

P. Net Position and Fund Balances

Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net Position)

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

Net position has been "restricted" for the following:

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

"Employee benefits" represents amounts restricted for other postemployment benefits.

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

"Loans" represents outstanding septic loans receivable.

"Ambulance" represents amounts restricted for ambulance activities.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

“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.

Q. Long-Term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net position. Material bond premiums and discounts are 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. No unamortized bond premiums or discounts are reported at June 30, 2014.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds Financial Statements

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

R. Investment Income

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

Investment income from permanent, enterprise (proprietary), and fiduciary funds is retained in the funds.

S. Compensated Absences

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

Government-Wide and Proprietary Funds Financial Statements

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

Governmental Funds Financial Statements

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

T. 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.

U. 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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. 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 2014 approved budget for the general fund authorized \$13,175,419 in appropriations. During fiscal year 2014, supplemental appropriations totaling \$532,318 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 of Appropriations

During the fiscal year ended June 30, 2014, expenditures exceeded appropriations for state and county charges by \$460.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

C. Fund Deficits

At June 30, 2014, the following fund deficit existed:

Fund	Amount	Funding Source
Winter Rapid Recovery Road	\$ 19,929	State grant

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.

A. Deposits – Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2014, \$124,796 of the Town's bank balance of \$7,097,549 was uninsured, uncollateralized and exposed to custodial credit risk.

B. Investments Summary

The Town's investments at June 30, 2014 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	1 - 5
<u>Debt Securities:</u>			
Money market mutual funds	\$ 69,958	\$ 69,958	\$ -
Certificates of deposit	6,015,879	4,061,449	1,954,430
External investment pools	<u>118,827</u>	<u>118,827</u>	<u>-</u>
Total debt securities	\$ 6,204,664	\$ 4,250,234	\$ 1,954,430

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments - Interest Rate Risk of Debt Securities

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

D. Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2014 the Town's investments were not exposed to custodial credit risk.

E. Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2014, the Town's debt securities were not rated by a national credit rating organization.

F. Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town does not have a policy for concentration of credit risk. As of June 30, 2014, the Town was not exposed to concentration of credit risk.

NOTE 4 ACCOUNTS RECEIVABLE

At June 30, 2014, 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	\$ 356,671	\$ -	\$ 356,671
Tax liens	521,086	(385,117)	135,969
Motor vehicle and other excise taxes	47,374	-	47,374
Community preservation surcharges	1,811	-	1,811
Departmental and other	53,896	(22,185)	31,711
Intergovernmental	-	-	-
Loans	171,685	-	171,685
Installment sales	567,500	-	567,500
	<u>\$ 1,720,023</u>	<u>\$ (407,302)</u>	<u>\$ 1,312,721</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 ACCOUNTS RECEIVABLE (CONTINUED)

At June 30, 2014, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer	\$ 251,763	-	\$ 251,763
Water	279,910	-	279,910
Special assessments	10,013,687	-	10,013,687
Intergovernmental	1,868,118	-	1,868,118
	<u>\$ 12,413,478</u>	<u>\$ -</u>	<u>\$ 12,413,478</u>

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 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	200,409	560,557	-	760,966
Total capital assets not being depreciated	<u>333,504</u>	<u>560,557</u>	<u>-</u>	<u>894,061</u>
<u>Capital assets being depreciated:</u>				
Land improvements	693,530	-	-	693,530
Buildings and improvements	3,545,866	-	-	3,545,866
Machinery, vehicles and equipment	2,132,923	36,984	(26,746)	2,143,161
Infrastructure	513,373	-	-	513,373
Total capital assets being depreciated	<u>6,885,692</u>	<u>36,984</u>	<u>(26,746)</u>	<u>6,895,930</u>
<u>Less accumulated depreciation for:</u>				
Land improvements	(279,067)	(34,159)	-	(313,226)
Buildings and improvements	(2,168,099)	(70,604)	-	(2,238,703)
Machinery, vehicles and equipment	(1,217,049)	(169,844)	26,746	(1,360,147)
Infrastructure	(56,979)	(14,141)	-	(71,120)
Total accumulated depreciation	<u>(3,721,194)</u>	<u>(288,748)</u>	<u>26,746</u>	<u>(3,983,196)</u>
Total capital assets being depreciated, net	<u>3,164,498</u>	<u>(251,764)</u>	<u>-</u>	<u>2,912,734</u>
Total governmental activities capital assets, net	<u>\$ 3,498,002</u>	<u>\$ 308,793</u>	<u>\$ -</u>	<u>\$ 3,806,795</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 2	\$ -	\$ -	\$ 2
<u>Capital assets being depreciated:</u>				
Buildings and improvements	2,957,000	-	-	2,957,000
Machinery, vehicles and equipment	228,357	-	-	228,357
Infrastructure	29,834,500	-	-	29,834,500
Total capital assets being depreciated	33,019,857	-	-	33,019,857
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	(2,202,714)	(74,347)	-	(2,277,061)
Machinery, vehicles and equipment	(109,945)	(21,127)	-	(131,072)
Infrastructure	(3,876,934)	(598,241)	-	(4,475,175)
Total accumulated depreciation	(6,189,593)	(693,715)	-	(6,883,308)
Total capital assets being depreciated, net	26,830,264	(693,715)	-	26,136,549
Total business-type activities capital assets, net	\$ 26,830,266	\$ (693,715)	\$ -	\$ 26,136,551

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

Governmental Activities:

General government	\$ 40,496
Public safety	112,496
Education	29,430
Public works	81,121
Culture and recreation	25,205
	<u>288,748</u>

Total depreciation expense - governmental activities \$ 288,748

Business-Type Activities:

Sewer	\$ 605,379
Water	88,336
	<u>693,715</u>

Total depreciation expense - business-type activities \$ 693,715

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014 are summarized as follows:

Transfers Out:	Transfers In:			
	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	Total
General Fund	\$ -	\$ 295,494	\$ 328,911	\$ 624,405 (1)
Nonmajor Governmental Funds	122,134	-	-	122,134 (2)
	<u>\$ 122,134</u>	<u>\$ 295,494</u>	<u>\$ 328,911</u>	<u>\$ 746,539</u>

(1) Represents budgeted transfers for sewer enterprise fund subsidy (\$328,911), funding of town hall and library improvements fund (\$260,000) and emergency medical dispatch special revenue fund (\$1,920). Also represents funding of waterways improvement fund (\$6,230) and transfers of unspent balances to ambulance (\$22,601), cemetery lot care (\$3,323) and wetland protection (\$1,420) funds.

(2) Represents budgeted transfers to fund the fiscal year 2014 operating budget from the ambulance (\$77,093), septic title V (\$26,291), cemetery lot care (\$13,600), cemetery sale of lots (\$950), wetland protection (\$3,500) and cemetery perpetual care (\$700) 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. Interest expense in the government-wide financial statements is reported in the applicable governmental or business-type activities column.

Details related to the short-term debt activity for the fiscal year ended June 30, 2014, is as follows:

Notes Payable - Governmental Funds

Type	Purpose	Origination Date	Maturity Date	Rate %	Balance at June 30, 2013	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2014
BAN	Town Hall/Library Repairs	7/10/13	7/10/14	0.60	\$ -	\$ 600,000	\$ (600,000)	\$ -

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 SHORT-TERM FINANCING (CONTINUED)

Notes Payable - Enterprise Funds

Type	Purpose	Origination Date	Maturity Date	Rate %	Balance at June 30, 2013	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2014
BAN	Pond Street Water Mains	8/3/12	8/2/13	0.55	\$ 137,000	\$ -	\$ (137,000)	\$ -
BAN	Pond Street Water Mains	8/2/13	8/1/14	0.64	-	125,000	-	125,000
Total					<u>\$ 137,000</u>	<u>\$ 125,000</u>	<u>\$ (137,000)</u>	<u>\$ 125,000</u>

Subsequent Events

On August 1, 2014, the Town paid down \$12,000 of the Pond Street Water Mains BAN with available funds and renewed the BAN in the amount of \$113,000, at an interest rate of 0.55% with a maturity date of July 31, 2015.

On July 1, 2014, the Town issued \$1,615,000 of general obligation bonds. A portion of this amount (\$600,000) was used to retire the BANs outstanding at June 30, 2014 for Town Hall/Library repairs and, accordingly, is recorded as a long-term debt obligation at June 30, 2014.

NOTE 8 LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the year ended June 30, 2014:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014	Current Portion
Governmental Activities:					
Bonds and notes payable	\$ 573,407	\$ 600,000	\$ (131,291)	\$ 1,042,116	\$ 126,291
Capital lease obligations	117,717	-	(45,540)	72,177	35,260
Net OPEB obligation	719,035	281,718	(76,304)	924,449	-
Compensated absences	146,743	4,733	-	151,476	15,148
Total	<u>\$ 1,556,902</u>	<u>\$ 886,451</u>	<u>\$ (253,135)</u>	<u>\$ 2,190,218</u>	<u>\$ 176,699</u>

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014	Current Portion
Business-type Activities:					
Bonds and notes payable	\$ 16,626,506	\$ -	\$ (1,281,569)	\$ 15,344,937	\$ 1,305,049
Net OPEB obligation	148,778	56,601	(15,330)	190,049	-
Compensated absences	46,785	149	-	46,934	4,693
Total	<u>\$ 16,822,069</u>	<u>\$ 56,750</u>	<u>\$ (1,296,899)</u>	<u>\$ 15,581,920</u>	<u>\$ 1,309,742</u>

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.

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9 LONG-TERM DEBT

Details related to the outstanding indebtedness at June 30, 2014 and the debt service requirements are as follows:

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
MWPAT - Title V Loan	8/1/19	5.33	\$ 37,532	\$ -	\$ (5,431)	\$ 32,101
MWPAT - Title V Loan	8/1/22	4.90	19,712	-	(1,962)	17,750
DPW Barn	8/15/14	3.55	100,000	-	(50,000)	50,000
Fire Pumper	8/15/14	3.53	35,000	-	(20,000)	15,000
MWPAT - Title V Loan	7/15/25	0.00	130,000	-	(10,000)	120,000
MWPAT - Title V Loan	7/15/27	0.00	133,463	-	(8,898)	124,565
State House Note - DPW Barn	2/1/17	3.10	117,700	-	(35,000)	82,700
Building Remodeling - Town Hall	8/15/24	2.07	-	600,000	-	600,000
Total			\$ 573,407	\$ 600,000	\$ (131,291)	\$ 1,042,116

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

Fiscal Year	Principal	Interest	Total
2015	\$ 126,291	\$ 14,935	\$ 141,226
2016	121,194	16,773	137,967
2017	98,894	14,097	112,991
2018	86,194	12,098	98,292
2019	86,194	10,494	96,688
2020	86,194	8,895	95,089
2021	80,860	7,449	88,309
2022	80,905	6,150	87,055
2023	80,905	4,550	85,455
2024	78,897	2,700	81,597
2025	78,897	900	79,797
2026	18,897	-	18,897
2027	8,897	-	8,897
2028	8,897	-	8,897
Total	\$ 1,042,116	\$ 99,041	\$ 1,141,157

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds Payable – Water Enterprise Fund

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Refunding Water Treatment Facility	8/15/20	3.70	\$ 160,000	\$ -	\$ (20,000)	\$ 140,000
Refunding Water Storage Tank	8/15/24	3.99	120,000	-	(10,000)	110,000
Total			<u>\$ 280,000</u>	<u>\$ -</u>	<u>\$ (30,000)</u>	<u>\$ 250,000</u>

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

Fiscal Year	Principal	Interest	Total
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>\$ 250,000</u>	<u>\$ 47,106</u>	<u>\$ 297,106</u>

Bonds and Notes Payable – Sewer Enterprise Fund

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
MWPAT	8/1/23	4.43	\$ 2,794,198	\$ -	\$ (214,198)	\$ 2,580,000
MWPAT	8/1/23	4.43	3,458,727	-	(263,727)	3,195,000
MWPAT	8/1/23	4.43	1,553,595	-	(118,595)	1,435,000
Sewer construction	2/15/26	3.99	935,000	-	(80,000)	855,000
MWPAT	7/15/25	0.00	6,272,326	-	(482,486)	5,789,840
MWPAT	7/20/26	0.00	780,787	-	(55,771)	725,016
MWPAT	7/15/27	0.00	551,873	-	(36,792)	515,081
Total			<u>\$ 16,346,506</u>	<u>\$ -</u>	<u>\$ (1,251,569)</u>	<u>\$ 15,094,937</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9 LONG-TERM DEBT (CONTINUED)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,275,049	\$ 637,736
2016	1,300,049	578,997
2017	1,320,049	519,754
2018	1,340,049	460,266
2019	1,365,050	399,597
2020	1,385,050	338,659
2021	1,405,049	277,589
2022	1,430,048	215,377
2023	1,455,048	151,867
2024	1,465,048	87,389
2025	650,048	41,300
2026	575,048	20,650
2027	92,561	-
2028	36,791	-
Total	\$ <u>15,094,937</u>	\$ <u>3,729,181</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 2014, the Town's subsidy totaled approximately \$669,000. Future subsidies total approximately \$4,816,000. The amount of MWPAT bonds outstanding at June 30, 2014, totaled \$14,534,353.

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, 2014, the Town had the following authorized and unissued long-term debt:

<u>Purpose</u>	<u>Amount</u>
Pond Street water mains	\$ <u>125,000</u> *

* Short-term debt of \$125,000 has been issued and is outstanding at June 30, 2014 for the Pond Street water mains.

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9 LONG-TERM DEBT (CONTINUED)

Subsequent Event

On July 1, 2014, the Town issued \$1,015,000 in current refunding bonds to refund \$995,000 of previously issued and outstanding bonds with an average interest rate of approximately 3.9%. The interest rate of the current refunding bonds is 2.0%.

The net proceeds of \$1,004,950 (after premium and payment of bond issuance costs) were used to subsequently retire the outstanding bonds and call premium on August 15, 2014.

As a result of this refunding, the Town will reduce its total gross debt service payments over the remaining life of the bonds by approximately \$78,000 and will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$71,000.

NOTE 10 CAPITAL LEASES

The Town has entered into certain capital lease agreements for a fire truck 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 property before the end of the lease terms.

The following schedule presents future minimum lease payments as of June 30, 2014:

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2015	\$ 38,652
2016	<u>38,652</u>
Total minimum lease payments	77,304
Less: amounts representing interest	<u>(5,127)</u>
Present value of minimum lease payments	\$ <u><u>72,177</u></u>

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

<u>Asset:</u>	<u>Governmental</u> <u>Activities</u>
Machinery and equipment	\$ 442,640
Less: accumulated amortization	<u>(199,821)</u>
Total	\$ <u><u>242,819</u></u>

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

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2013, the latest actuarial valuation, is as follows:

Active employees	32
Retired employees	<u>22</u>
Total	<u><u>54</u></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:

	<u>Amount</u>
Annual required contribution	\$ 356,842
Interest on net OPEB obligation	33,698
Adjustment to annual required contribution	(46,844)
Amortization of Actuarial (Gains)/Losses	<u>(5,377)</u>
Annual OPEB cost	338,319
Contributions made	<u>(91,634)</u>
Increase in net OPEB obligation	246,685
Net OPEB obligation at beginning of year	<u>867,813</u>
Net OPEB obligation at end of year	<u><u>\$ 1,114,498</u></u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	304,525	35.6%	675,765
June 30, 2013	300,581	36.1%	867,813
June 30, 2014	338,319	30.5%	1,114,498

Funded Status and Funding Progress – The funded status of the Plan at July 1, 2013, the most recent actuarial valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
07/01/13	\$ -	\$ 3,095,454	\$ 3,095,454	0.00%	\$ 2,758,532	112.21%

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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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

Valuation date:	July 1, 2013
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level dollar amortization over 30 years at transition
Remaining amortization period:	24 years at July 1, 2013 (closed)
Interest discount rate:	4.00%
Healthcare/Medical cost trend rate:	5.00% per year
Projected salary increases:	3.00% annually

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

Governmental Activities:	
General government	\$ 40,077
Public safety	141,937
Education	20,337
Public works	50,598
Health and human services	17,547
Culture and recreation	<u>11,222</u>
Total AOPEBC - governmental activities	<u>281,718</u>
Business-Type Activities:	
Water	38,270
Sewer	<u>18,331</u>
Total AOPEBC - business-type activities	<u>56,601</u>
Total AOPEBC	<u><u>\$ 338,319</u></u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 12 FUND BALANCES

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

	<u>General</u>	<u>Community Preservation</u>	<u>Conomo Point</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:					
Loans	\$ -	\$ -	\$ -	\$ 171,685	\$ 171,685
Permanent fund principal	-	-	-	205,259	205,259
Sub-total - Nonspendable	-	-	-	376,944	376,944
Restricted for:					
Municipal insurance	24,979	-	-	-	24,979
Ambulance	-	-	-	328,958	328,958
General government	-	-	-	479,209	479,209
Public safety	-	-	-	41,805	41,805
Public works	-	-	-	281,059	281,059
Health and human services	-	-	-	10,800	10,800
Culture and recreation	-	-	-	26,796	26,796
Community preservation	-	324,999	-	-	324,999
Other postemployment benefits	32,755	-	-	-	32,755
Capital purposes	-	-	6,062,946	-	6,062,946
Sub-total - Restricted	57,734	324,999	6,062,946	1,168,627	7,614,306
Committed to:					
Subsequent year's expenditures	291,321	-	-	-	291,321
Continuing appropriations	174,223	-	-	-	174,223
Capital stabilization	3,000	-	-	-	3,000
Sub-total - Committed	468,544	-	-	-	468,544
Assigned to:					
General government	11,357	-	-	-	11,357
Public safety	12,870	-	-	-	12,870
Other	4,175	-	-	-	4,175
Sub-total - Assigned	28,402	-	-	-	28,402
Unassigned	1,767,279	-	-	(19,929)	1,747,350
	<u>\$ 2,321,959</u>	<u>\$ 324,999</u>	<u>\$ 6,062,946</u>	<u>\$ 1,525,642</u>	<u>\$ 10,235,546</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 STABILIZATION FUNDS

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

The balance of the general stabilization, town buildings capital, recreational capital and vehicle and major equipment capital stabilization funds at June 30, 2014 total \$660,722, \$1,000, \$1,000 and \$1,000, respectively. The capital stabilization funds are reported in the general fund as committed fund balance. The general stabilization fund is reported in the general fund as unassigned fund balance.

NOTE 14 RISK FINANCING

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

The Town has a municipal building fund that is used to subsidize the Town's premium-based insurance. As of June 30, 2014, this fund had a balance of \$24,979, 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, 2014, the Town received \$615,398 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, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 301,664

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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 years ended June 30, 2014, 2013, and 2012 were \$411,240, \$385,212, and \$326,923, 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 \$248,660 for the year ended June 30, 2014, 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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2014.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following 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.
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented during fiscal year 2015. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 71, *Accounting Pension Transition for Contributions made Subsequent to the Measurement Date*, - an amendment of GASB Statement No. 68, which is required to be implemented during fiscal year 2015.

These pronouncements will be implemented by their respective implementation dates.

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TOWN OF ESSEX, MASSACHUSETTS
GENERAL FUND – SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND
BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2014

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real Estate and Personal Property Taxes	\$ -	\$ 11,192,978	\$ 5,000	\$ 11,197,978
Motor Vehicle and Other Excise Taxes	-	538,500	-	538,500
Tax and Utility Liens	-	-	-	-
Charges for Services	-	160,000	-	160,000
Intergovernmental	-	247,911	-	247,911
Penalties and Interest on Taxes	-	39,500	-	39,500
Licenses and Permits	-	197,000	-	197,000
Fines and Forfeitures	-	15,000	-	15,000
Lease Revenue	-	300,000	-	300,000
Departmental	-	54,000	-	54,000
Investment Income	-	16,000	-	16,000
Total Revenues	-	12,760,889	5,000	12,765,889
EXPENDITURES				
Current:				
General Government	58,319	1,276,108	170,102	1,504,529
Public Safety	76,947	1,620,514	34,463	1,731,924
Education	-	7,409,112	-	7,409,112
Public Works	9,639	945,009	46,899	1,001,547
Health and Human Services	4,306	200,379	(564)	204,121
Culture and Recreation	-	112,813	1,000	113,813
Pension Benefits	-	320,767	-	320,767
Employee Benefits	-	636,100	498	636,598
Property and Liability Insurance	-	85,508	-	85,508
State and County Charges	-	86,345	-	86,345
Debt Service:				
Principal	-	131,291	-	131,291
Interest	-	22,562	-	22,562
Total Expenditures	149,211	12,846,508	252,398	13,248,117
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(149,211)	(85,619)	(247,398)	(482,228)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	122,134	21,000	143,134
Sale of Capital Assets	-	-	-	-
Transfers Out	-	(328,911)	(279,920)	(608,831)
Total Other Financing Sources (Uses)	-	(206,777)	(258,920)	(465,697)
NET CHANGE IN FUND BALANCE	(149,211)	(292,396)	(506,318)	(947,925)
Fund Balance - Beginning of Year	1,568,881	1,568,881	1,568,881	1,568,881
FUND BALANCE - END OF YEAR	<u>\$ 1,419,670</u>	<u>\$ 1,276,485</u>	<u>\$ 1,062,563</u>	<u>\$ 620,956</u>

See accompanying notes to required supplementary information.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 10,927,575	\$ -	\$ 10,927,575	\$ (270,403)
642,632	-	642,632	104,132
56,387	-	56,387	56,387
158,645	-	158,645	(1,355)
257,456	-	257,456	9,545
38,530	-	38,530	(970)
152,640	-	152,640	(44,360)
14,088	-	14,088	(912)
615,398	-	615,398	315,398
75,901	-	75,901	21,901
27,726	-	27,726	11,726
12,966,979	-	12,966,979	201,090
1,145,706	112,986	1,258,692	245,837
1,558,177	62,466	1,620,643	111,281
7,402,611	-	7,402,611	6,501
941,043	25,196	966,239	35,308
178,131	1,614	179,745	24,376
109,440	363	109,803	4,010
314,473	-	314,473	6,294
494,232	-	494,232	142,366
78,639	-	78,639	6,869
86,805	-	86,805	(460)
131,291	-	131,291	-
7,561	-	7,561	15,001
12,448,109	202,625	12,650,734	597,383
518,870	(202,625)	316,245	798,473
122,134	-	122,134	(21,000)
1,533	-	1,533	1,533
(642,405)	-	(642,405)	(33,574)
(518,738)	-	(518,738)	(53,041)
132	(202,625)	(202,493)	745,432
1,568,881	-	1,568,881	-
\$ 1,569,013	\$ (202,625)	\$ 1,366,388	\$ 745,432

**TOWN OF ESSEX, MASSACHUSETTS
PENSION PLAN SCHEDULES
JUNE 30, 2014**

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

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

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)
01/01/13	\$ 314,565,925	\$ 619,339,080	\$ 304,773,155	50.8%	\$ 119,292,287	255.5%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2008	16,995,636	100
2009	18,173,867	100
2010	19,566,952	100
2011	21,084,190	100
2012	22,770,925	100
2013	24,592,599	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 (%)
2009	\$ 284,083	100	1.7%
2010	280,747	100	1.5%
2011	299,371	100	1.5%
2012	326,923	100	1.6%
2013	385,212	100	1.7%
2014	411,240	100	1.7%

**TOWN OF ESSEX, MASSACHUSETTS
OTHER POST EMPLOYMENT BENEFITS SCHEDULE
JUNE 30, 2014**

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)
07/01/13	\$ -	\$ 3,095,454	\$ 3,095,454	0.0%	\$ 2,758,532	112.2%
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 July 1, 2010 actuarial valuation

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 July 1, 2013 actuarial valuation

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014

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, 2014 is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>OFS/ (OFU), net</u>	<u>Fund Balance</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual	\$ 12,966,979	\$ 12,650,734	\$ (518,738)	\$ 1,366,388
<u>Adjustments and reclassifications:</u>				
Net Change in Recording 60-Day Receipts	(16,335)	-	-	31,493
Net Change in Recording Tax Refunds Payable	530,090	-	-	-
To record MTRS On-Behalf Payments	248,660	248,660	-	-
To record Encumbrances and Continuing Appropriations	-	(202,625)	-	202,625
To Reclassify the Activity of the Stabilization Funds to the General Fund	3,553	-	3,000	663,722
To Reclassify the Activity of the Municipal Building Trust Fund to the General Fund	50	-	-	24,979
To Reclassify the Activity of the OPEB Trust Fund to the General Fund	2,431	-	15,000	32,752
	<u>2,431</u>	<u>-</u>	<u>15,000</u>	<u>32,752</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 13,735,428</u>	<u>\$ 12,696,769</u>	<u>\$ (500,738)</u>	<u>\$ 2,321,959</u>