

TOWN OF ESSEX, MASSACHUSETTS

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

JUNE 30, 2017

**TOWN OF ESSEX, MASSACHUSETTS
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	12
STATEMENT OF NET POSITION	12
STATEMENT OF ACTIVITIES	13
GOVERNMENTAL FUNDS – BALANCE SHEET	15
GOVERNMENTAL FUNDS – STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	17
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	20
PROPRIETARY FUNDS - STATEMENT OF FUND NET POSITION	21
PROPRIETARY FUNDS - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION	22
PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS	23
FIDUCIARY FUNDS - STATEMENT OF FIDUCIARY NET POSITION	24
FIDUCIARY FUNDS - STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	25
NOTES TO BASIC FINANCIAL STATEMENTS	26
REQUIRED SUPPLEMENTARY INFORMATION	61
GENERAL FUND – SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL	61
PENSION PLAN SCHEDULES	63
OTHER POST EMPLOYMENT BENEFITS SCHEDULE	64
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	65

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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.


Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018, on our consideration of the Town of Essex, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Essex, Massachusetts' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Essex, Massachusetts' internal control over financial reporting and compliance.



Boston, Massachusetts
February 8, 2018

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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, 2017.

Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$38,270,723 (net position). Of this amount, \$6,570,251 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased \$4,018,669.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$2,193,601 or 14.96%, of total general fund expenditures and transfers out.
- The Town's total long-term debt decreased by \$1,462,188 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.).

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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

Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include sewer and water activities.

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

Fund financial Statements

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

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

Governmental Funds

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

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

The Town maintains 70 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, Conomo Point (special revenue), and Town Hall Repairs (capital project) funds, each of which are considered to be major funds. Data from the other 67 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

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

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Proprietary Funds

The Town maintains one type of proprietary fund.

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

The basic proprietary funds financial statements can be found on pages 21-23 of this report.

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 26-60 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, 2017**

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 \$38,270,723 at the close of the fiscal year and are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current Assets	\$ 13,331,924	\$ 11,801,846	\$ 3,706,771	4,050,399	\$ 17,038,695	\$ 15,852,245
Noncurrent Assets (Excluding Capital Assets)	952,735	968,232	7,824,977	8,879,495	8,777,712	9,847,727
Capital assets (net)	9,506,816	6,186,469	24,227,724	24,927,933	33,734,540	31,114,402
Total Assets	23,791,475	18,956,547	35,759,472	37,857,827	59,550,947	56,814,374
Deferred Outflows of Resources	563,082	288,704	109,235	60,858	672,317	349,562
Liabilities						
Current Liabilities (Excluding Debt)	332,789	740,188	581,480	500,479	914,269	1,240,667
Noncurrent Liabilities (Excluding Debt)	7,367,080	6,633,099	1,473,315	1,396,684	8,840,395	8,029,783
Current Debt	89,439	102,141	1,380,049	1,461,049	1,469,488	1,563,190
Noncurrent Debt	629,015	718,452	9,979,741	11,359,790	10,608,756	12,078,242
Total Liabilities	8,418,323	8,193,880	13,414,585	14,718,002	21,832,908	22,911,882
Deferred Inflows of Resources	100,195	-	19,438	-	119,633	-
Net Position						
Net Investment in Capital Assets	8,911,998	5,609,977	12,778,934	12,108,815	21,690,932	17,718,792
Restricted	10,009,540	8,189,883	-	-	10,009,540	8,189,883
Unrestricted	(3,085,499)	(2,748,489)	9,655,750	11,091,868	6,570,251	8,343,379
Total Net Position	\$ 15,836,039	\$ 11,051,371	\$ 22,434,684	\$ 23,200,683	\$ 38,270,723	\$ 34,252,054

A portion of the Town's net position (56.7%) 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 (26.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (17.2% or \$6,570,251) may be used to meet the Town's ongoing obligations to citizens and creditors. \$9,655,750 may be used to support business-type activities. The Town has no unrestricted net position available for the support of governmental activities. Such resources have been consumed with the recognition of the net pension and other postemployment benefit liabilities.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Changes in Net Position

For the fiscal year ended June 30, 2017, the Town's total net position increased by \$4,018,669, compared to an increase of \$461,196 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for Services	\$ 708,440	\$ 626,385	\$ 1,514,339	\$ 1,623,914	\$ 2,222,779	\$ 2,250,299
Operating Grants and Contributions	70,146	159,710	412,400	457,331	482,546	617,041
Capital Grants and Contributions	246,138	306,126	-	-	246,138	306,126
General Revenues:						
Real Estate and Personal Property Taxes	12,298,503	12,079,199	-	-	12,298,503	12,079,199
Motor Vehicle and Other Excise Taxes	889,384	895,651	-	-	889,384	895,651
Hotel/Motel Taxes	13,721	9,607	-	-	13,721	9,607
Lease Revenue	490,874	606,714	-	-	490,874	606,714
Penalties and Interest on Taxes	43,620	29,934	-	-	43,620	29,934
Payments in lieu of Taxes	14,328	14,328	-	-	14,328	14,328
Community Preservation Surcharges	150,066	48,021	-	-	150,066	48,021
Grants and Contributions not Restricted to Specific Programs	303,207	283,298	-	-	303,207	283,298
Unrestricted Investment Income	90,200	38,826	-	-	90,200	38,826
Gain (Loss) on Sale of Capital Assets	-	2,302	-	-	-	2,302
Total Revenues	15,318,627	15,100,101	1,926,739	2,081,245	17,245,366	17,181,346
Expenses						
General Government	1,696,263	1,466,662	-	-	1,696,263	1,466,662
Public Safety	2,751,578	2,569,498	-	-	2,751,578	2,569,498
Education	8,467,184	8,234,232	-	-	8,467,184	8,234,232
Public Works	1,320,419	1,198,035	-	-	1,320,419	1,198,035
Health and Human Services	383,435	379,034	-	-	383,435	379,034
Culture and Recreation	321,825	325,663	-	-	321,825	325,663
Debt Service - Interest	9,148	11,432	-	-	9,148	11,432
Sewer	-	-	1,901,799	1,921,529	1,901,799	1,921,529
Water	-	-	1,211,303	851,401	1,211,303	851,401
Total Expenses	14,949,852	14,184,556	3,113,102	2,772,930	18,062,954	16,957,486
Change in Net Position Before Special Item and Transfers	368,775	915,545	(1,186,363)	(691,685)	(817,588)	223,860
Special Item - Gain on Sale of Lots	4,836,257	237,336	-	-	4,836,257	237,336
Transfers, Net	(420,364)	(528,531)	420,364	528,531	-	-
Change in Net Position	4,784,668	624,350	(765,999)	(163,154)	4,018,669	461,196
Net Position - Beginning of Year	11,051,371	10,427,021	23,200,683	23,363,837	34,252,054	33,790,858
Net Position - End of Year	<u>\$ 15,836,039</u>	<u>\$ 11,051,371</u>	<u>\$ 22,434,684</u>	<u>\$ 23,200,683</u>	<u>\$ 38,270,723</u>	<u>\$ 34,252,054</u>

Governmental activities increased the Town's net position \$4,784,668. In the prior year, governmental activities increased the Town's net position by \$624,350. The key element of this change relates to the current year gain on the sales of lots which totaled \$4,836,257.

Business-type activities decreased the Town's net position by \$765,999. In the prior year, business-type activities decreased the Town's net position by \$163,154. A key element of this change related to repairs and maintenance of the Town's water filtration system totaling approximately \$360,000.

Fund Financial Statement Analysis

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$12,677,878, an increase of \$1,983,262 in comparison with the prior year. \$2,193,601 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable - \$221,979
- Restricted - \$9,407,455
- Committed - \$828,975
- Assigned - \$25,868

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$2,193,601, while total fund balance was \$3,524,951. 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 15% of total general fund expenditures and transfers out, while total fund balance represents 24% of that same amount.

The balance of the Town's general fund increased by \$345,932 during fiscal year 2017. The Town anticipated utilizing approximately \$1,419,000 of reserves to fund the budget; however, the Town ultimately recognized an approximate \$1,553,000 budgetary surplus (excluding encumbrances and continuing appropriations).

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

The fund balance of the Conomo Point fund (special revenue) increased \$4,661,257 during the current year, which consisted of sales of lots of \$4,836,257 as well as a transfer out of \$175,000.

The fund balance of the Town Hall Repairs fund (capital project) decreased by \$2,912,923 during the current year. The fund received transfers in of \$175,000 and incurred expenditures of \$3,087,923.

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 \$10,190,288 and (\$534,538), respectively. The sewer enterprise fund had a decrease in net position of \$271,276 for the year, and the water enterprise fund had a decrease in net position of \$494,723 for the year.

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

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

General Fund Budgetary Highlights

The original general fund budget of \$15,230,687 was increased by \$744,738 (4.9%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Forestry Vehicle for Fire Dept.	\$ 130,000	Unassigned fund balance
Transfers to OPEB fund	125,000	Unassigned fund balance
Finance Committee reserves	70,000	Unassigned fund balance
Town Hall renovations	63,000	Unassigned fund balance
Property Management - Conomo Point	50,000	Unassigned fund balance
Transfers to capital stabilization funds	45,000	Unassigned fund balance
Transfer to general stabilization funds	40,000	Unassigned fund balance
Master Plan for Centennial Grove	35,000	Unassigned fund balance
Transfer to water fund	35,000	Unassigned fund balance
Water filtration project	35,000	Reserve fund
Police cruiser	34,000	Unassigned fund balance
Generator - Senior Center	20,000	Unassigned fund balance
Reserve fund	20,000	Unassigned fund balance
Sewer repairs	20,000	Reserve fund
Municipal lighting	14,000	Unassigned fund balance
Engineering Study - Police/Fire headquarters	12,500	Unassigned fund balance
Public Safety	10,000	Unassigned fund balance
Bicentennial celebration	10,000	Unassigned fund balance
Water sick leave buyback	8,800	Reserve fund
Unpaid bills	7,038	Unassigned fund balance
Town Hall copier	7,000	Unassigned fund balance
Electronic defibrillators	6,500	Unassigned fund balance
Wellness Room - Senior Center	6,200	Unassigned fund balance
Hazard mitigation plan	4,500	Unassigned fund balance
Reserve fund	(63,800)	Unassigned fund balance
	<u>\$ 744,738</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 \$1,007,000.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$33,734,540 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure. The total increase in the investment in capital assets for the current year totaled \$2,620,138, or 8.4% (a \$3,320,347 increase for governmental activities and a \$700,209 decrease for business-type activities).

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

- Town hall renovations completion (\$5,789,741)
- DPW vehicles (\$292,510)
- Conomo Point waterfront construction in progress (\$194,681)

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 133,095	\$ 133,095	\$ 2	2	\$ 133,097	\$ 133,097
Land Improvements	309,699	311,986	-	-	309,699	311,986
Buildings and Improvements	6,863,814	1,210,100	477,948	552,856	7,341,762	1,762,956
Machinery, Vehicles and Equipment	1,007,224	852,553	185,175	212,234	1,192,399	1,064,787
Infrastructure	867,726	891,923	23,564,599	24,162,841	24,432,325	25,054,764
Construction in Progress	325,258	2,786,812	-	-	325,258	2,786,812
Total Capital Assets	<u>\$ 9,506,816</u>	<u>\$ 6,186,469</u>	<u>\$ 24,227,724</u>	<u>\$ 24,927,933</u>	<u>\$ 33,734,540</u>	<u>\$ 31,114,402</u>

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

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$12,078,244, which is backed by the full faith and credit of the Town, and is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 502,717	\$ 565,962	\$ 775,000	\$ 895,000	\$ 1,277,717	\$ 1,460,962
MCWT Notes	215,737	241,931	10,584,790	11,824,839	10,800,527	12,066,770
State House Notes	-	12,700	-	-	-	12,700
Total Bonds and Notes	<u>\$ 718,454</u>	<u>\$ 820,593</u>	<u>\$ 11,359,790</u>	<u>\$ 12,719,839</u>	<u>\$ 12,078,244</u>	<u>\$ 13,540,432</u>

The Town's total bonded debt decreased by \$1,462,188 (10.8%) during the current fiscal year.

State statutes limit the amount of general obligation debt the Town may issue to 5.0% of its equalized valuation. The current debt limit is \$41,024,125. Additional information on the Town's long-term debt can be found in Note 9 on pages 47-49 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the fiscal year 2018 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 FY17 the Town of Essex had an excess levy of \$90,435, 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 \$120,027 for FY18. Essex has not had an operational override since May of 2005.

Another component of Proposition 2 ½ is a factor added for "new growth". \$86,839 has been certified for "new growth" in FY 2018, down \$4,683 from \$91,522 in FY 2017.

The Manchester Essex Regional School District apportions its annual operating budget to the Towns of Essex and Manchester-by-the-Sea using a formula found in the Regional School Agreement that formed the District. For fiscal year 2018 the Essex apportionment increased by 2.3% (\$169,595) and totaled \$7,593,144, up from \$7,423,549 in fiscal year 2017. Also in fiscal year 2018, a debt

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

assessment from the District relative to the Manchester Essex Regional High School building construction of \$708,982 comes due and is covered by a debt exclusion outside of the Proposition 2 ½ limit. This assessment represents a \$10,323 decrease from the fiscal year 2017 assessment of \$719,305, 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 2017 assessment of \$327,053. In FY 2018 the assessment is \$360,777, an increase of \$33,724 from Fiscal 2017. Debt for the new school building is included in these amounts.

Approximately 60% of municipal employees are covered by collective bargaining agreements (CBAs) in two different unions (AFSCME and the Essex Police Benevolent Association – EPBA). Both CBAs were renewed, effective July 1, 2016 and run for three years. Percentage increases were two percent for union and non-union employees between fiscal year 2017 and fiscal year 2018.

In fiscal year 2017, the Commonwealth of Massachusetts provided the Town with \$281,620 in State Cherry Sheet aid. \$303,843 in State Cherry Sheet aid is expected for fiscal year 2018, representing a 7.9% increase, or \$22,223.

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

Requests for Information

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

TOWN OF ESSEX, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,260,433	\$ 2,126,006	\$ 5,386,439
Restricted Cash and Cash Equivalents	3,413,694	-	3,413,694
Restricted Investments	6,119,877	-	6,119,877
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	407,548	-	407,548
Tax and Utility Liens	1,376	4,346	5,722
Motor Vehicle and Other Excise Taxes	53,988	-	53,988
Community Preservation Surcharges	2,248	-	2,248
Water	-	306,515	306,515
Sewer	-	288,890	288,890
Special Assessments	-	810,402	810,402
Departmental and Other	64,075	-	64,075
Intergovernmental	-	170,612	170,612
Due from Agency Funds	8,685	-	8,685
Total Current Assets	13,331,924	3,706,771	17,038,695
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	-	6,565,559	6,565,559
Intergovernmental	-	1,259,418	1,259,418
Loans	126,101	-	126,101
Installment Sales	380,000	-	380,000
Tax Foreclosures	446,634	-	446,634
Capital Assets not being Depreciated	458,353	2	458,355
Capital Assets, Net of Accumulated Depreciation	9,048,463	24,227,722	33,276,185
Total Noncurrent Assets	10,459,551	32,052,701	42,512,252
Total Assets	23,791,475	35,759,472	59,550,947
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	563,082	109,235	672,317
LIABILITIES			
Current Liabilities:			
Warrants Payable	174,297	182,768	357,065
Accrued Payroll	86,206	14,475	100,681
Other Liabilities	25,376	-	25,376
Accrued Interest	-	290,066	290,066
Capital Lease Obligations	29,710	-	29,710
Compensated Absences	17,200	5,171	22,371
Short-Term Notes Payable	-	89,000	89,000
Long-Term Bonds and Notes Payable	89,439	1,380,049	1,469,488
Total Current Liabilities	422,228	1,961,529	2,383,757
Noncurrent Liabilities:			
Capital Lease Obligations	62,392	-	62,392
Compensated Absences	154,797	46,537	201,334
Net OPEB Obligation	1,586,080	347,420	1,933,500
Net Pension Liability	5,563,811	1,079,358	6,643,169
Long-Term Bonds and Notes Payable	629,015	9,979,741	10,608,756
Total Noncurrent Liabilities	7,996,095	11,453,056	19,449,151
Total Liabilities	8,418,323	13,414,585	21,832,908
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	100,195	19,438	119,633
NET POSITION			
Net Investment in Capital Assets	8,911,998	12,778,934	21,690,932
Restricted for:			
Capital Purposes	8,176,122	-	8,176,122
Employee Benefits	451,417	-	451,417
Community Preservation	260,855	-	260,855
Loans	126,101	-	126,101
Ambulance	305,459	-	305,459
Permanent Funds:			
Expendable	57,458	-	57,458
Nonexpendable	221,979	-	221,979
Other Specific Purposes	410,149	-	410,149
Unrestricted	(3,085,499)	9,655,750	6,570,251
Total Net Position	\$ 15,836,039	\$ 22,434,684	\$ 38,270,723

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

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	\$ 1,696,263	\$ 297,065	\$ 19,980	\$ 10,868	\$ (1,368,350)
Public Safety	2,751,578	245,975	25,089	135,270	(2,345,244)
Education	8,467,184	-	-	-	(8,467,184)
Public Works	1,320,419	144,850	-	100,000	(1,075,569)
Health and Human Services	383,435	16,360	10,135	-	(356,940)
Culture and Recreation	321,825	4,190	14,942	-	(302,693)
Debt Service-Interest	9,148	-	-	-	(9,148)
Total Governmental Activities	14,949,852	708,440	70,146	246,138	(13,925,128)
Business-Type Activities:					
Sewer	1,901,799	889,501	412,111	-	(600,187)
Water	1,211,303	624,838	289	-	(586,176)
Total Business-Type Activities	3,113,102	1,514,339	412,400	-	(1,186,363)
Total Primary Governments	\$ 18,062,954	\$ 2,222,779	\$ 482,546	\$ 246,138	\$ (15,111,491)

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
CHANGES IN NET POSITION			
Net (Expense) Revenue (From Previous Page)	\$ (13,925,128)	\$ (1,186,363)	\$ (15,111,491)
General Revenues:			
Real Estate and Personal Property Taxes	12,298,503	-	12,298,503
Motor Vehicle and Other Excise Taxes	889,384	-	889,384
Lease Revenue	490,874	-	490,874
Hotel/Motel Taxes	13,721	-	13,721
Penalties and Interest on Taxes	43,620	-	43,620
Payments in Lieu of Taxes	14,328	-	14,328
Community Preservation Surcharges	150,066	-	150,066
Grants and Contributions not Restricted to Specific Programs	303,207	-	303,207
Unrestricted Investment Income	90,200	-	90,200
Special Item - Gain on Sale of Lots	4,836,257	-	4,836,257
Transfers, Net	(420,364)	420,364	-
Total General Revenues, Special Item and Transfers, Net	18,709,796	420,364	19,130,160
CHANGE IN NET POSITION	4,784,668	(765,999)	4,018,669
Net Position - Beginning of Year	11,051,371	23,200,683	34,252,054
NET POSITION - END OF YEAR	\$ 15,836,039	\$ 22,434,684	\$ 38,270,723

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

ASSETS	<u>General</u>	<u>Conomo Point</u>	<u>Town Hall Repairs</u>
Cash and Cash Equivalents	\$ 3,260,433	\$ -	\$ -
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	407,548	-	-
Tax Liens	1,376	-	-
Motor Vehicle and Other Excise Taxes	53,988	-	-
Community Preservation Surcharges	-	-	-
Departmental and Other	43,093	-	-
Loans	-	-	-
Installment Sales	-	380,000	-
Due from Agency Funds	8,685	-	-
Tax Foreclosures	446,634	-	-
Restricted Assets:			
Cash and Cash Equivalents	476,507	1,492,142	31,000
Investments	<u>-</u>	<u>6,084,318</u>	<u>35,559</u>
Total Assets	<u>\$ 4,698,264</u>	<u>\$ 7,956,460</u>	<u>\$ 66,559</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Warrants Payable	\$ 144,059	\$ -	\$ 22,530
Accrued Payroll	86,206	-	-
Other Liabilities	<u>25,376</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>255,641</u>	<u>-</u>	<u>22,530</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	<u>917,672</u>	<u>380,000</u>	<u>-</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	476,507	7,576,460	44,029
Committed	828,975	-	-
Assigned	25,868	-	-
Unassigned	<u>2,193,601</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>3,524,951</u>	<u>7,576,460</u>	<u>44,029</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,698,264</u>	<u>\$ 7,956,460</u>	<u>\$ 66,559</u>

See accompanying Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 3,260,433
-	407,548
-	1,376
-	53,988
2,248	2,248
20,982	64,075
126,101	126,101
-	380,000
-	8,685
-	446,634
1,414,045	3,413,694
-	6,119,877
<u>\$ 1,563,376</u>	<u>\$ 14,284,659</u>

\$ 7,708	\$ 174,297
-	86,206
-	25,376
<u>7,708</u>	<u>285,879</u>

<u>23,230</u>	<u>1,320,902</u>
---------------	------------------

221,979	221,979
1,310,459	9,407,455
-	828,975
-	25,868
-	2,193,601
<u>1,532,438</u>	<u>12,677,878</u>

<u>\$ 1,563,376</u>	<u>\$ 14,284,659</u>
---------------------	----------------------

**TOWN OF ESSEX, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2017**

	General	Conomo Point	Town Hall Repairs
REVENUES			
Real Estate and Personal Property Taxes	\$ 12,330,882	\$ -	\$ -
Motor Vehicle and Other Excise Taxes	893,008	-	-
Hotel/Motel Tax	13,721	-	-
Tax Liens	61,615	-	-
Payments in Lieu of Taxes	14,328	-	-
Community Preservation Surcharges	-	-	-
Charges for Services	162,720	-	-
Intergovernmental	281,620	-	-
Special Assessments	-	-	-
Penalties and Interest on Taxes	43,620	-	-
Licenses and Permits	190,947	-	-
Fines and Forfeitures	10,758	-	-
Lease Revenue	490,874	-	-
Departmental and Other	188,626	-	-
Contributions	-	-	-
Investment Income	90,078	-	-
	<u>14,772,797</u>	<u>-</u>	<u>-</u>
Total Revenues			
	<u>14,772,797</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Current:			
General Government	1,188,007	-	3,087,923
Public Safety	1,664,008	-	-
Education	8,467,184	-	-
Public Works	1,178,611	-	-
Health and Human Services	273,794	-	-
Culture and Recreation	134,912	-	-
Pension Benefits	424,644	-	-
Employee Benefits	536,441	-	-
Property and Liability Insurance	99,900	-	-
State and County Charges	88,659	-	-
Debt Service:			
Principal	98,894	-	-
Interest	12,394	-	-
	<u>14,167,448</u>	<u>-</u>	<u>3,087,923</u>
Total Expenditures			
	<u>14,167,448</u>	<u>-</u>	<u>3,087,923</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>605,349</u>	<u>-</u>	<u>(3,087,923)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Capital Leases	120,193	-	-
Transfers In	118,274	-	175,000
Transfer Out	(497,884)	(175,000)	-
	<u>(259,417)</u>	<u>(175,000)</u>	<u>175,000</u>
Total Other Financing Sources (Uses)			
	<u>(259,417)</u>	<u>(175,000)</u>	<u>175,000</u>
SPECIAL ITEM - SALE OF LOTS	<u>-</u>	<u>4,836,257</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	345,932	4,661,257	(2,912,923)
Fund Balances - Beginning of Year	<u>3,179,019</u>	<u>2,915,203</u>	<u>2,956,952</u>
FUND BALANCES - END OF YEAR	<u>\$ 3,524,951</u>	<u>\$ 7,576,460</u>	<u>\$ 44,029</u>

See accompanying Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 12,330,882
-	893,008
-	13,721
-	61,615
-	14,328
149,767	149,767
103,511	266,231
271,954	553,574
2,613	2,613
-	43,620
-	190,947
-	10,758
	490,874
25,203	213,829
46,409	46,409
820	90,898
<u>600,277</u>	<u>15,373,074</u>
119,354	4,395,284
136,117	1,800,125
-	8,467,184
100,713	1,279,324
15,262	289,056
299,081	433,993
-	424,644
-	536,441
-	99,900
-	88,659
-	98,894
-	12,394
<u>670,527</u>	<u>17,925,898</u>
<u>(70,250)</u>	<u>(2,552,824)</u>
-	120,193
57,520	350,794
<u>(98,274)</u>	<u>(771,158)</u>
<u>(40,754)</u>	<u>(300,171)</u>
<u>-</u>	<u>4,836,257</u>
(111,004)	1,983,262
<u>1,643,442</u>	<u>10,694,616</u>
<u>\$ 1,532,438</u>	<u>\$ 12,677,878</u>

**TOWN OF ESSEX, MASSACHUSETTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Governmental Fund Balances	\$ 12,677,878
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	9,506,816
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	1,320,902
In the statement of net position, deferred outflows of resources are reported for amounts related to pensions	563,082
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds and Notes Payable, Net	(718,454)
Capital Lease Obligations	(92,102)
Compensated Absences	(171,997)
Net Pension Liability	(5,563,811)
Net OPEB Obligation	(1,586,080)
In the statement of net position, deferred inflows of resources are reported for amounts related to pensions	<u>(100,195)</u>
Net Position of Governmental Activities	<u><u>\$ 15,836,039</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, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 1,983,262
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.	
Capital Outlays	3,711,424
Depreciation	(362,893)
In the statement of activities, the gain/(loss) on the disposals of capital assets is reported, whereas in the governmental funds the disposals are not reported as financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed	(28,184)
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.	(54,448)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of material premiums and discounts when debt is first issued, whereas these amounts are amortized in the statement of activities. These amounts represent the related activity of the current period.	
Bond Maturities	98,894
Net Amortization of Bond Premiums	3,245
Capital Lease Proceeds	(120,193)
Capital Lease Maturities	50,296
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:	
Net OPEB Obligation	(197,330)
Net Pension Liability (net)	(480,299)
Compensated Absences	6,711
In the statement of activities, deferred outflows related to pensions are amortized and recognized as pension expense. This amount represents the net change in deferred outflows related to pensions.	274,378
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.	(100,195)
Changes in Net Position of Governmental Activities	\$ <u><u>4,784,668</u></u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
JUNE 30, 2017**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,988,034	\$ 137,972	\$ 2,126,006
Receivables, Net of Allowance for Uncollectible Amounts:			
Utility Liens	1,062	3,284	4,346
User Charges	288,890	306,515	595,405
Special Assessments	810,402	-	810,402
Intergovernmental	170,612	-	170,612
Total Current Assets	3,259,000	447,771	3,706,771
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	6,565,559	-	6,565,559
Intergovernmental	1,259,418	-	1,259,418
Capital Assets not being Depreciated	-	2	2
Capital Assets, Net of Accumulated Depreciation	23,655,831	571,891	24,227,722
Total Noncurrent Assets	31,480,808	571,893	32,052,701
Total Assets	34,739,808	1,019,664	35,759,472
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	33,441	75,794	109,235
LIABILITIES			
Current Liabilities:			
Warrants Payable	166,299	16,469	182,768
Accrued Payroll	3,708	10,767	14,475
Accrued Interest	290,066	-	290,066
Compensated Absences	2,034	3,137	5,171
Short-Term Notes Payable	-	89,000	89,000
Long-Term Bonds and Notes Payable	1,348,049	32,000	1,380,049
Total Current Liabilities	1,810,156	151,373	1,961,529
Noncurrent Liabilities:			
Compensated Absences	18,308	28,229	46,537
Net OPEB Obligation	110,329	237,091	347,420
Net Pension Liability	330,435	748,923	1,079,358
Long-Term Bonds and Notes Payable	9,849,741	130,000	9,979,741
Total Noncurrent Liabilities	10,308,813	1,144,243	11,453,056
Total Liabilities	12,118,969	1,295,616	13,414,585
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	5,951	13,487	19,438
FUND NET POSITION			
Net Investment in Capital Assets	12,458,041	320,893	12,778,934
Unrestricted	10,190,288	(534,538)	9,655,750
Total Net Position	\$ 22,648,329	\$ (213,645)	\$ 22,434,684

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, 2017**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
OPERATING REVENUES			
Charges for Services	\$ 730,537	\$ 616,358	\$ 1,346,895
Penalties and Interest	<u>158,964</u>	<u>8,480</u>	<u>167,444</u>
Total Operating Revenues	<u>889,501</u>	<u>624,838</u>	<u>1,514,339</u>
OPERATING EXPENSES			
Cost of Service and Administration	822,372	1,116,879	1,939,251
Depreciation	<u>610,288</u>	<u>89,921</u>	<u>700,209</u>
Total Operating Expenses	<u>1,432,660</u>	<u>1,206,800</u>	<u>2,639,460</u>
OPERATING (LOSS)	<u>(543,159)</u>	<u>(581,962)</u>	<u>(1,125,121)</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental	410,872	-	410,872
Investment Income	1,239	289	1,528
Interest Expense	<u>(469,139)</u>	<u>(4,503)</u>	<u>(473,642)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(57,028)</u>	<u>(4,214)</u>	<u>(61,242)</u>
(LOSS) BEFORE TRANSFERS	<u>(600,187)</u>	<u>(586,176)</u>	<u>(1,186,363)</u>
TRANSFERS			
Transfers In	348,911	91,453	440,364
Transfers Out	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>
Total Transfers, Net	<u>328,911</u>	<u>91,453</u>	<u>420,364</u>
CHANGE IN FUND NET POSITION	<u>(271,276)</u>	<u>(494,723)</u>	<u>(765,999)</u>
Fund Net Position - Beginning of Year	<u>22,919,605</u>	<u>281,078</u>	<u>23,200,683</u>
FUND NET POSITION - END OF YEAR	<u>\$ 22,648,329</u>	<u>\$ (213,645)</u>	<u>\$ 22,434,684</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 1,735,291	\$ 676,410	\$ 2,411,701
Payments to Vendors	(634,888)	(728,669)	(1,363,557)
Payments to Employees	(153,753)	(346,452)	(500,205)
Net Cash Provided (Used) by Operating Activities	946,650	(398,711)	547,939
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	348,911	91,453	440,364
Transfers Out	(20,000)	-	(20,000)
Net Cash Provided by Noncapital Financing Activities	328,911	91,453	420,364
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the Issuance of Bonds and Notes	-	89,000	89,000
Principal Payments on Bonds and Notes	(1,171,178)	(133,000)	(1,304,178)
Interest Paid	(94,064)	(4,503)	(98,567)
Net Cash Used by Capital and Related Financing Activities	(1,265,242)	(48,503)	(1,313,745)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	1,239	289	1,528
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,558	(355,472)	(343,914)
Cash and Cash Equivalents - Beginning of Year (Includes \$1,721 Reported as Restricted in the Sewer Enterprise Fund)	1,976,476	493,444	2,469,920
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,988,034</u>	<u>\$ 137,972</u>	<u>\$ 2,126,006</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating (Loss)	\$ (543,159)	\$ (581,962)	\$ (1,125,121)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Changes in Assets and Liabilities not Requiring Current Cash Flows:			
Depreciation	610,288	89,921	700,209
Net Pension Liability	(16,451)	2,817	(13,634)
Net OPEB Obligation	18,317	41,515	59,832
Effect of Changes in Operating Assets and Liabilities:			
Utility Liens	272	(2,089)	(1,817)
User Charges	6,187	(535)	5,652
Special Assessments	839,331	54,196	893,527
Warrants Payable	30,962	(6,646)	24,316
Accrued Payroll	879	2,436	3,315
Compensated Absences	24	1,636	1,660
Total Adjustments	1,489,809	183,251	1,673,060
Net Cash Provided by Operating Activities	<u>\$ 946,650</u>	<u>\$ (398,711)</u>	<u>\$ 547,939</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Intergovernmental Debt Subsidies (MWPAT) - Interest	\$ 410,872	\$ -	\$ 410,872
Intergovernmental Debt Subsidies (MWPAT) - Principal	156,871	-	156,871

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

ASSETS	Private Purpose Trust Funds	Agency Funds
Cash and Cash Equivalents	\$ 208,264	\$ -
Receivables, Net of Allowance for Uncollectible Amounts:		
Departmental and Other	-	18,583
Total Assets	<u>208,264</u>	<u>18,583</u>
LIABILITIES		
Warrants Payable	-	408
Accrued Payroll	-	3,953
Liabilities Due Depositors	-	5,537
Due to General Fund	-	8,685
Total Liabilities	<u>-</u>	<u>\$ 18,583</u>
NET POSITION		
Held in Trust for Other Purposes	\$ <u><u>208,264</u></u>	

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017**

	Private Purpose Trust Funds
ADDITIONS	
Net Investment Income:	
Interest	\$ 577
DEDUCTIONS	
Donations	177,609
CHANGE IN NET POSITION	(177,032)
Net Position - Beginning of Year	385,296
NET POSITION - END OF YEAR	\$ 208,264

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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 2017 Assessment</u>
Manchester Essex Regional School District	To provide educational services	36 Lincoln Street Manchester-by-the Sea, MA	\$ 8,147,133
North Shore Technical High School	To provide educational services	36 Log Bridge Road Middleton, MA	320,051
Essex County Regional Emergency Communications Center	To provide emergency services	18 Manning Avenue Middleton, MA	58,634

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Manchester Essex Regional School District

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

North Shore Technical High School

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

Essex County Regional Emergency Communications Center (ERECC)

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

C. Implementation of New Accounting Principles

For the year ending June 30, 2017, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*
- GASB Statement No. 77, *Tax Abatement Disclosures*
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*
- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

Implementation of these GASB Statements had no reporting impact for the Town.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

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

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

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

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

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

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

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

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

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

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

The following proprietary funds are reported:

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

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

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

The following fiduciary fund types are reported:

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

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents and Investments

Government-Wide and Fund Financial Statements

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

G. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date.

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

Community Preservation Surcharges

Community preservation surcharges are levied annually at a rate of 1.5% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on August 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.

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Water and Sewer Charges and Utility Liens

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

Special Assessments

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

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

Departmental and Other

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

Intergovernmental

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

Loans

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

Installment Sales

In 2013, the Town sold three Conomo Point properties under installment sales transactions with principal balloon payments due in fiscal year 2043. One of the properties was paid off in fiscal year 2015. No other properties have been paid off through fiscal year 2017.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Allowance for Uncollectible Amounts

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

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

As of June 30, 2017, the allowance for uncollectible accounts for personal property taxes and motor vehicle and other excise taxes are immaterial and therefore not reported.

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

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

Intergovernmental receivables are considered 100% collectible.

I. Inventories

Government-Wide and Fund Financial Statements

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

J. Restricted Assets

Government-Wide and Fund Financial Statements

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$10,000 for land; \$50,000 for buildings; \$25,000 for land and building improvements; and \$5,000 for all other capital assets are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

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

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

Governmental Funds Financial Statements

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

L. Interfund Receivables and Payables

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

N. Deferred Outflows of Resources

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

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

O. Deferred Inflows of Resources

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

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

P. Net Position and Fund Balances

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

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

Net position has been “restricted” for the following:

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

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

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

“Loans” represents outstanding septic loans receivable.

“Ambulance” represents amounts restricted for ambulance activities.

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

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

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

Governmental Funds Financial Statements (Fund Balances)

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

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

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017**

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, 2017**

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 2017 approved budget for the general fund authorized \$15,230,687 in appropriations. During fiscal year 2017, supplemental appropriations totaling \$744,738 were authorized.

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

NOTE 3 DEPOSITS AND INVESTMENTS

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool – the Massachusetts Municipal Depository Trust (MMDT). The Treasurer also has expanded investment powers as it relates to certain trust funds (as defined by the Commonwealth), permanent funds, and fiduciary funds.

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

A. Deposits – Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2017, \$581,677 of the Town's bank balance of \$7,237,179 was uninsured, uncollateralized and exposed to custodial credit risk. The carrying value of the Town's deposits at June 30, 2017 totaled \$6,753,758.

B. Investments Summary

The Town's investments at June 30, 2017 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Total Amount	Investment Maturities (Years) Less Than 1
<u>Debt Securities:</u>		
Money market mutual funds	\$ 1,683,351	\$ 1,683,351
Mutual bond funds	188,504	188,504
Certificates of deposit	6,119,877	6,119,877
External investment pools	<u>120,658</u>	<u>120,658</u>
Total debt securities	8,112,390	<u><u>\$ 8,112,390</u></u>
<u>Other Investments:</u>		
Equity mutual funds	<u>262,134</u>	
Total investments	<u><u>\$ 8,374,524</u></u>	

C. Investments - Interest Rate Risk of Debt Securities

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

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

D. Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2017 the Town's investments were not exposed to custodial credit risk.

E. Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2017, 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, 2017, the Town was not exposed to concentration of credit risk.

G. Investments – Fair Value Measurements

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

Investment Type	Fair Value	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<u>Investments by Fair Value Level:</u>			
Money Market Mutual Funds	\$ 1,683,351	\$ 1,683,351	\$ -
Mutual Bond Funds	188,504	188,504	-
Certificates of Deposit	6,119,877	-	6,119,877
Equity Mutual Funds	262,134	262,134	-
Total Investments at Fair Value	<u>8,253,866</u>	<u>\$ 2,133,989</u>	<u>\$ 6,119,877</u>
<u>Investments Measured at Amortized Cost</u>			
External Investment Pools (MMDT)	120,658		
Total Investments	<u>\$ 8,374,524</u>		

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

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

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 ACCOUNTS RECEIVABLE

At June 30, 2017, 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	\$ 407,548	\$ -	\$ 407,548
Tax liens	360,133	(358,757)	1,376
Motor vehicle and other excise taxes	53,988	-	53,988
Community preservation surcharges	2,248	-	2,248
Departmental and other	100,899	(18,241)	82,658
Loans	126,101	-	126,101
Installment sales	380,000	-	380,000
	<u>\$ 1,430,917</u>	<u>\$ (376,998)</u>	<u>\$ 1,053,919</u>

At June 30, 2017, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water	\$ 306,515	\$ -	\$ 306,515
Sewer	288,890	-	288,890
Utility Liens	10,394	(6,048)	4,346
Special assessments	7,375,961	-	7,375,961
Intergovernmental	1,430,030	-	1,430,030
	<u>\$ 9,411,790</u>	<u>\$ (6,048)</u>	<u>\$ 9,405,742</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 133,095	\$ -	\$ -	\$ 133,095
Construction in progress	2,786,812	3,363,600	(5,825,154)	325,258
Total capital assets not being depreciated	2,919,907	3,363,600	(5,825,154)	458,353
<u>Capital assets being depreciated:</u>				
Land improvements	693,530	35,413	-	728,943
Buildings and improvements	3,545,866	5,789,741	(47,330)	9,288,277
Machinery, vehicles and equipment	2,486,819	347,824	(170,381)	2,664,262
Infrastructure	1,002,152	-	-	1,002,152
Total capital assets being depreciated	7,728,367	6,172,978	(217,711)	13,683,634
<u>Less accumulated depreciation for:</u>				
Land improvements	(381,544)	(37,700)	-	(419,244)
Buildings and improvements	(2,335,766)	(112,362)	23,665	(2,424,463)
Machinery, vehicles and equipment	(1,634,266)	(188,634)	165,862	(1,657,038)
Infrastructure	(110,229)	(24,197)	-	(134,426)
Total accumulated depreciation	(4,461,805)	(362,893)	189,527	(4,635,171)
Total capital assets being depreciated, net	3,266,562	5,810,085	(28,184)	9,048,463
Total governmental activities capital assets, net	\$ 6,186,469	\$ 9,173,685	\$ (5,853,338)	\$ 9,506,816

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 2	\$ -	\$ -	\$ 2
<u>Capital assets being depreciated:</u>				
Buildings and improvements	2,979,451	-	-	2,979,451
Machinery, vehicles and equipment	349,469	-	-	349,469
Infrastructure	29,834,500	-	-	29,834,500
Total capital assets being depreciated	33,163,420	-	-	33,163,420
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	(2,426,595)	(74,908)	-	(2,501,503)
Machinery, vehicles and equipment	(137,235)	(27,059)	-	(164,294)
Infrastructure	(5,671,659)	(598,242)	-	(6,269,901)
Total accumulated depreciation	(8,235,489)	(700,209)	-	(8,935,698)
Total capital assets being depreciated, net	24,927,931	(700,209)	-	24,227,722
Total business-type activities capital assets, net	\$ 24,927,933	\$ (700,209)	\$ -	\$ 24,227,724

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

Governmental Activities:	
General government	\$ 105,730
Public safety	129,798
Public works	97,784
Health and human services	835
Culture and recreation	28,746
Total depreciation expense - governmental activities	\$ 362,893
Business-Type Activities:	
Sewer	\$ 610,288
Water	89,921
Total depreciation expense - business-type activities	\$ 700,209

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2017 are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Town Hall Repairs	Nonmajor Governmental Funds	Sewer Enterprise Fund	Water Enterprise Fund	
General Fund	\$ -	\$ -	\$ 57,520	\$ 348,911	\$ 91,453	\$ 497,884 (1)
Conomo Point	-	175,000	-	-	-	175,000 (2)
Nonmajor Governmental Funds	98,274	-	-	-	-	98,274 (3)
Sewer Enterprise Fund	20,000	-	-	-	-	20,000 (4)
	<u>\$ 118,274</u>	<u>\$ 175,000</u>	<u>\$ 57,520</u>	<u>\$ 348,911</u>	<u>\$ 91,453</u>	<u>\$ 791,158</u>

(1) Represents budgeted transfers for sewer enterprise fund for debt service (\$328,911), water enterprise fund for debt service (\$12,653) and capital purposes (\$35,000), bicentennial celebration special revenue fund (\$15,000) for the bicentennial celebration, and cemetery lot sale permanent fund (\$5,700) for cemetery lot sales. Also represents budgeted reserve fund transfers to the water enterprise fund for capital purposes (\$35,000) and sick buyback (\$8,800), and to the sewer enterprise fund for unanticipated repairs (\$20,000). Also represents the return of unspent balances of appropriations to the ambulance special revenue (\$19,532), cemetery lots care permanent (\$5,068), and wetlands protection special revenue (\$2,252) funds. Also represents a supplemental transfer to the bicentennial celebration special revenue fund (\$5,000), and a transfer of boat excise tax receipts to the water ways special revenue fund (\$4,968).

(2) Represents budgeted transfers to the Town Hall Repairs capital projects fund to supplement capital expenditures.

(3) Represents budgeted transfers from the Ambulance special revenue (\$50,000), septic betterments special revenue (\$26,194), cemetery lots care permanent (\$12,380), cemetery lots sale permanent (\$5,700), and wetlands protection special revenue (\$4,000) funds to supplement the operating budget.

(4) Represents returns of unspent reserve fund transfers from the Sewer enterprise fund.

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, 2017

NOTE 7 SHORT-TERM FINANCING (CONTINUED)

Details related to the short-term debt activity for the fiscal year ended June 30, 2017, is as follows:

Type	Purpose	Origination Date	Maturity Date	Rate %	Balance at June 30, 2016	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2017
BAN	Permanent Water Loan	7/31/15	7/29/16	0.65%	\$ 101,000	\$ -	\$ (101,000)	\$ -
BAN	Permanent Water Loan	7/29/16	7/28/17	0.85%	-	89,000	-	89,000
Total					<u>\$ 101,000</u>	<u>\$ 89,000</u>	<u>\$ (101,000)</u>	<u>\$ 89,000</u>

Subsequent Event

On July 28, 2017, the Town repaid \$12,000 of the Permanent Water Loan BAN with available funds and renewed the BAN in the amount of \$77,000, at an interest rate of 1.30% and maturity date of July 27, 2018.

NOTE 8 LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the year ended June 30, 2017:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Current Portion
Governmental Activities:					
Bonds and notes payable	\$ 794,631	\$ -	\$ (98,894)	\$ 695,737	\$ 86,194
Unamortized bond premium	25,962	-	(3,245)	22,717	3,245
Total bonds and notes payable	<u>820,593</u>	<u>-</u>	<u>(102,139)</u>	<u>718,454</u>	<u>89,439</u>
Capital lease obligations	22,205	120,193	(50,296)	92,102	29,710
Net OPEB obligation	1,388,750	291,329	(93,999)	1,586,080	-
Net Pension Liability	5,083,512	480,299	-	5,563,811	-
Compensated absences	178,708	4,887	(11,598)	171,997	17,200
Total	<u>\$ 7,493,768</u>	<u>\$ 896,708</u>	<u>\$ (258,032)</u>	<u>\$ 8,132,444</u>	<u>\$ 136,349</u>
	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Current Portion
Business-type Activities:					
Bonds and notes payable	\$ 12,719,839	\$ -	\$ (1,360,049)	\$ 11,359,790	\$ 1,380,049
Net OPEB obligation	287,588	95,178	(35,346)	347,420	-
Net Pension Liability	1,064,053	15,305	-	1,079,358	-
Compensated absences	50,048	1,660	-	51,708	5,171
Total	<u>\$ 14,121,528</u>	<u>\$ 112,143</u>	<u>\$ (1,395,395)</u>	<u>\$ 12,838,276</u>	<u>\$ 1,385,220</u>

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

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 LONG-TERM DEBT

Bonds and Notes Payable – Governmental Funds

Details related to the outstanding indebtedness at June 30, 2017 and the debt service requirements are as follows:

<u>Project</u>	<u>Maturity Date</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2017</u>
MCWT - Title V Loan	8/1/19	5.33	\$ 21,336	\$ -	\$ (5,334)	\$ 16,002
MCWT - Title V Loan	8/1/22	4.90	13,826	-	(1,962)	11,864
MCWT - Title V Loan	7/15/25	0.00	100,000	-	(10,000)	90,000
MCWT - Title V Loan	7/15/27	0.00	106,769	-	(8,898)	97,871
State House Note - DPW Barn	2/1/17	3.10	12,700	-	(12,700)	-
Building Remodeling - Town Hall	8/15/24	2.07	540,000	-	(60,000)	480,000
Total			\$ <u>794,631</u>	\$ <u>-</u>	\$ <u>(98,894)</u>	\$ <u>695,737</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>8,897</u>	<u>-</u>	<u>8,897</u>
Total	\$ <u>695,737</u>	\$ <u>53,236</u>	\$ <u>748,973</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds Payable – Water Enterprise Fund

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
Refunding Water Treatment Facility	8/15/20	2.00%	\$ 102,000	\$ -	\$ (21,000)	\$ 81,000
Refunding Water	8/15/24	2.00 - 3.00%	92,000	-	(11,000)	81,000
Total			<u>\$ 194,000</u>	<u>\$ -</u>	<u>\$ (32,000)</u>	<u>\$ 162,000</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
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	<u>9,000</u>	<u>135</u>	<u>9,135</u>
Total	<u>\$ 162,000</u>	<u>\$ 18,985</u>	<u>\$ 180,985</u>

Bonds and Notes Payable – Sewer Enterprise Fund

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
MCWT	8/1/23	4.43	\$ 2,130,000	\$ -	\$ (240,000)	\$ 1,890,000
MCWT	8/1/23	4.43	2,635,000	-	(295,000)	2,340,000
MCWT	8/1/23	4.43	1,180,000	-	(130,000)	1,050,000
MCWT	7/15/25	0.00	4,824,868	-	(482,486)	4,342,382
MCWT	7/20/26	0.00	613,474	-	(55,771)	557,703
MCWT	7/15/27	0.00	441,497	-	(36,792)	404,705
Refunding Sewer	8/15/24	2.00 - 3.00	<u>701,000</u>	<u>-</u>	<u>(88,000)</u>	<u>613,000</u>
Total			<u>\$ 12,525,839</u>	<u>\$ -</u>	<u>\$ (1,328,049)</u>	<u>\$ 11,197,790</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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>
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	85,506	1,545,554
2025	646,048	42,365	688,413
2026	575,048	20,650	595,698
2027	92,561	-	92,561
2028	36,791	-	36,791
Total	\$ <u>11,197,790</u>	\$ <u>1,948,860</u>	\$ <u>13,146,650</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 2017, the Town's subsidy totaled approximately \$568,000. Future subsidies total approximately \$3,010,000. The amount of MCWT bonds outstanding at June 30, 2017, totaled \$10,800,527.

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, 2017, the Town had \$1,000,000 authorized and unissued long-term debt for Title V septic repairs.

NOTE 10 CAPITAL LEASES

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

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 CAPITAL LEASES (CONTINUED)

The following schedule present future minimum lease payments as of June 30, 2017:

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2018	\$ 32,739
2019	32,739
2020	<u>32,741</u>
Total minimum lease payments	98,219
Less: amounts representing interest	<u>(6,117)</u>
Present value of minimum lease payments	<u>\$ 92,102</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	\$ 186,398
Less: accumulated amortization	<u>(28,570)</u>
Total	<u>\$ 157,828</u>

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

NOTE 11 OTHER POST EMPLOYMENT BENEFITS

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

The number of participants as of July 1, 2016, the latest actuarial valuation, is as follows:

Active employees	30
Retired employees	<u>26</u>
Total	<u>56</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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:

Annual required contribution	\$ 335,074
Interest on net OPEB obligation	67,052
Adjustment to annual required contribution	(93,215)
Amortization of actuarial (gains)/losses	<u>77,596</u>
Annual OPEB cost	386,507
Contributions made	<u>(129,345)</u>
Increase in net OPEB obligation	257,162
Net OPEB obligation at beginning of year	<u>1,676,338</u>
Net OPEB obligation at end of year	<u><u>\$ 1,933,500</u></u>

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2015	355,181	25.8%	1,378,183
June 30, 2016	374,018	20.3%	1,676,338
June 30, 2017	386,507	33.5%	1,933,500

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress – The funded status of the Plan at July 1, 2016, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/16	\$ -	\$ 4,319,642	\$ 4,319,642	0.00%	\$ 2,779,588	155.41%

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, 2017**

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, 2016
Actuarial cost method:	Individual Entry Age Normal Actuarial Cost Method
Amortization method:	Level dollar amortization over 30 years
Remaining amortization period:	21 years at July 1, 2016 (closed)
Interest discount rate:	4.00%
Healthcare/Medical cost trend rate:	5.00% annually
Projected salary increases:	3.00% annually
Pre-Retirement Mortality Rates:	Represented by the RP-2000 Employees Mortality Table projected generationally with scale BB and base year 2009.
Post-Retirement Mortality Rates:	Represented by the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and base year 2009.
Disabled Mortality Rates:	Represented by the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and base year 2012.

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

Governmental Activities:	
General government	\$ 55,712
Public safety	125,736
Public works	80,035
Health and human services	19,239
Culture and recreation	10,607
	<hr/>
Total AOPEBC - governmental activities	291,329
Business-Type Activities:	
Water	66,040
Sewer	29,138
	<hr/>
Total AOPEBC - business-type activities	95,178
	<hr/>
Total AOPEBC	\$ 386,507
	<hr/>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 FUND BALANCES

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

	General	Conomo Point	Town Hall Repairs	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Permanent fund principal	\$ -	\$ -	\$ -	\$ 221,979	\$ 221,979
Restricted for:					
Municipal insurance	25,090	-	-	-	25,090
Loans	-	-	-	126,101	126,101
Ambulance	-	-	-	284,477	284,477
General government	-	-	-	82,840	82,840
Public safety	-	-	-	48,783	48,783
Public works	-	-	-	259,193	259,193
Health and human services	-	-	-	21,406	21,406
Culture and recreation	-	-	-	53,421	53,421
Community preservation	-	-	-	258,606	258,606
Capital purposes	-	7,576,460	44,029	175,632	7,796,121
Other postemployment benefits	451,417	-	-	-	451,417
Sub-total - Restricted	476,507	7,576,460	44,029	1,310,459	9,407,455
Committed to:					
Subsequent year's expenditures	200,000	-	-	-	200,000
Continuing appropriations	520,733	-	-	-	520,733
Capital stabilization	108,242	-	-	-	108,242
Sub-total - Committed	828,975	-	-	-	828,975
Assigned to:					
General government	9,014	-	-	-	9,014
Public safety	8,358	-	-	-	8,358
Public works	3,581	-	-	-	3,581
Health and human services	4,915	-	-	-	4,915
Sub-total - Assigned	25,868	-	-	-	25,868
Unassigned	2,193,601	-	-	-	2,193,601
	<u>\$ 3,524,951</u>	<u>\$ 7,576,460</u>	<u>\$ 44,029</u>	<u>\$ 1,532,438</u>	<u>\$ 12,677,878</u>

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 total \$711,228, \$36,081, \$36,081 and \$36,080, 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, 2017, this fund had a balance of \$25,090, which is reported in the general fund as restricted fund balance.

NOTE 15 OPERATING LEASES (RENTAL INCOME)

The Town leases land to property owners within the Conomo Point area of the Town. Subsequent to the end of the 5th year annual bridge lease term, long-term (20-year) leases commenced on January 1, 2017. For the year ended June 30, 2017, the Town received \$490,874 in rental income, which is reported in the general fund as lease revenue.

Future rental revenues are expected to total \$8,650,844; which represents the total calendar year 2017 annual rents of \$443,633 multiplied by the remaining lives of the 20-year lease agreements (19.5 years) as of June 30, 2017. Rents will be adjusted annually based upon the consumer price index which is currently undefined for calendar year 2018.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 16 PENSION PLAN – ESSEX REGIONAL RETIREMENT SYSTEM

General Information about the Pension Plan

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

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

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

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

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

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

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

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

Contributions. Chapter 32 of the MGL assigns authority to establish and amend contribution requirements of the plan. Employers are required to pay an actuarially determined annual appropriation. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the plan's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The pension fund appropriations are allocated amongst employers based on covered payroll. Active member employees contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of \$30,000. Contributions to the pension plan from the Town were \$499,581 for the year ended June 30, 2017.

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

At June 30, 2017, the Town reported a liability of \$6,643,169 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 for which update procedures were used to roll forward the total pension liability to the December 31, 2016 measurement date. The Town proportion of the net pension liability is a blended rate of the proportionate share of active employer's covered payroll and direct charges for early retirement incentives. At June 30, 2017, the Town's proportion was 1.724 percent, which compared to a proportion of 1.692 percent at June 30, 2016.

For the year ended June 30, 2017, the Town recognized pension expense of \$792,062. At June 30, 2017, the Town reported deferred outflows of resources related to pensions of \$672,317 from the net difference between projected and actual investment earnings on plan investments (\$291,003), changes of assumptions (\$281,544), and the changes in proportion and differences employer contributions and proportionate share of contributions (\$99,770). At June 30, 2017, the Town reported deferred inflows of resources related to pensions of \$119,633 related to the difference between expected and actual experience.

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

<u>Year Ended June 30</u>	
2018	\$ 155,103
2019	155,103
2020	161,417
2021	69,351
2022	<u>11,710</u>
Totals	<u><u>\$ 552,684</u></u>

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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

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

Salary increases	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:	<p>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.</p> <p>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.</p>
Investment rate of return:	7.75%, net of pension plan investment expense.
Cost of living adjustments:	3.0% of the first \$13,000 of a member's retirement allowance is assumed to be granted every year.
Rates of retirement:	Varies based upon age for general employees, police and fire employees
Rates of disability:	Disability is assumed to be 45% ordinary and 55% accidental for Group 1 and Group 2 and 10% ordinary and 90% accidental for Group 4.

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2014 to December 31, 2015, and applied to all periods included in this measurement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Core Bonds	5.00%	4.00%
20+ Year Treasuries	5.00%	3.75%
TIPS	3.00%	3.75%
High Yield Bonds	1.50%	5.75%
Bank Loans	1.50%	6.00%
EMD (External)	1.00%	5.75%
EMD (Local Currency)	2.00%	6.50%
Private Debt	4.00%	9.06%
Large Cap Equities	14.50%	7.50%
Mid/Small Cap Equities	3.50%	7.75%
International Equities	16.00%	7.83%
Emerging Market Equities	6.00%	9.61%
Private Equity	10.00%	9.50%
Real Estate	10.00%	6.50%
Timber/Natural Resources	4.00%	6.00%
Hedge Funds and Portfolio Completion	13.00%	6.48%
Totals	<u>100.00%</u>	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Town's Proportionate Share of the Net Pension Liability	\$ 8,142,336	\$ 6,643,169	\$ 5,534,045

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

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 17 CONTINGENCIES

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2017, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2017.

NOTE 18 COMMITMENTS

Significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$546,601 at June 30, 2017. The Town has entered into, or is planning to enter into, agreements for capital projects totaling approximately \$1,000,000.

NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2018. The implementation of the Statement, among other things, will require the Town, for the first time, to record the entire other postemployment benefits liability in the statements of net position.
- Statement No. 81, *Irrevocable Split-Interest Agreements*, 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. 83, *Certain Asset Retirement Obligations*, which is required to be implemented during fiscal year 2019. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 84, *Fiduciary Activities*, which is required to be implemented during fiscal year 2020. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 85, *Omnibus 2017*, which is required to be implemented during fiscal year 2018. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 86, *Certain Debt Extinguishment Issues*, which is required to be implemented during fiscal year 2018. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 87, *Leases*, which is required to be implemented during fiscal year 2021. Management is currently evaluating the Statement's impact on the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

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, 2017

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real Estate and Personal Property Taxes	\$ -	\$ 12,439,962	\$ -	\$ 12,439,962
Motor Vehicle and Other Excise Taxes	-	804,000	-	804,000
Hotel/Motel Tax	-	9,000	-	9,000
Tax Liens	-	-	-	-
Payments in Lieu of Taxes	-	-	-	-
Charges for Services	-	150,000	-	150,000
Intergovernmental	-	282,067	-	282,067
Penalties and Interest on Taxes	-	29,000	-	29,000
Licenses and Permits	-	250,000	-	250,000
Fines and Forfeitures	-	10,000	-	10,000
Lease Revenue	-	420,000	-	420,000
Departmental and Other	-	39,000	-	39,000
Investment Income	-	25,000	-	25,000
Total Revenues	-	14,458,029	-	14,458,029
EXPENDITURES				
Current:				
General Government	250,738	1,455,385	188,238	1,643,623
Public Safety	37,805	1,736,933	197,500	1,934,433
Education	-	8,622,145	-	8,622,145
Public Works	75,500	1,103,789	14,000	1,117,789
Health and Human Services	-	327,965	20,000	347,965
Culture and Recreation	-	140,762	6,200	146,962
Pension Benefits	-	439,138	-	439,138
Employee Benefits	-	727,875	-	727,875
Property and Liability Insurance	-	108,104	-	108,104
State and County Charges	-	90,039	-	90,039
Debt Service:				
Principal	-	98,894	-	98,894
Interest	-	27,394	-	27,394
Total Expenditures	364,043	14,878,423	425,938	15,304,361
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(364,043)	(420,394)	(425,938)	(846,332)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	98,274	-	98,274
Transfers Out	-	(352,264)	(318,800)	(671,064)
Total Other Financing Sources (Uses)	-	(253,990)	(318,800)	(572,790)
NET CHANGE IN FUND BALANCE	(364,043)	(674,384)	(744,738)	(1,419,122)
Fund Balance - Beginning of Year	2,059,862	2,059,862	2,059,862	2,059,862
FUND BALANCE - END OF YEAR	\$ 1,695,819	\$ 1,385,478	\$ 1,315,124	\$ 640,740

See Accompanying Independent Auditor's Report.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 12,362,930	\$ -	\$ 12,362,930	\$ (77,032)
893,008	-	893,008	89,008
13,721	-	13,721	4,721
61,615	-	61,615	61,615
14,328	-	14,328	14,328
162,720	-	162,720	12,720
281,620	-	281,620	(447)
43,620	-	43,620	14,620
190,947	-	190,947	(59,053)
10,758	-	10,758	758
490,874	-	490,874	70,874
188,626	-	188,626	149,626
56,280	-	56,280	31,280
<u>14,771,047</u>	<u>-</u>	<u>14,771,047</u>	<u>313,018</u>
1,188,007	203,216	1,391,223	252,400
1,664,008	148,630	1,812,638	121,795
8,467,184	147,959	8,615,143	7,002
1,058,418	3,581	1,061,999	55,790
273,794	43,215	317,009	30,956
134,912	-	134,912	12,050
424,644	-	424,644	14,494
536,441	-	536,441	191,434
99,900	-	99,900	8,204
88,659	-	88,659	1,380
98,894	-	98,894	-
12,394	-	12,394	15,000
<u>14,047,255</u>	<u>546,601</u>	<u>14,593,856</u>	<u>710,505</u>
<u>723,792</u>	<u>(546,601)</u>	<u>177,191</u>	<u>1,023,523</u>
118,274	-	118,274	20,000
<u>(707,884)</u>	<u>-</u>	<u>(707,884)</u>	<u>(36,820)</u>
<u>(589,610)</u>	<u>-</u>	<u>(589,610)</u>	<u>(16,820)</u>
134,182	(546,601)	(412,419)	1,006,703
<u>2,059,862</u>	<u>-</u>	<u>2,059,862</u>	<u>-</u>
<u>\$ 2,194,044</u>	<u>\$ (546,601)</u>	<u>\$ 1,647,443</u>	<u>\$ 1,006,703</u>

**TOWN OF ESSEX, MASSACHUSETTS
PENSION PLAN SCHEDULES
JUNE 30, 2017**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	1.724%	1.692%	1.672%
Town's proportionate share of the net pension liability	6,643,169	6,147,565	5,672,204
Town's covered-employee payroll	2,264,722	2,231,674	2,146,894
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	293.33%	275.47%	264.21%
Plan fiduciary net position as a percentage of the total pension liability	51.12%	51.01%	52.27%

(1) Amounts presented were determined as of December 31 of the fiscal year.

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

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

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

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

**TOWN OF ESSEX, MASSACHUSETTS
OTHER POSTEMPLOYMENT BENEFITS SCHEDULE
JUNE 30, 2017**

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)	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)
07/01/16	\$ -	\$ 4,319,642	\$ 4,319,642	0.0%	\$ 2,779,588	155.41%
07/01/13	-	3,095,454	3,095,454	0.0%	2,758,632	112.21%
07/01/10	-	3,513,659	3,513,659	0.0%	2,794,869	125.72%

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

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 change of the actuarial cost method from projected unit credit to entry age normal in the July 1, 2016 actuarial valuation.

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE A BUDGETARY – GAAP RECONCILIATION

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2017 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	\$ 14,771,047	\$ 14,593,856	\$ (589,610)	\$ 1,647,443
<u>Adjustments and reclassifications:</u>				
Net Change in Recording 60-Day Receipts	(32,047)	-	-	34,930
To record Encumbrances and Continuing Appropriations	-	(546,601)	-	546,601
To record Capital Lease	-	120,193	120,193	-
To Reclassify the Activity of the Stabilization Funds to the General Fund	3,646	-	85,000	819,470
To Reclassify the Activity of the Municipal Building Trust Fund to the General Fund	36	-	-	25,090
To Reclassify the Activity of the OPEB Trust Fund to the General Fund	30,115	-	125,000	451,417
	<u>30,115</u>	<u>-</u>	<u>125,000</u>	<u>451,417</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances	\$ <u>14,772,797</u>	\$ <u>14,167,448</u>	\$ <u>(259,417)</u>	\$ <u>3,524,951</u>