

TOWN OF ESSEX, MASSACHUSETTS

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

JUNE 30, 2015

**TOWN OF ESSEX, MASSACHUSETTS
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

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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, 2015, 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the fiscal year ended June 30, 2015, the Town adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result, the Town reported a restatement for the change in accounting principle (see Note 1). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2016 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 10, 2016

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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, 2015.

Financial Highlights

- The assets of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$33,790,858 (net position). Of this amount, \$9,455,282 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased \$1,470,558.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$1,893,316, or 13.9%, of total general fund expenditures and transfers out.
- The Town's total long-term debt decreased by \$1,382,131 during the fiscal year.

Overview of the Basic Financial Statements

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

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

This report also contains other required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Town's non-fiduciary assets, deferred outflows, liabilities and deferred inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

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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 77 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, community preservation (special revenue), Conomo Point (special revenue), and Town Hall Repairs (capital project) funds, each of which are considered to be major funds. Data from the other 73 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 15-20 of this report.

Proprietary Funds

The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its sewer and water activities. The sewer enterprise fund 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 21-23 of this report.

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Fiduciary Funds

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

Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-59 of this report.

Required Supplementary Information

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

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 and deferred inflows by \$33,622,858 at the close of the fiscal year and are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current Assets	\$ 12,678,258	\$ 11,231,578	\$ 3,973,268	3,806,566	\$ 16,651,526	\$ 15,038,144
Noncurrent Assets (Excluding Capital Assets)	920,534	935,587	9,891,426	10,930,952	10,811,960	11,866,539
Capital assets (net)	4,382,223	3,806,795	25,501,301	26,136,551	29,883,524	29,943,346
Total Assets	17,981,015	15,973,960	39,365,995	40,874,069	57,347,010	56,848,029
Liabilities						
Current Liabilities (Excluding Debt)	582,096	481,782	564,035	531,323	1,146,131	1,013,105
Noncurrent Liabilities (Excluding Debt)	6,006,463	1,097,694	1,260,968	232,290	7,267,431	1,329,984
Current Debt	124,439	126,291	1,453,049	1,430,049	1,577,488	1,556,340
Noncurrent Debt	820,595	915,825	12,719,839	14,039,888	13,540,434	14,955,713
Total Liabilities	7,533,593	2,621,592	15,997,891	16,233,550	23,531,484	18,855,142
Deferred Inflows of Resources	20,401	-	4,267	-	24,668	-
Net Position						
Net Investment in Capital Assets	3,685,423	3,540,656	11,331,534	10,669,735	15,016,957	14,210,391
Restricted	9,318,619	8,122,395	-	-	9,318,619	8,122,395
Unrestricted	(2,577,021)	1,689,317	12,032,303	13,970,784	9,455,282	15,660,101
Total Net Position	\$ 10,427,021	\$ 13,352,368	\$ 23,363,837	\$ 24,640,519	\$ 33,790,858	\$ 37,992,887

A portion of the Town's net position (44.44%) 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 (27.58%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (27.98% or \$9,455,282) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$12,032,303 may be used to support business-type activities. The Town has no unrestricted net position available for the support of governmental activities. Such resources have been consumed with the recognition of the net pension and other postemployment benefit liabilities.

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Changes in Net Position

For the fiscal year ended June 30, 2015, the Town's total net position increased by \$1,470,558, compared to an increase of \$1,997,972 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues:						
Charges for Services	\$ 527,886	\$ 465,994	\$ 1,638,623	\$ 1,562,445	\$ 2,166,509	\$ 2,028,439
Operating Grants and Contributions	84,954	331,385	501,992	545,620	586,946	877,005
Capital Grants and Contributions	265,579	23,542	-	-	265,579	23,542
General Revenues:						
Real Estate and Personal Property Taxes	11,508,594	11,872,760	-	-	11,508,594	11,872,760
Motor Vehicle and Other Excise Taxes	782,232	639,696	-	-	782,232	639,696
Lease Revenue	639,684	615,398	-	-	639,684	615,398
Penalties and Interest on Taxes	41,630	38,530	-	-	41,630	38,530
Payments in lieu of Taxes	7,761	-	-	-	7,761	-
Community Preservation Surcharges	45,599	43,335	-	-	45,599	43,335
Grants and Contributions not Restricted to Specific Programs	299,626	254,229	-	-	299,626	254,229
Unrestricted Investment Income	55,300	33,461	-	-	55,300	33,461
Gain on Sale of Capital Assets	-	1,533	-	-	-	1,533
Total Revenues	14,258,845	14,319,863	2,140,615	2,108,065	16,399,460	16,427,928
Expenses						
General Government	1,611,064	1,430,782	-	-	1,611,064	1,430,782
Public Safety	2,319,060	2,223,949	-	-	2,319,060	2,223,949
Education	7,630,321	7,715,190	-	-	7,630,321	7,715,190
Public Works	1,234,617	1,216,750	-	-	1,234,617	1,216,750
Health and Human Services	296,681	277,234	-	-	296,681	277,234
Culture and Recreation	278,503	204,637	-	-	278,503	204,637
Claims and Assessments	212,000	-	-	-	212,000	-
Debt Service - Interest	12,805	2,879	-	-	12,805	2,879
Sewer	-	-	1,958,318	1,999,197	1,958,318	1,999,197
Water	-	-	806,534	723,881	806,534	723,881
Total Expenses	13,595,051	13,071,421	2,764,852	2,723,078	16,359,903	15,794,499
Change in Net Position Before Special Item and Transfers	663,794	1,248,442	(624,237)	(615,013)	39,557	633,429
Special Item - Gain on Sale of Assets	1,431,001	1,364,543	-	-	1,431,001	1,364,543
Transfers, Net	(328,911)	(328,911)	328,911	328,911	-	-
Change in Net Position	1,765,884	2,284,074	(295,326)	(286,102)	1,470,558	1,997,972
Net Position - Beginning of Year (As Restated)*	8,661,137	11,068,294	23,659,163	24,926,621	32,320,300	35,994,915
Net Position - End of Year	<u>\$ 10,427,021</u>	<u>\$ 13,352,368</u>	<u>\$ 23,363,837</u>	<u>\$ 24,640,519</u>	<u>\$ 33,790,858</u>	<u>\$ 37,992,887</u>

*Fiscal year 2015 was the first year reporting the net pension liability and the related pension expense, deferred outflows of resources and deferred inflows of resources in accordance with GASB Statement No. 68.

Governmental activities increased the Town's net position by \$1,765,884. In the prior year, governmental activities increased the Town's net position by \$2,284,074. The key element of this change was the recording of a \$212,000 liability for federal and state assessments related to employee payroll taxes.

Business-type activities decreased the Town's net position by \$295,326. In the prior year, business-type activities decreased the Town's net position by \$286,102.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 \$11,764,453, an increase of \$1,528,997 in comparison with the prior year. \$1,863,786 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$210,659)
- Restricted (\$8,833,185)
- Committed (\$823,518)
- Assigned (\$33,395)

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 \$1,893,316, while total fund balance was \$2,893,748. 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 13.9% of total general fund expenditures and transfers out, while total fund balance represents 21.3% of that same amount.

The balance of the Town's general fund increased by \$571,789 during fiscal year 2015. The Town anticipated utilizing approximately \$993,000 of reserves to fund the budget; however, the Town ultimately recognized an approximate \$1,702,000 budgetary surplus (excluding encumbrances and continuing appropriations).

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

The fund balance of the community preservation fund (special revenue) decreased by \$123,527 during the current year. This is attributable to community preservation surcharges (\$45,577), intergovernmental revenues (\$13,594), investment income (\$379) and expenditures of \$183,077.

The fund balance of the Conomo Point fund (special revenue) decreased by \$2,566,558 during the current year, which was primarily attributable to a transfer out of the Conomo Point fund into the Town Hall Repairs fund of \$4,200,000 offset by a sale of assets of \$1,618,500.

The fund balance of the Town Hall Repairs fund (capital project) increased by \$3,840,039 during the current year, which was primarily attributable to a transfer into the Town Hall Repairs fund out of the Conomo Point fund of \$4,200,000.

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 \$12,206,712 and (\$174,409), respectively. The sewer and water enterprise funds had decreases in net position for the year of \$225,916 and \$69,410, respectively.

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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 \$13,456,403 was increased by \$735,474 (5.5%) during the fiscal year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
Purchase new ambulance	\$ 230,000	Transfer from ambulance fund
Snow and ice removal	115,000	Unassigned fund balance
Conomo Point management expenses	83,500	Unassigned fund balance
Town Hall and library building renovations	57,500	Unassigned fund balance
Funding of OPEB trust fund	52,500	Unassigned fund balance
Purchase police cruiser	37,200	Unassigned fund balance
DPW front end loader lease	32,598	Unassigned fund balance
Finance Committee reserve fund	30,000	Unassigned fund balance
Appeal FEMA flood maps and methods	25,000	Unassigned fund balance
Purchase police department radios	17,000	Unassigned fund balance
Funding of capital improvement funds	15,000	Unassigned fund balance
Purchase extraction and drying system for fire department gear	15,000	Unassigned fund balance
Funding of Council on Aging Director salary	7,050	Unassigned fund balance
Increase of Animal Control stipends	6,034	Unassigned fund balance
Harbormaster boat expenses	6,000	Transfer from waterways fund
Establishment of Essex Bicentennial Celebration Fund	5,000	Unassigned fund balance
Unpaid bills from prior years	1,092	Unassigned fund balance
	<u>\$ 735,474</u>	

During the year, general fund revenues, other financing sources and uses exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgeted appropriations, resulting in a positive budget to actual variance of approximately \$1,263,000.

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 \$29,883,524 (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 \$59,822, or 0.2% (a \$575,428 increase for governmental activities and a \$635,250 decrease for business-type activities).

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

- Town hall renovations (\$453,209)
- Chapter 90 infrastructure (\$219,872)
- Various public safety machinery and equipment (\$75,164)

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The following table summarizes the Town's capital assets (net of accumulated depreciation):

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 133,095	\$ 133,095	\$ 2	2	\$ 133,097	\$ 133,097
Land Improvements	346,145	380,304	-	-	346,145	380,304
Buildings and Improvements	1,251,274	1,307,163	627,764	679,939	1,879,038	1,987,102
Machinery, Vehicles and Equipment	736,374	783,014	112,452	97,285	848,826	880,299
Infrastructure	701,160	442,253	24,761,083	25,359,325	25,462,243	25,801,578
Construction in Progress	1,214,175	760,966	-	-	1,214,175	760,966
Total Capital Assets	<u>\$ 4,382,223</u>	<u>\$ 3,806,795</u>	<u>\$ 25,501,301</u>	<u>\$ 26,136,551</u>	<u>\$ 29,883,524</u>	<u>\$ 29,943,346</u>

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

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$15,004,922, which is backed by the full faith and credit of the Town, and is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 629,209	\$ 665,000	\$ 1,015,000	\$ 1,105,000	\$ 1,644,209	\$ 1,770,000
MWPAT Notes	268,125	294,416	13,044,888	14,239,937	13,313,013	14,534,353
State House Notes	47,700	82,700	-	-	47,700	82,700
Total Bonds and Notes	<u>\$ 945,034</u>	<u>\$ 1,042,116</u>	<u>\$ 14,059,888</u>	<u>\$ 15,344,937</u>	<u>\$ 15,004,922</u>	<u>\$ 16,387,053</u>

The Town's total bonded debt decreased by \$1,382,131 (8.4%) 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 46-48 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the fiscal year 2016 general fund operating budget was influenced by five major factors: the property tax levy governed by Proposition 2 ½, new revenue sources, School District budget apportionments, employee wage increases, and increased state aid.

Proposition 2 ½ imposes a limit on the amount property taxes may increase in Massachusetts cities and towns in a given fiscal year. If the limit is not reached, or exceeded by means of an override vote, the excess amount remains available for future years. This helps to buffer the need for an override. In FY15 the Town of Essex had an excess levy of \$463,562, generated in part by conservative budgeting and new revenue sources, e.g. local adoption of the state meals tax and interest from the sale of property at Conomo Point. Excess levy is \$245,735 for FY16. Essex has not had an operational override since May of 2005.

Another component of Proposition 2 ½ is a factor added for "new growth". \$80,456 has been certified for "new growth" in FY 2016, down \$48,510 from \$128,966 in FY 2015.

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

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JUNE 30, 2015**

formed the District. For fiscal year 2016 the Essex apportionment increased by 8.45% (\$563,365) and totaled \$7,228,425, up from \$6,665,060 in fiscal year 2015. This was a planned adjustment by the school district, which had been relying on the use of reserves in the past to supplement the operating budget. Also in fiscal year 2016, a debt assessment from the District relative to the Manchester Essex Regional High School building construction of \$779,106 comes due and is covered by a debt exclusion outside of the Proposition 2 ½ limit. This assessment represents a \$16,278 decrease from the fiscal year 2015 assessment of \$795,334., and will continue to decrease each year for the life of the loan.

The Town of Essex is also a member of the Essex North Shore Agricultural and Technical School District. Enrollment has increased, largely due to the opening of a new facility. The town's assessment has increased substantially from the FY 2014 assessment of \$106,275. In FY 2015 the assessment for Essex was \$119,433. However, the district funded an additional \$92,462 from its reserves. In FY 2016 the assessment is \$208,958, an increase of \$89,525 from Fiscal 2015. Debt for the new school building is included in these amounts.

Approximately 60% of municipal employees are covered by collective bargaining agreements (CBAs) in two different unions (AFSCME and the Essex Police Benevolent Association – EPBA). Both CBAs were renewed, effective July 1, 2013 and run for three years. Percentage increases ranged from 2 – 3 percent for union and non-union employees between fiscal year 2015 and fiscal year 2016.

In fiscal year 2015, the Commonwealth of Massachusetts provided the Town with \$259,585 in State Cherry Sheet aid. \$267,791 in State Cherry Sheet aid is expected for fiscal year 2016, representing a 3.2% increase, or \$7,706.

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 five, 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). In May of 2014, the Town Meeting authorized the sale of four properties in the Beach Circle neighborhood of Conomo Point. The segregated proceeds from all Conomo Point property sales to date totals approximately \$7.9M. In May of 2015, the Town Meeting will likely consider authorizing the sale of the entire Robbins Island neighborhood as well. In calendar year one, revenue from bridge leases was \$606,300, which represents an approximate \$500,000 increase over revenue generated from the expiring leases. In calendar year two, revenue from bridge leases was \$576,916. In calendar year three, revenue from bridge leases was \$670,939. In calendar year four, revenue from bridge leases was \$595,834. Year-five 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.

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, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,272,375	\$ 2,431,660	\$ 5,704,035
Restricted Cash and Cash Equivalents	3,661,692	3,121	3,664,813
Restricted Investments	5,145,821	-	5,145,821
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	359,006	-	359,006
Tax and Utility Liens	150,658	2,994	153,652
Motor Vehicle and Other Excise Taxes	36,238	-	36,238
Community Preservation Surcharges	1,833	-	1,833
Water	-	293,528	293,528
Sewer	-	272,944	272,944
Special Assessments	-	823,134	823,134
Department and Other	34,090	-	34,090
Intergovernmental	-	145,887	145,887
Loans	16,545	-	16,545
Total Current Assets	12,678,258	3,973,268	16,651,526
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	-	8,304,525	8,304,525
Intergovernmental	-	1,586,901	1,586,901
Loans	140,246	-	140,246
Installment Sales	380,000	-	380,000
Tax Foreclosures	400,288	-	400,288
Capital Assets not being Depreciated	1,347,270	2	1,347,272
Capital Assets, Net of Accumulated Depreciation	3,034,953	25,501,299	28,536,252
Total Noncurrent Assets	5,302,757	35,392,727	40,695,484
Total Assets	17,981,015	39,365,995	57,347,010
LIABILITIES			
Current Liabilities:			
Warrants Payable	188,112	188,143	376,255
Accrued Payroll	79,526	11,952	91,478
Other Liabilities	239,780	-	239,780
Accrued Interest	-	359,050	359,050
Capital Lease Obligations	57,920	-	57,920
Compensated Absences	16,758	4,890	21,648
Short-Term Notes Payable	-	113,000	113,000
Long-Term Bonds and Notes Payable	124,439	1,340,049	1,464,488
Total Current Liabilities	706,535	2,017,084	2,723,619
Noncurrent Liabilities:			
Capital Lease Obligations	22,205	-	22,205
Compensated Absences	150,831	44,008	194,839
Net OPEB Obligation	1,142,515	235,668	1,378,183
Net Pension Liability	4,690,912	981,292	5,672,204
Long-Term Bonds and Notes Payable	820,595	12,719,839	13,540,434
Total Noncurrent Liabilities	6,827,058	13,980,807	20,807,865
Total Liabilities	7,533,593	15,997,891	23,531,484
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	20,401	4,267	24,668
NET POSITION			
Net Investment in Capital Assets	3,685,423	11,331,534	15,016,957
Restricted for:			
Capital Purposes	8,076,388	-	8,076,388
Employee Benefits	86,049	-	86,049
Community Preservation	203,305	-	203,305
Loans	156,791	-	156,791
Ambulance	189,901	-	189,901
Permanent Funds:			
Expendable	47,965	-	47,965
Nonexpendable	210,659	-	210,659
Other Specific Purposes	347,561	-	347,561
Unrestricted	(2,577,021)	12,032,303	9,455,282
Total Net Position	\$ 10,427,021	\$ 23,363,837	\$ 33,790,858

See accompanying Notes to Financial Statements.

TOWN OF ESSEX, MASSACHUSETTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense)/Revenue
Primary Government:					
Governmental Activities:					
General Government	\$ 1,611,064	\$ 245,446	\$ 19,886	\$ 50,540	\$ (1,295,192)
Public Safety	2,319,060	242,311	44,123	4,768	(2,027,858)
Education	7,630,321	-	-	-	(7,630,321)
Public Works	1,234,617	9,514	-	210,271	(1,014,832)
Health and Human Services	296,681	25,385	8,635	-	(262,661)
Culture and Recreation	278,503	5,230	12,310	-	(260,963)
Claims and Assessments	212,000	-	-	-	(212,000)
Debt Service-Interest	12,805	-	-	-	(12,805)
Total Governmental Activities	13,595,051	527,886	84,954	265,579	(12,716,632)
Business-Type Activities:					
Sewer	1,958,318	901,762	501,729	-	(554,827)
Water	806,534	736,861	263	-	(69,410)
Total Business-Type Activities	2,764,852	1,638,623	501,992	-	(624,237)
Total Primary Governments	\$ 16,359,903	\$ 2,166,509	\$ 586,946	\$ 265,579	\$ (13,340,869)

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2015**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
CHANGES IN NET POSITION			
Net (Expense) Revenue (From Previous Page)	\$ (12,716,632)	\$ (624,237)	\$ (13,340,869)
General Revenues:			
Real Estate and Personal Property Taxes	11,508,594	-	11,508,594
Motor Vehicle and Other Excise Taxes	782,232	-	782,232
Lease Revenue	639,684	-	639,684
Penalties and Interest on Taxes	41,630	-	41,630
Payments in Lieu of Taxes	7,761	-	7,761
Community Preservation Surcharges	45,599	-	45,599
Grants and Contributions not Restricted to Specific Programs	299,626	-	299,626
Unrestricted Investment Income	55,300	-	55,300
Special Item - Gain on Sale of Lots	1,431,001	-	1,431,001
Transfers, Net	(328,911)	328,911	-
Total General Revenues, Special Item and Transfers, Net	14,482,516	328,911	14,811,427
CHANGE IN NET POSITION	1,765,884	(295,326)	1,470,558
Net Position - Beginning of Year (As Restated)	8,661,137	23,659,163	32,320,300
NET POSITION - END OF YEAR	\$ 10,427,021	\$ 23,363,837	\$ 33,790,858

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015**

ASSETS	<u>General</u>	<u>Community Preservation</u>	<u>Conomo Point</u>
Cash and Cash Equivalents	\$ 3,272,375	\$ -	\$ -
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	359,006	-	-
Tax and Utility Liens	150,658	-	-
Motor Vehicle and Other Excise taxes	36,238	-	-
Community Preservation Surcharges	-	1,833	-
Departmental and Other	-	-	-
Loans	-	-	-
Installment Sales	-	-	380,000
Tax Foreclosures	400,288	-	-
Restricted Assets:			
Cash and Cash Equivalents	58,566	202,471	1,160,714
Investments	-	-	2,335,674
	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ <u><u>4,277,131</u></u>	\$ <u><u>204,304</u></u>	\$ <u><u>3,876,388</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Warrants Payable	\$ 153,168	\$ 999	\$ -
Accrued Payroll	79,526	-	-
Other Liabilities	239,780	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>472,474</u>	<u>999</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	<u>910,909</u>	<u>1,833</u>	<u>380,000</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	143,519	201,472	3,496,388
Committed	823,518	-	-
Assigned	33,395	-	-
Unassigned	1,893,316	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>2,893,748</u>	<u>201,472</u>	<u>3,496,388</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ <u><u>4,277,131</u></u>	\$ <u><u>204,304</u></u>	\$ <u><u>3,876,388</u></u>

See accompanying Notes to Financial Statements.

<u>Town Hall Repairs</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 3,272,375
-	-	359,006
-	-	150,658
-	-	36,238
-	-	1,833
-	34,090	34,090
-	156,791	156,791
-	-	380,000
-	-	400,288
1,396,502	843,439	3,661,692
<u>2,810,147</u>	<u>-</u>	<u>5,145,821</u>
\$ <u><u>4,206,649</u></u>	\$ <u><u>1,034,320</u></u>	\$ <u><u>13,598,792</u></u>

\$ -	\$ 33,945	\$ 188,112
-	-	79,526
<u>-</u>	<u>-</u>	<u>239,780</u>
<u>-</u>	<u>33,945</u>	<u>507,418</u>
<u>-</u>	<u>34,089</u>	<u>1,326,831</u>
-	210,659	210,659
4,206,649	785,157	8,833,185
-	-	823,518
-	-	33,395
<u>-</u>	<u>(29,530)</u>	<u>1,863,786</u>
<u>4,206,649</u>	<u>966,286</u>	<u>11,764,543</u>
\$ <u><u>4,206,649</u></u>	\$ <u><u>1,034,320</u></u>	\$ <u><u>13,598,792</u></u>

**TOWN OF ESSEX, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2015**

	General	Community Preservation	Conomo Point
REVENUES			
Real Estate and Personal Property Taxes	\$ 11,418,579	\$ -	\$ -
Motor Vehicle and Other Excise Taxes	793,368	-	-
Tax Liens	76,750	-	-
Payments in Lieu of Taxes	7,761	-	-
Community Preservation Surcharges	-	45,577	-
Charges for Services	155,041	-	-
Intergovernmental	277,069	13,594	-
Special Assessments	6,406	-	-
Penalties and Interest on Taxes	41,630	-	-
Licenses and Permits	173,205	-	-
Fines and Forfeitures	12,753	-	-
Lease Revenue	639,684	-	-
Departmental and Other	74,245	-	-
Contributions	-	-	-
Investment Income	40,277	379	14,942
	<u>13,716,768</u>	<u>59,550</u>	<u>14,942</u>
Total Revenues			
	<u>13,716,768</u>	<u>59,550</u>	<u>14,942</u>
EXPENDITURES			
Current:			
General Government	1,318,132	94,213	-
Public Safety	1,599,401	-	-
Education	7,579,877	-	-
Public Works	1,036,720	-	-
Health and Human Services	205,357	-	-
Culture and Recreation	117,070	88,864	-
Pension Benefits	364,427	-	-
Employee Benefits	486,955	-	-
Property and Liability Insurance	79,516	-	-
Claims and Assessments	212,000	-	-
State and County Charges	89,196	-	-
Debt Service:			
Principal	126,291	-	-
Interest	16,050	-	-
	<u>13,230,992</u>	<u>183,077</u>	<u>-</u>
Total Expenditures			
	<u>13,230,992</u>	<u>183,077</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>485,776</u>	<u>(123,527)</u>	<u>14,942</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Capital Leases	66,205	-	-
Premium from Issuance of Bonds and Notes	32,454	-	-
Sale of Capital Assets	7,330	-	-
Transfers In	350,301	-	-
Transfer Out	(370,277)	-	(4,200,000)
	<u>86,013</u>	<u>-</u>	<u>(4,200,000)</u>
Total Other Financing Sources (Uses)			
	<u>86,013</u>	<u>-</u>	<u>(4,200,000)</u>
Special Item - Sale of Lots	-	-	1,618,500
	<u>-</u>	<u>-</u>	<u>1,618,500</u>
NET CHANGE IN FUND BALANCES	571,789	(123,527)	(2,566,558)
Fund Balances - Beginning of Year	2,321,959	324,999	6,062,946
	<u>2,321,959</u>	<u>324,999</u>	<u>6,062,946</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,893,748</u>	<u>\$ 201,472</u>	<u>\$ 3,496,388</u>

See accompanying Notes to Financial Statements.

Town Hall Repairs	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 11,418,579
-	-	793,368
-	-	76,750
-	-	7,761
-	-	45,577
-	82,236	237,277
-	302,498	593,161
-	3,108	9,514
-	-	41,630
-	-	173,205
-	-	12,753
		639,684
780	26,897	101,922
-	37,390	37,390
-	587	56,185
<u>780</u>	<u>452,716</u>	<u>14,244,756</u>
360,741	53,426	1,826,512
-	42,089	1,641,490
-	-	7,579,877
-	221,732	1,258,452
-	8,662	214,019
-	10,618	216,552
-	-	364,427
-	-	486,955
-	-	79,516
-	-	212,000
-	-	89,196
-	-	126,291
-	-	16,050
<u>360,741</u>	<u>336,527</u>	<u>14,111,337</u>
<u>(359,961)</u>	<u>116,189</u>	<u>133,419</u>
-	-	66,205
-	-	32,454
-	-	7,330
4,200,000	41,366	4,591,667
-	(350,301)	(4,920,578)
<u>4,200,000</u>	<u>(308,935)</u>	<u>(222,922)</u>
-	-	1,618,500
3,840,039	(192,746)	1,528,997
<u>366,610</u>	<u>1,159,032</u>	<u>10,235,546</u>
<u>\$ 4,206,649</u>	<u>\$ 966,286</u>	<u>\$ 11,764,543</u>

**TOWN OF ESSEX, MASSACHUSETTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Governmental Fund Balances (Page 16)	\$ 11,764,543
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	4,382,223
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	1,326,831
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	(945,034)
Capital Lease Obligations	(80,125)
Compensated Absences	(167,589)
Net Pension Liability	(4,690,912)
Net OPEB Obligation	(1,142,515)
In the statement of net position, deferred inflows of resources are reported for amounts related to pensions	<u>(20,401)</u>
Net Position of Governmental Activities (Page 12)	\$ <u><u>10,427,021</u></u>

See accompanying Notes to Financial Statements.

TOWN OF ESSEX, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Net Change in Fund Balances - Total Governmental Funds (Page 18)	\$ 1,528,997
<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	870,526
Depreciation	(273,398)
<p>In the statement of activities, the loss on the disposals of capital assets is reported, whereas in the governmental funds the disposals are not reported as financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed</p>	
	(21,700)
<p>Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows of resources in the governmental funds. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred inflows of resources.</p>	
	(173,413)
<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 Maturities	126,291
Net Amortization of Bond Premiums	(29,209)
Capital Lease Proceeds	(66,205)
Capital Lease Maturities	58,257
<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	(218,066)
Net Pension Liability (net)	319
Compensated Absences	(16,114)
<p>In the statement of activities, deferred inflows related to pensions are amortized and recognized as pension expense. This amount represents the net change in deferred inflows related to pensions.</p>	
	(20,401)
Changes in Net Position of Governmental Activities (Page 14)	\$ <u><u>1,765,884</u></u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water (Nonmajor)	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,043,432	\$ 388,228	\$ 2,431,660
Restricted Cash and Cash Equivalents	3,121	-	3,121
Receivables, Net of Allowance for Uncollectible Amounts:			
Utility Liens	1,147	1,847	2,994
User Charges	272,944	293,528	566,472
Special Assessments	816,357	6,777	823,134
Intergovernmental	145,887	-	145,887
Total Current Assets	3,282,888	690,380	3,973,268
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	8,245,756	58,769	8,304,525
Intergovernmental	1,586,901	-	1,586,901
Capital Assets not being Depreciated	-	2	2
Capital Assets, Net of Accumulated Depreciation	24,787,350	713,949	25,501,299
Total Noncurrent Assets	34,620,007	772,720	35,392,727
Total Assets	37,902,895	1,463,100	39,365,995
LIABILITIES			
Current Liabilities:			
Warrants Payable	134,572	53,571	188,143
Accrued Payroll	3,571	8,381	11,952
Accrued Interest	359,050	-	359,050
Compensated Absences	1,887	3,003	4,890
Short-Term Notes Payable	-	113,000	113,000
Long-Term Bonds and Notes Payable	1,307,049	33,000	1,340,049
Total Current Liabilities	1,806,129	210,955	2,017,084
Noncurrent Liabilities:			
Compensated Absences	16,985	27,023	44,008
Net OPEB Obligation	75,749	159,919	235,668
Net Pension Liability	312,539	668,753	981,292
Long-Term Bonds and Notes Payable	12,525,839	194,000	12,719,839
Total Noncurrent Liabilities	12,931,112	1,049,695	13,980,807
Total Liabilities	14,737,241	1,260,650	15,997,891
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	1,359	2,908	4,267
FUND NET POSITION			
Net Investment in Capital Assets	10,957,583	373,951	11,331,534
Unrestricted	12,206,712	(174,409)	12,032,303
Total Net Position	\$ 23,164,295	\$ 199,542	\$ 23,363,837

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, 2015**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water (Nonmajor)	Total
OPERATING REVENUES			
Charges for Services	\$ 719,585	\$ 729,877	\$ 1,449,462
Penalties and Interest	182,177	6,984	189,161
Total Operating Revenues	901,762	736,861	1,638,623
OPERATING EXPENSES			
Cost of Service and Administration	748,373	708,212	1,456,585
Depreciation	605,378	87,013	692,391
Total Operating Expenses	1,353,751	795,225	2,148,976
OPERATING (LOSS)	(451,989)	(58,364)	(510,353)
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental	500,677	-	500,677
Investment Income	1,052	263	1,315
Interest Expense	(604,567)	(11,309)	(615,876)
Total Nonoperating Revenues (Expenses), Net	(102,838)	(11,046)	(113,884)
(LOSS) BEFORE TRANSFERS	(554,827)	(69,410)	(624,237)
Transfers In	328,911	-	328,911
CHANGE IN FUND NET POSITION	(225,916)	(69,410)	(295,326)
Fund Net Position - Beginning of Year (As Restated)	23,390,211	268,952	23,659,163
FUND NET POSITION - END OF YEAR	<u>\$ 23,164,295</u>	<u>\$ 199,542</u>	<u>\$ 23,363,837</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water (Nonmajor)	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 1,752,955	\$ 736,897	\$ 2,489,852
Payments to Vendors	(545,782)	(295,881)	(841,663)
Payments to Employees	(158,181)	(339,520)	(497,701)
Net Cash Provided by Operating Activities	1,048,992	101,496	1,150,488
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	-	113,000	113,000
Proceeds from the Issuance of Refunding Bonds	788,000	227,000	1,015,000
Acquisition and Construction of Capital Assets	-	(57,141)	(57,141)
Principal Payments on Bonds and Notes	(1,059,719)	(125,000)	(1,184,719)
Principal Payments on Refunded Bonds	(855,000)	(250,000)	(1,105,000)
Interest Paid	(140,865)	(10,248)	(151,113)
Net Cash Used by Capital and Related Financing Activities	(1,267,584)	(102,389)	(1,369,973)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	1,052	263	1,315
NET CHANGE IN CASH AND CASH EQUIVALENTS	111,371	(630)	110,741
Cash and Cash Equivalents - Beginning of Year (Includes \$3,121 Reported as Restricted in the Sewer Enterprise Fund)	1,935,182	388,858	2,324,040
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$3,121 Reported as Restricted in the Sewer Enterprise Fund)	<u>\$ 2,046,553</u>	<u>\$ 388,228</u>	<u>\$ 2,434,781</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating (Loss)	<u>\$ (451,989)</u>	<u>\$ (58,364)</u>	<u>\$ (510,353)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Changes in Assets and Liabilities not Requiring Current Cash Flows:			
Depreciation	605,378	87,013	692,391
Net Pension Liability	(21)	(45)	(66)
Net OPEB Obligation	14,538	31,081	45,619
Effect of Changes in Operating Assets and Liabilities:			
User Charges	(21,181)	(13,618)	(34,799)
Special Assessments	872,374	13,654	886,028
Warrants Payable	29,616	41,648	71,264
Accrued Payroll	(91)	(1,469)	(1,560)
Compensated Absences	368	1,596	1,964
Total Adjustments	1,500,981	159,860	1,660,841
Net Cash Provided by Operating Activities	<u>\$ 1,048,992</u>	<u>\$ 101,496</u>	<u>\$ 1,150,488</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Intergovernmental Debt Subsidies (MWPAT) - Interest	\$ 500,677	\$ -	\$ 500,677
Intergovernmental Debt Subsidies (MWPAT) - Principal	135,330	-	135,330

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

ASSETS	Private Purpose Trust Funds	Agency Funds
Cash and Cash Equivalents	\$ 384,718	\$ 69,208
Receivables, Net of Allowance for Uncollectible Amounts:		
Departmental and Other	-	15,113
Total Assets	384,718	84,321
 LIABILITIES		
Warrants Payable	-	1,862
Accrued Payroll	-	3,020
Liabilities Due Depositors	-	79,439
Total Liabilities	-	84,321
 NET POSITION		
Held in Trust for Other Purposes	\$ 384,718	\$ -

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2015**

	Private Purpose Trust Funds
ADDITIONS	
Net Investment Income:	
Interest	\$ 577
CHANGE IN NET POSITION	577
Net Position - Beginning of Year	384,141
NET POSITION - END OF YEAR	\$ 384,718

See accompanying Notes to Financial Statements.

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

B. Reporting Entity

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

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

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

Joint Venture

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

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

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2015 Assessment</u>
Manchester Essex Regional School District	To provide educational services	36 Lincoln Street Manchester-by-the Sea, MA	\$ 7,460,444
North Shore Technical High School	To provide educational services	36 Log Bridge Road Middleton, MA	119,433
Essex County Regional Emergency Communications Center	To provide emergency services	18 Manning Avenue Middleton, MA	58,276

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 ending June 30, 2015, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*

The implementation of GASB Statement No. 69 had no reporting impact for the Town.

The implementation of GASB Statement No.'s 68 and 71 resulted in, among other things, the establishment of a net pension liability in the Statement of Net Position, as well as the deferred inflows and deferred outflows related to pension activities. As a result, the Town has restated its 2015 beginning net position to reflect the implementation of the Statement. The cumulative affect of change in accounting principle is as follows:

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	Governmental Activities	Business-Type Activities	Water Enterprise Fund	Sewer Enterprise Fund
Net Position, June 30, 2014, as Previously Reported	\$ 13,352,368	\$ 24,640,519	\$ 937,749	\$ 23,702,770
Cumulative Affect of Application of GASB 68, Net Pension Liability	<u>(4,691,231)</u>	<u>(981,356)</u>	<u>(668,797)</u>	<u>(312,559)</u>
Net Position, June 30, 2014, as Restated	<u>\$ 8,661,137</u>	<u>\$ 23,659,163</u>	<u>\$ 268,952</u>	<u>\$ 23,390,211</u>

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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Fund Financial Statements

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

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.

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 which are restricted for capital purposes.

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

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

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

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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. During fiscal year 2015, one of these properties was paid off in full.

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, 2015, the allowance for uncollectible accounts for personal property taxes and motor vehicle and other excise taxes are immaterial and therefore not reported.

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

- Real estate taxes
- Community preservation surcharges
- Water and sewer charges 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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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."

Fund Financial Statements

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

N. Deferred Outflows of Resources

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

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

P. Net Position and Fund Balances

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

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

Net position has been “restricted” for the following:

“Capital purposes” represents amounts restricted as a result of the sale of town land, including amounts to be used for the Town Hall capital project.

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

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

“Loans” represents outstanding septic loans receivable.

“Ambulance” represents amounts restricted for ambulance activities.

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

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

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

Governmental Funds Financial Statements (Fund Balances)

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

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

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Q. Long-Term Debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Funds Financial Statements

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

R. Investment Income

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

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

S. Compensated Absences

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Proprietary Funds Financial Statements

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

Governmental Funds Financial Statements

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

T. Pensions

Government-Wide and Fund Financial Statements

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

U. Post-Retirement Benefits

Government-Wide and Fund Financial Statements

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

V. Use of Estimates

Government-Wide and Fund Financial Statements

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

W. Total Column

Government-Wide Financial Statements

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2015 approved budget for the general fund authorized \$13,456,403 in appropriations. During fiscal year 2015, supplemental appropriations totaling \$735,474 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, 2015, expenditures exceeded appropriations for debt service interest by \$12,186.

C. Fund Deficits

At June 30, 2015, the following fund deficit exists:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Chapter 90	\$ 29,530	State grant

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, \$945,855 of the Town's bank balance of \$7,126,523 was uninsured, uncollateralized and exposed to custodial credit risk.

B. Investments Summary

The Town's investments at June 30, 2015 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (Years)	
		Less Than 1	1 - 5
<u>Debt Securities:</u>			
Money market mutual funds	\$ 2,548,838	\$ 2,548,838	\$ -
Mutual bond funds	38,906	38,906	-
Equity mutual funds	46,840	46,840	-
Fixed income securities	5,145,821	4,164,469	981,352
External investment pools	119,065	119,065	-
Total debt securities	\$ <u>7,899,470</u>	\$ <u>6,918,117</u>	\$ <u>981,352</u>

C. Investments - Interest Rate Risk of Debt Securities

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

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, 2015 the Town's investments were not exposed to custodial credit risk.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2015, 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, 2015, the Town was not exposed to concentration of credit risk.

NOTE 4 ACCOUNTS RECEIVABLE

At June 30, 2015, 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	\$ 359,006	\$ -	\$ 359,006
Tax liens	541,644	(390,986)	150,658
Motor vehicle and other excise taxes	36,238	-	36,238
Community preservation surcharges	1,833	-	1,833
Departmental and other	55,079	(5,876)	49,203
Loans	156,791	-	156,791
Installment sales	380,000	-	380,000
	<u>\$ 1,530,591</u>	<u>\$ (396,862)</u>	<u>\$ 1,133,729</u>

At June 30, 2015, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water	\$ 293,528	\$ -	\$ 293,528
Sewer	272,944	-	272,944
Special assessments	9,127,659	-	9,127,659
Intergovernmental	1,732,788	-	1,732,788
	<u>\$ 11,426,919</u>	<u>\$ -</u>	<u>\$ 11,426,919</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 133,095	\$ -	\$ -	\$ 133,095
Construction in progress	<u>760,966</u>	<u>453,209</u>	<u>-</u>	<u>1,214,175</u>
Total capital assets not being depreciated	<u>894,061</u>	<u>453,209</u>	<u>-</u>	<u>1,347,270</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	2,143,161	141,369	(43,457)	2,241,073
Infrastructure	<u>513,373</u>	<u>275,948</u>	<u>-</u>	<u>789,321</u>
Total capital assets being depreciated	<u>6,895,930</u>	<u>417,317</u>	<u>(43,457)</u>	<u>7,269,790</u>
<u>Less accumulated depreciation for:</u>				
Land improvements	(313,226)	(34,159)	-	(347,385)
Buildings and improvements	(2,238,703)	(55,889)	-	(2,294,592)
Machinery, vehicles and equipment	(1,360,147)	(166,309)	21,757	(1,504,699)
Infrastructure	<u>(71,120)</u>	<u>(17,041)</u>	<u>-</u>	<u>(88,161)</u>
Total accumulated depreciation	<u>(3,983,196)</u>	<u>(273,398)</u>	<u>21,757</u>	<u>(4,234,837)</u>
Total capital assets being depreciated, net	<u>2,912,734</u>	<u>143,919</u>	<u>(21,700)</u>	<u>3,034,953</u>
Total governmental activities capital assets, net	<u>\$ 3,806,795</u>	<u>\$ 597,128</u>	<u>\$ (21,700)</u>	<u>\$ 4,382,223</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 2	\$ -	\$ -	\$ 2
<u>Capital assets being depreciated:</u>				
Buildings and improvements	2,957,000	22,451	-	2,979,451
Machinery, vehicles and equipment	228,357	34,690	-	263,047
Infrastructure	29,834,500	-	-	29,834,500
Total capital assets being depreciated	33,019,857	57,141	-	33,076,998
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	(2,277,061)	(74,626)	-	(2,351,687)
Machinery, vehicles and equipment	(131,072)	(19,523)	-	(150,595)
Infrastructure	(4,475,175)	(598,242)	-	(5,073,417)
Total accumulated depreciation	(6,883,308)	(692,391)	-	(7,575,699)
Total capital assets being depreciated, net	26,136,549	(635,250)	-	25,501,299
Total business-type activities capital assets, net	\$ 26,136,551	\$ (635,250)	\$ -	\$ 25,501,301

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

Governmental Activities:

General government	\$ 38,244
Public safety	115,755
Education	14,715
Public works	79,479
Culture and recreation	25,205

Total depreciation expense - governmental activities \$ 273,398

Business-Type Activities:

Sewer	\$ 605,378
Water	87,013

Total depreciation expense - business-type activities \$ 692,391

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2015 are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Town Hall Repairs	Nonmajor Governmental Funds	Sewer Enterprise Fund		
General Fund	\$ -	\$ -	\$ 41,366	\$ 328,911	\$	370,277 (1)
Conomo Point	-	4,200,000	-	-		4,200,000 (2)
Nonmajor Governmental Funds	350,301	-	-	-		350,301 (3)
	<u>\$ 350,301</u>	<u>\$ 4,200,000</u>	<u>\$ 41,366</u>	<u>\$ 328,911</u>	<u>\$</u>	<u>4,920,578</u>

(1) Represents budgeted transfers for sewer enterprise fund debt payments (\$328,911) and unbudgeted transfers of unspent appropriations from General Fund to Ambulance Fund (\$24,115), Cemetery Lot Sale Fund (\$6,980), Waterways Improvement Fund (\$7,229), and Wetland Protection Fund (\$3,042).

(2) Represents budgeted transfers to fund the renovations and repairs to Town Hall (\$4,200,000).

(3) Represents budgeted transfers to fund the fiscal year 2015 operating budget from the Cemetery Lot Care Fund (\$8,710), Cemetery Perpetual Care Fund (\$2,400), Cemetery Lot Sale Fund (\$2,400), Wetlands Protection Fund (\$3,500), and budgeted transfers to fund capital expenditures from the Ambulance Fund (\$280,000), Waterways Fund (\$27,000), and Town Septic Betterment Fund (\$26,291).

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.

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 SHORT-TERM FINANCING (CONTINUED)

Details related to the short-term debt activity for the fiscal year ended June 30, 2015, is as follows:

Notes Payable - Enterprise Funds

Type	Purpose	Origination Date	Maturity Date	Rate %	Balance at June 30, 2014	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2015
BAN	Pond Street Water Mains	8/2/13	8/1/14	0.64%	\$ 125,000	\$ -	\$ (125,000)	\$ -
BAN	Permanent Water Loan	8/1/14	7/31/15	0.55%	-	113,000	-	113,000
Total					<u>\$ 125,000</u>	<u>\$ 113,000</u>	<u>\$ (125,000)</u>	<u>\$ 113,000</u>

Subsequent Events

On July 31, 2015, the Town paid down \$12,000 of the Pond Street Water Mains BAN with available funds and renewed the BAN in the amount of \$101,000, at an interest rate of 0.65% and maturity date of July 29, 2016.

NOTE 8 LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the year ended June 30, 2015:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015	Current Portion
Governmental Activities:					
Bonds and notes payable	\$ 1,042,116	\$ -	\$ (126,291)	\$ 915,825	\$ 121,194
Unamortized bond premium	-	32,454	(3,245)	29,209	3,245
Total bonds and notes payable	1,042,116	32,454	(129,536)	945,034	124,439
Capital lease obligations	72,177	66,205	(58,257)	80,125	57,920
Net OPEB obligation	924,449	293,733	(75,667)	1,142,515	-
Net Pension Liability*	4,691,231	354,247	(354,566)	4,690,912	-
Compensated absences	151,476	16,113	-	167,589	16,758
Total	<u>\$ 6,881,449</u>	<u>\$ 762,752</u>	<u>\$ (618,026)</u>	<u>\$ 7,026,175</u>	<u>\$ 199,117</u>
	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015	Current Portion
Business-type Activities:					
Bonds and notes payable	\$ 15,344,937	\$ 1,015,000	\$ (2,300,049)	\$ 14,059,888	\$ 1,340,049
Net OPEB obligation	190,049	61,448	(15,829)	235,668	-
Net Pension Liability*	981,356	74,108	(74,172)	981,292	-
Compensated absences	46,934	1,964	-	48,898	4,890
Total	<u>\$ 16,563,276</u>	<u>\$ 1,152,520</u>	<u>\$ (2,390,050)</u>	<u>\$ 15,325,746</u>	<u>\$ 1,344,939</u>

*As a result of implementing GASB Statement No. 68, a retrospective adjustment was required to record the beginning net pension liability. See Note 1.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

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

NOTE 9 LONG-TERM DEBT

Bonds and Notes Payable – Governmental Funds

Details related to the outstanding indebtedness at June 30, 2015 and the debt service requirements are as follows:

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2014	Issued	Redeemed	Outstanding at June 30, 2015
MCWT - Title V Loan	8/1/19	5.33	\$ 32,101	\$ -	\$ (5,431)	\$ 26,670
MCWT - Title V Loan	8/1/22	4.90	17,750	-	(1,962)	15,788
DPW Barn	8/15/14	3.55	50,000	-	(50,000)	-
Fire Pumper	8/15/14	3.53	15,000	-	(15,000)	-
MCWT - Title V Loan	7/15/25	0.00	120,000	-	(10,000)	110,000
MCWT - Title V Loan	7/15/27	0.00	124,565	-	(8,898)	115,667
State House Note - DPW Barn	2/1/17	3.10	82,700	-	(35,000)	47,700
Building Remodeling - Town Hall	8/15/24	2.07	600,000	-	-	600,000
Total			<u>\$ 1,042,116</u>	<u>\$ -</u>	<u>\$ (126,291)</u>	<u>\$ 915,825</u>

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

Fiscal Year	Principal	Interest	Total
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	<u>\$ 915,825</u>	<u>\$ 84,106</u>	<u>\$ 999,931</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds Payable – Water Enterprise Fund

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2014	Issued	Redeemed	Outstanding at June 30, 2015
Refunding Water Treatment Facility	8/15/20	3.70%	\$ 140,000	\$ -	\$ (140,000)	\$ -
Refunding Water Storage Tank	8/15/24	3.99%	110,000	-	(110,000)	-
Refunding Water Treatment Facility	8/15/20	2.00%	-	124,000	-	124,000
Refunding Water	8/15/24	2.00 - 3.00%	-	103,000	-	103,000
Total			\$ <u>250,000</u>	\$ <u>227,000</u>	\$ <u>(250,000)</u>	\$ <u>227,000</u>

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

Fiscal Year	Principal	Interest	Total
2016	\$ 33,000	\$ 6,740	\$ 39,740
2017	32,000	5,870	37,870
2018	32,000	5,010	37,010
2019	31,000	4,160	35,160
2020	30,000	3,340	33,340
2021	30,000	2,540	32,540
2022	10,000	1,940	11,940
2023	10,000	1,440	11,440
2024	10,000	420	10,420
2025	9,000	135	9,135
Total	\$ <u>227,000</u>	\$ <u>31,595</u>	\$ <u>258,595</u>

Bonds and Notes Payable – Sewer Enterprise Fund

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2014	Issued	Redeemed	Outstanding at June 30, 2015
MCWT	8/1/23	4.43	\$ 2,580,000	\$ -	\$ (220,000)	\$ 2,360,000
MCWT	8/1/23	4.43	3,195,000	-	(275,000)	2,920,000
MCWT	8/1/23	4.43	1,435,000	-	(125,000)	1,310,000
Sewer	2/15/26	3.99	855,000	-	(855,000)	-
MCWT	7/15/25	0.00	5,789,840	-	(482,486)	5,307,354
MCWT	7/20/26	0.00	725,016	-	(55,771)	669,245
MCWT	7/15/27	0.00	515,081	-	(36,792)	478,289
Refunding Sewer	8/15/24	2.00 - 3.00	-	788,000	-	788,000
Total			\$ <u>15,094,937</u>	\$ <u>788,000</u>	\$ <u>(2,050,049)</u>	\$ <u>13,832,888</u>

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 9 LONG-TERM DEBT (CONTINUED)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,307,049	\$ 564,291	\$ 1,871,340
2017	1,328,049	506,698	1,834,747
2018	1,348,049	448,850	1,796,899
2019	1,369,050	389,861	1,758,911
2020	1,385,050	330,683	1,715,733
2021	1,405,049	271,357	1,676,406
2022	1,430,048	210,832	1,640,880
2023	1,450,048	148,756	1,598,804
2024	1,460,048	82,326	1,542,374
2025	646,048	41,300	687,348
2026	575,048	20,650	595,698
2027	92,561	-	92,561
2028	36,791	-	36,791
Total	\$ <u>13,832,888</u>	\$ <u>3,015,604</u>	\$ <u>16,848,492</u>

The Town receives subsidy assistance from the Massachusetts Clean Water Trust (MCWT). Principal and interest on the outstanding bonds for MCWT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2015, the Town's subsidy totaled approximately \$636,000. Future subsidies total approximately \$4,180,000. The amount of MCWT bonds outstanding at June 30, 2015, totaled \$13,313,013.

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, 2015, the Town had no authorized and unissued long-term debt.

Current Refunding – July 2014

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 - 3.0%.

The net proceeds of approximately \$1,005,000 (after premium and payment of bond issuance costs) were used to retire the outstanding bonds and call premium on August 15, 2014. The deferred loss on the refunding totaled \$9,950 and was expensed during the year.

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).

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015:

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2016	\$ 61,805
2017	<u>23,153</u>
Total minimum lease payments	84,958
Less: amounts representing interest	<u>(4,833)</u>
Present value of minimum lease payments	<u><u>\$ 80,125</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	\$ 358,039
Less: accumulated amortization	<u>(222,186)</u>
Total	<u><u>\$ 135,853</u></u>

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

NOTE 11 OTHER POST EMPLOYMENT BENEFITS

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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	\$ 364,742
Interest on net OPEB obligation	42,660
Adjustment to annual required contribution	(59,304)
Amortization of actuarial (gains)/losses	<u>7,083</u>
Annual OPEB cost	355,181
Contributions made	<u>(91,496)</u>
Increase in net OPEB obligation	263,685
Net OPEB obligation at beginning of year	<u>1,114,498</u>
Net OPEB obligation at end of year	<u><u>\$ 1,378,183</u></u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2013	300,581	36.1%	867,813
June 30, 2014	338,319	30.5%	1,114,498
June 30, 2015	355,181	25.8%	1,378,183

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, 2015**

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	\$ 42,074
Public safety	149,012
Education	21,350
Public works	51,094
Health and human services	18,422
Culture and recreation	<u>11,781</u>
Total AOPEBC - governmental activities	<u>293,733</u>
Business-Type Activities:	
Water	41,866
Sewer	<u>19,582</u>
Total AOPEBC - business-type activities	<u>61,448</u>
Total AOPEBC	<u><u>\$ 355,181</u></u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 12 FUND BALANCES

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

	General	Community Preservation	Conomo Point	Town Hall Repairs	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:						
Permanent fund principal	\$ -	\$ -	\$ -	\$ -	\$ 210,659	\$ 210,659
Restricted for:						
Municipal insurance	25,016	-	-	-	-	25,016
Loans	-	-	-	-	156,791	156,791
Ambulance	-	-	-	-	155,812	155,812
Debt service	32,454	-	-	-	-	32,454
General government	-	-	-	-	116,038	116,038
Public safety	-	-	-	-	44,317	44,317
Public works	-	-	-	-	263,785	263,785
Health and human services	-	-	-	-	16,798	16,798
Culture and recreation	-	-	-	-	31,616	31,616
Community preservation	-	201,472	-	-	-	201,472
Capital purposes	-	-	3,496,388	4,206,649	-	7,703,037
Other postemployment benefits	86,049	-	-	-	-	86,049
Sub-total - Restricted	143,519	201,472	3,496,388	4,206,649	785,157	8,833,185
Committed to:						
Subsequent year's expenditures	400,000	-	-	-	-	400,000
Continuing appropriations	405,499	-	-	-	-	405,499
Capital stabilization	18,019	-	-	-	-	18,019
Sub-total - Committed	823,518	-	-	-	-	823,518
Assigned to:						
General government	8,510	-	-	-	-	8,510
Public safety	12,916	-	-	-	-	12,916
Other	11,970	-	-	-	-	11,970
Sub-total - Assigned	33,395	-	-	-	-	33,395
Unassigned	1,893,316	-	-	-	(29,530)	1,863,786
	<u>\$ 2,893,748</u>	<u>\$ 201,472</u>	<u>\$ 3,496,388</u>	<u>\$ 4,206,649</u>	<u>\$ 966,286</u>	<u>\$ 11,764,543</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015 total \$664,095, \$6,007, \$6,006 and \$6,006, 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, 2015, this fund had a balance of \$25,016, 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, 2015, the Town received \$639,684 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, 2015:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 589,704

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 16 PENSION PLAN – ESSEX REGIONAL RETIREMENT SYSTEM

General Information about the Pension Plan

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

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

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

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

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

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

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

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

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

The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the plan's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The pension fund appropriations are allocated amongst employers based on covered payroll. Active member employees contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of \$30,000. Contributions to the pension plan from the Town were \$428,738 for the year ended June 30, 2015.

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

At June 30, 2015, the Town reported a liability of \$5,672,204 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 for which update procedures were used to roll forward the total pension liability to the measurement date. The Town proportion of the net pension liability is a blended rate of the proportionate share of active employer's covered payroll, direct charges for early retirement incentives and the direct amortization of the actuarial determined net pension liability for employer members that no longer have active covered payroll. At December 31, 2014, the Town's proportion was 1.672 percent, which was the same proportion measured as of December 31, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$465,270. At June 30, 2015, the Town reported deferred inflows of resources related to pensions of \$24,668 from the net difference between projected and actual investment earnings on plan investments.

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

<u>Year Ended June 30</u>	
2016	\$ (6,167)
2017	(6,167)
2018	(6,167)
2019	<u>(6,167)</u>
Totals	<u>\$ (24,668)</u>

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

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

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

Salary increases	Select and Ultimate. 7.50% year one, 6.50% year two, 6.00% year three, 5.50% year four, 5.00% year five, 3.75% ultimate rate.
Mortality Rates:	Pre-Retirement - The RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used. Disabled Retiree - The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time.
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2012 to January 1, 2014.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Core Bonds	13.00%	0.97%
Value-Added Bonds	10.00%	3.80%
Large Cap Equities	14.50%	4.61%
Mid/Small Cap Equities	3.50%	4.85%
International Equities	16.00%	5.10%
Emerging Market Equities	6.00%	6.31%
Private Equity	10.00%	6.55%
Real Estate	10.00%	3.40%
Timber/Natural Resources	4.00%	3.64%
Hedge Funds	9.00%	3.64%
Cash/Portfolio Completion	4.00%	0.00%
Totals	<u>100.00%</u>	

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

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

Discount rate. The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Town's Proportionate Share of the Net Pension Liability	\$ 6,999,158	\$ 5,672,204	\$ 4,604,536

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

NOTE 17 CONTINGENCIES

The Town has recorded a liability for federal and state assessments related to employee payroll taxes not being fully paid over by the Town's previous third party payroll service to the applicable agencies. Subsequent to June 30, 2015, the Town has paid the Internal Revenue Service an assessment of \$30,014. The Town has two outstanding assessments owed to the Massachusetts' Department of Revenue totaling \$181,897, which will be paid by the due date of February 25, 2016.

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, 2015, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2015.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 18 COMMITMENTS

The Town has approved the renovations of the Town Hall and Library. The total appropriation authorized is approximately \$4,600,000, which will be funded by the Conomo Point sale of real estate fund. Expenditures of \$910,649 have been incurred at June 30, 2015.

Other significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$438,894 at June 30, 2015.

NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 72, Fair Value Measurement and Application, which is required to be implemented during fiscal year 2016. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which is required to be implemented during fiscal year 2016. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, which is required to be implemented during fiscal year 2017. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which is required to be implemented during fiscal year 2018. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which is required to be implemented during fiscal year 2016. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 77, Tax Abatement Disclosures, which is required to be implemented during fiscal year 2017. Management is evaluating the Statement's future impact on the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

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TOWN OF ESSEX, MASSACHUSETTS
GENERAL FUND – SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE
IN FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2015

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real Estate and Personal Property Taxes	\$ -	\$ 11,372,479	\$ (97,500)	\$ 11,274,979
Motor Vehicle and Other Excise Taxes	-	665,000	-	665,000
Tax Liens	-	-	-	-
Payments in Lieu of Taxes	-	-	-	-
Charges for Services	-	158,000	-	158,000
Intergovernmental	-	257,201	-	257,201
Special Assessments	-	-	-	-
Penalties and Interest on Taxes	-	39,500	-	39,500
Licenses and Permits	-	206,000	-	206,000
Fines and Forfeitures	-	14,000	-	14,000
Lease Revenue	-	401,000	-	401,000
Departmental and Other	-	28,100	-	28,100
Investment Income	-	28,000	-	28,000
Total Revenues	-	13,169,280	(97,500)	13,071,780
EXPENDITURES				
Current:				
General Government	112,986	1,322,372	231,571	1,666,929
Public Safety	62,466	1,610,032	313,664	1,986,162
Education	-	7,579,877	-	7,579,877
Public Works	25,196	911,186	149,299	1,085,681
Health and Human Services	1,614	211,560	19,327	232,501
Culture and Recreation	363	120,051	7,200	127,614
Pension Benefits	-	371,507	-	371,507
Employee Benefits	-	643,088	-	643,088
Property and Liability Insurance	-	99,868	(14,487)	85,381
State and County Charges	-	89,196	-	89,196
Debt Service:				
Principal	-	126,291	-	126,291
Interest	-	42,464	(38,600)	3,864
Total Expenditures	202,625	13,127,492	667,974	13,998,091
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(202,625)	41,788	(765,474)	(926,311)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	93,301	236,000	329,301
Premium from Issuance of Bonds and Notes	-	-	-	-
Sale of Capital Assets	-	-	-	-
Transfers Out	-	(328,911)	(67,500)	(396,411)
Total Other Financing Sources (Uses)	-	(235,610)	168,500	(67,110)
NET CHANGE IN FUND BALANCE	(202,625)	(193,822)	(596,974)	(993,421)
Fund Balance - Beginning of Year	1,569,013	1,569,013	1,569,013	1,569,013
FUND BALANCE - END OF YEAR	\$ 1,366,388	\$ 1,375,191	\$ 972,039	\$ 575,592

See Accompanying Independent Auditor's Report.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 11,414,819	\$ -	\$ 11,414,819	\$ 139,840
793,368	-	793,368	128,368
76,750	-	76,750	76,750
7,761	-	7,761	7,761
155,041	-	155,041	(2,959)
277,069	-	277,069	19,868
6,406	-	6,406	6,406
41,630	-	41,630	2,130
173,205	-	173,205	(32,795)
12,753	-	12,753	(1,247)
639,684	-	639,684	238,684
74,245	-	74,245	46,145
36,050	-	36,050	8,050
<u>13,708,781</u>	<u>-</u>	<u>13,708,781</u>	<u>637,001</u>
1,318,132	105,558	1,423,690	243,239
1,599,401	288,627	1,888,028	98,134
7,579,877	-	7,579,877	-
970,515	37,724	1,008,239	77,442
205,357	6,307	211,664	20,837
117,070	678	117,748	9,866
364,427	-	364,427	7,080
486,955	-	486,955	156,133
79,516	-	79,516	5,865
89,196	-	89,196	-
126,291	-	126,291	-
16,050	-	16,050	(12,186)
<u>12,952,787</u>	<u>438,894</u>	<u>13,391,681</u>	<u>606,410</u>
<u>755,994</u>	<u>(438,894)</u>	<u>317,100</u>	<u>1,243,411</u>
350,301	-	350,301	21,000
32,454	-	32,454	32,454
7,330	-	7,330	7,330
(437,777)	-	(437,777)	(41,366)
<u>(47,692)</u>	<u>-</u>	<u>(47,692)</u>	<u>19,418</u>
708,302	(438,894)	269,408	1,262,829
<u>1,569,013</u>	<u>-</u>	<u>1,569,013</u>	<u>-</u>
<u>\$ 2,277,315</u>	<u>\$ (438,894)</u>	<u>\$ 1,838,421</u>	<u>\$ 1,262,829</u>

**TOWN OF ESSEX, MASSACHUSETTS
PENSION PLAN SCHEDULES
JUNE 30, 2015**

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

	<u>2015</u>
Town's proportion of the net pension liability	1.672%
Town's proportionate share of the net pension liability	5,672,204
Town's covered-employee payroll	2,146,894
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.21%
Plan fiduciary net position as a percentage of the total pension liability	52.27%

(1) Amounts presented were determined as of December 31, 2014

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

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

	<u>2015</u>
Actuarially Required Contribution	\$ 428,738
Contributions in Relation to the Actuarially Required Contribution	<u>(428,738)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
 Town's Covered-Employee Payroll	 \$ 2,146,894
 Contributions as a Percentage of Covered Employee Payroll	 19.97%

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

**TOWN OF ESSEX, MASSACHUSETTS
OTHER POSTEMPLOYMENT BENEFITS SCHEDULE
JUNE 30, 2015**

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	112.21%
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, 2015

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, 2015 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	\$ 13,708,781	\$ 13,391,681	\$ (47,692)	\$ 1,838,421
<u>Adjustments and reclassifications:</u>				
Net Change in Recording 60-Day Receipts	3,761	-	-	35,254
To record Other Liabilities	-	212,000	-	(212,000)
To record MTRS On-Behalf Payments	-	-	-	
To record Encumbrances and Continuing Appropriations	-	(438,894)	-	438,894
To record Capital Lease	-	66,205	66,205	-
To Reclassify the Activity of the Stabilization Funds to the General Fund	3,391	-	15,000	682,114
To Reclassify the Activity of the Municipal Building Trust Fund to the General Fund	37	-	-	25,016
To Reclassify the Activity of the OPEB Trust Fund to the General Fund	798	-	52,500	86,049
	<u>798</u>	<u>-</u>	<u>52,500</u>	<u>86,049</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 13,716,768</u>	<u>\$ 13,230,992</u>	<u>\$ 86,013</u>	<u>\$ 2,893,748</u>