

**Town of Essex, Vermont**  
**BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen  
Town of Essex, Vermont  
Essex, Vermont

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 Town of Essex, Vermont as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Essex, Vermont. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Vermont, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2009 on our consideration of the Town of Essex, Vermont's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Selectmen  
Town of Essex, Vermont  
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Essex, Vermont's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Town of Essex, Vermont. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kittell Branagan & Sargent*

St. Albans, Vermont  
January 24, 2009

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2008

The following is a discussion and analysis of the Town of Essex's financial performance, including an overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2008. Readers should consider this information in conjunction with the financial statements, which are located after this analysis. The Town implemented the new reporting standard, GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments during FY 2004. This discussion and analysis provides comparisons between FY 2008 and FY 2007.

## FINANCIAL HIGHLIGHTS

### Government-wide Highlights

The Town's assets exceeded its liabilities at June 30, 2008, by \$25,033,958 compared to \$23,998,752 at June 30, 2007. This represents an increase of \$1,035,206 or 4.4%. The change in net assets for fiscal year 2007 was \$404,711. The 2008 increase was an increase of \$630,495 over the 2007 increase.

### Fund Highlights

At the end of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$3,290,563, an increase of \$984,924 when compared with \$2,305,639 for the prior year. Of the total fund balance, \$2,102,419 represents amounts reserved or designated for specific purposes, such as reappraisal, and various capital projects. The remaining \$1,188,144 represents unreserved fund balance, including \$815,724 in the General Fund and \$372,420 in the Capital Projects Fund.

Included in the unreserved total of \$815,724, in the General Fund, is \$225,000 that has been designated for tax relief in FYE 2009. This use of Fund Balance in FYE 2009 resulted in a reduction to the final tax rate of one penny. Also included in the unreserved Fund Balance is \$55,000 that has been designated by the Selectboard for future Storm-water facilities. The construction of certain facilities did not occur in FYE 2008 as planned but will be completed in the current or next year.

### Long-term Debt

The Town's total debt, including accrued compensated absences, decreased during the fiscal year to \$1,347,701, a decrease of \$189,928 or 12.4%. More detailed information regarding these activities begins on page 18. (See Notes 4, 5 and 6)

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Town's financial statements consist of three sections; 1) Management's Discussion and Analysis 2) Basic Financial Statements; and 3) Required Supplementary Information

- **Management's Discussion and Analysis** - An introduction to the basic financial statements that is intended to be an easily read analysis of the Town's financial activities based on currently known facts, decisions or conditions.
- **Basic Financial Statements** - This section of the report includes government-wide financial statements, fund financial statements, and notes to the financial statements.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2008

- **Required Supplementary Information** - This section of the report includes financial information that is not part of the basic financial statements but is required by accounting principles generally accepted in the United States of America (GAAP). It is comprised of the budgetary comparison schedule for the general fund.

### **Government-wide 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 statements provide both short-term and long-term information about the Town's financial position, which helps readers determine whether the Town's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the full accrual basis of accounting. This means that all revenue and expenditures are reflected in the financial statements even if the related cash has not been received or paid as of June 30.

- **Statement of Net Assets** - This statement presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Town is improving or deteriorating.
- **Statement of Activities** - This statement presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

### **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 the Town's funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 5 and provide detailed information about the major individual funds.

- **Governmental Funds** - Most of the basic services provided by the Town are reported in the governmental funds. These statements provide a detailed, short-term view of the functions reported as governmental activities in the government-wide financial statements. The government-wide financial statements are reported using the full accrual basis of accounting, but the governmental fund financial statements are reported using the modified accrual basis of accounting. This allows the reader to focus on assets that can be readily converted to cash and determine whether there are adequate resources to meet the Town's current needs.

The Town reports two (2) individual governmental funds. Information is presented separately in the governmental fund statements for the General Fund and the Capital Projects Fund.

- **Proprietary fund** – The Proprietary fund provides water and sewer service for which the Town charges customers a fee and operates like a commercial business. The Proprietary fund provides the same type of information as the Government-wide financial statements only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for the business-type activity and the proprietary fund financial statements.

Town of Essex, Vermont  
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- **Fiduciary funds** - These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statement because the resources of these funds are restricted and cannot be used to finance the Town's operations. The Town's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 11. The Town's fiduciary fund is the Agency – Escheat and Developer's Escrow Fund and the Cemetery Trust Fund.

### **Reconciliation of Government-wide Financial Statements to Fund Financial Statements**

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Because the focus of governmental funds is more limited 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. This comparison can help readers better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures in the fund financial statements.
- Bond proceeds provide current financial resources on the fund financial statement, but are recorded as long-term liabilities in the government-wide financial statements.

### **FINANCIAL ANALYSIS**

#### **Financial Analysis of Government-wide Financial Statements**

The Town's combined assets exceeded its liabilities by \$25,033,958 at the end of the fiscal year.



Town of Essex, Vermont  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**Net Assets as of June 30, 2008 & 2007**

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Current and other assets	\$ 4,202,472	\$ 5,136,671	\$ 382,835	\$ 461,265	\$ 4,585,307	\$ 5,597,936
Capital assets	<u>16,100,368</u>	<u>15,764,493</u>	<u>6,867,182</u>	<u>6,811,192</u>	<u>22,967,550</u>	<u>22,575,685</u>
<b>Total Assets</b>	<b><u>\$20,302,840</u></b>	<b><u>\$20,901,164</u></b>	<b><u>\$ 7,250,017</u></b>	<b><u>\$ 7,272,457</u></b>	<b><u>\$27,552,857</u></b>	<b><u>\$28,173,621</u></b>
<b>Long-term liabilities</b>						
outstanding	\$ 931,785	\$ 887,422	\$ 518,241	\$ 460,279	\$ 1,450,026	\$ 1,347,701
Other liabilities	<u>1,603,860</u>	<u>1,368,798</u>	<u>500,223</u>	<u>423,164</u>	<u>2,104,083</u>	<u>1,791,962</u>
<b>Total Liabilities</b>	<b><u>\$ 2,535,645</u></b>	<b><u>\$ 2,256,220</u></b>	<b><u>\$ 1,018,464</u></b>	<b><u>\$ 883,443</u></b>	<b><u>\$ 3,554,109</u></b>	<b><u>\$ 3,139,663</u></b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$15,639,068	\$15,523,494	\$ 6,397,182	\$ 6,416,192	\$22,036,250	\$21,939,686
Unrestricted	<u>2,128,127</u>	<u>3,121,450</u>	<u>(165,629)</u>	<u>(27,178)</u>	<u>1,962,498</u>	<u>3,094,272</u>
<b>Total Net Assets</b>	<b><u>\$17,767,195</u></b>	<b><u>\$18,644,944</u></b>	<b><u>\$ 6,231,553</u></b>	<b><u>\$ 6,389,014</u></b>	<b><u>\$23,998,748</u></b>	<b><u>\$25,033,958</u></b>

The largest portion of the Town's net assets (88 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, construction in progress, and infrastructure); less any related outstanding debt used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (12 percent) represents unrestricted net assets. These resources are neither restricted nor invested in capital assets.

The following condensed financial information was derived from the Government-wide Statement of Activities and provides detail regarding the change in net assets.

Town of Essex, Vermont  
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Changes in Net Assets for the Fiscal Year Ended June 30**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2008	2007	2008	2007	2008
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 637,547	\$ 738,984	\$ 1,320,377	\$ 1,589,242	\$ 1,957,924	\$ 2,328,226
Operating grants & contr.	403,970	1,089,447	135,693	182,245	539,663	1,271,692
Capital grants & contr.	386,456	5,410	-	-	386,456	5,410
Property taxes (including penalty and interest)	7,613,091	8,182,370	-	-	7,613,091	8,182,370
IBM Payment for Services	633,656	543,100	-	-	633,656	543,100
Unrestricted investment earnings	223,022	220,018	11,659	5,366	234,681	225,384
Gain on Disposal of Assets						
Other revenues	21,118	56,034	-	-	21,118	56,034
<b>TOTAL REVENUES</b>	<b>9,918,860</b>	<b>10,835,363</b>	<b>1,467,729</b>	<b>1,776,853</b>	<b>11,386,589</b>	<b>12,612,216</b>
<b>EXPENSES</b>						
Governmental activities:						
General Government	2,328,936	2,174,917	-	-	2,328,936	2,174,917
Public Safety	3,465,052	3,586,045	-	-	3,465,052	3,586,045
Highway and Streets	1,890,820	2,036,907	-	-	1,890,820	2,036,907
Health and Welfare	133,377	572,998	-	-	133,377	572,998
Culture and Recreation	1,099,598	1,187,948	-	-	1,099,598	1,187,948
Int. on long-term debt	23,062	10,961	-	-	23,062	10,961
Intergovernmental	383,735	387,839	-	-	383,735	387,839
Business-type activities:						
Water and Sewer	-	-	1,657,298	1,619,395	1,657,298	1,619,395
<b>TOTAL EXPENSES</b>	<b>9,324,580</b>	<b>9,957,615</b>	<b>1,657,298</b>	<b>1,619,395</b>	<b>10,981,878</b>	<b>11,577,010</b>
Change in net assets	594,280	877,748	(189,569)	157,458	404,711	1,035,206
Net assets - July 1,	17,172,915	17,767,196	6,421,122	6,231,556	23,594,037	23,998,752
Net assets - June 30,	\$ 17,767,195	\$ 18,644,944	\$ 6,231,553	\$ 6,389,014	\$ 23,998,748	\$ 25,033,958

Total Governmental activity expenses were \$9,957,615 and \$9,324,580 in fiscal years 2008 and 2007, respectively. Included in the increase is a \$441,000 grant for a non-profit congregate housing project. The largest expenses were incurred for general government, public safety, and Highways and Streets. The expenses do not include capital outlays, which are now reflected in Town capital assets.

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Per GASB 34, program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry. They reduce the net cost of the function to be financed from the government's general revenues. Total program revenue from governmental activities was \$1,833,841 in 2008 and \$1,427,973 in 2007. Governmental program revenues come from charges for services, which include licenses and permits, planning fees, developer fees, forfeitures, and several other revenues. Program revenues in the capital grants and contributions category include federal, state and local grants that are restricted specifically for use in specific programs, capital projects or acquisitions.

General Revenues are all other revenue not categorized as program revenues, and include property taxes, as well as unrestricted grants contributions and investment earnings. Total general revenues from governmental activities were \$9,001,522 in fiscal 2008 and \$8,490,887 in fiscal 2007. In 2007 approximately 88 percent of the Town's total general revenue came from taxes, in 2008 it was 90%.

#### **Fund Financial Statements**

The combined fund balance of the Fund Financial Statements was \$3,290,563 at June 30, 2008 and \$2,305,639 at June 30, 2007. Of the FY 2008 fund balance, \$815,724 constitutes unreserved funds in the General Fund and \$372,420 in the Capital Projects Fund, which are available for spending at the government's discretion. An amount of \$2,102,419 of the fund balance is reserved. (See note 10, page 22) for a description of the reserved funds.

The fund balance for the General Fund increased from \$478,916 in FY 2007 to \$836,770 in FY 2008. The total increase amounted to \$357,854 for the fiscal year ended June 30, 2008.

#### **General Fund Budgetary Highlights**

The fund balance of the Town's General Fund increased by \$357,854 during the current fiscal year. The reserved / designated portion of the fund balance decreased by \$154,156 from \$175,202 to \$21,046. The decrease was due to the use of funds restricted specifically for reappraisal. The unreserved portion of the fund balance increased from \$303,714 to \$815,724, an increase of \$512,010. Key factors in this change are as follows:

On the revenue side:

- Property tax revenues were less than anticipated due to an unexpected rise in delinquencies.
- License and Permit revenues exceeded expectations mainly in the area of building permits.
- Intergovernmental revenue exceeded expectations due to various grants related to governmental activities such as stormwater and planning,
- Charges for services lagged in the area of Police services, and recording of legal documents was less than expected due to rising interest rates which affected refinancings.
- Interest and Penalties on delinquent taxes exceeded expectations due to rising delinquencies.
- Increasing interest rates helped miscellaneous revenue, which includes interest, exceed expectations.

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**On the expenditure side:**

- During the year, the Selectboard authorized cuts in specific expenditures, and undesignated a portion of fund balance that had been designated for reappraisal, in order to carry a surplus of \$225,000 forward as non-tax revenue in FYE2009. This resulted in various expenses being significantly under budget.
- Lower than anticipated increases in health insurance costs kept benefits expenses under budget.
- Salaries and Benefits in the Police department were less than expected due to reductions in actual overtime incurred and unfilled vacancies in the department.
- Salaries in the Fire Department were less than expected. This was more a result of fewer responders being available for calls as opposed to fewer calls for assistance.
- Stormwater expenditures, especially in the area of facilities construction were less than expected. These expenditures are expected to be incurred in the current and future years. In recognition of this future need, the Selectboard designated \$55,000 of Fund balance for Stormwater construction.
- Debt Service expenditures exceeded budget due to the increase in grand list over the prior year. The total amount expended for Debt service is a function of the grand list times the tax rate of 1 and 1/3 pennies as authorized at the 1994 Town Meeting.
- Other expenditures were over budget in some areas including: Insurance, general supplies, gasoline for vehicles, other purchased services, and legal services.

**Capital Assets**

The following is a schedule of capital assets as of June 30, 2008 and 2007.

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2008	2007	2008	2007	2008
Land	\$ 2,763,909	\$ 2,763,909	\$ -		\$ 2,763,909	\$ 2,763,909
Buildings & Improv.	2,207,580	2,250,934	-	-	2,207,580	2,250,934
Equip. & Vehicles	4,159,221	4,130,963	246,218	246,218	4,405,439	4,377,181
Book Collection	459,726	459,726	-	-	459,726	459,726
Infrastructure	17,798,512	17,948,062	11,929,703	11,929,703	29,728,215	29,877,765
Const. in Progress	80,225	197,481	53,304	248,436	133,529	445,917
<b>Total Assets</b>	<b>27,469,173</b>	<b>27,751,075</b>	<b>12,229,225</b>	<b>12,424,357</b>	<b>39,698,398</b>	<b>40,175,432</b>
<b>Less: Accum. Depre.</b>	<b>11,368,805</b>	<b>11,986,582</b>	<b>5,362,043</b>	<b>5,613,165</b>	<b>16,730,848</b>	<b>17,599,747</b>
<b>Net Assets</b>	<b>\$16,100,368</b>	<b>\$15,764,493</b>	<b>\$ 6,867,182</b>	<b>\$ 6,811,192</b>	<b>\$22,967,550</b>	<b>\$22,575,685</b>

The Town had \$22,575,685 and \$22,967,550 invested in capital assets, net of depreciation, on June 30, 2008 and June 30, 2007, respectively. Net decrease (including additions and deductions) between the two periods amounted to \$391,865.

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Major capital asset events during the current fiscal year included the following:

- The beginning of work on sidewalks and paths along route 15 in Essex Center. The majority of these costs were funded through Federal and State grants.
- Special equipment for the Fire department such as a portable pump and nozzle in the amount of \$6,534 and improvements to the HVAC system at the fire station.
- New roller shelving for land records in the Town vault which will extend the life of the vault in terms of storage space. The total cost of \$47,275 was funded through special records preservation funds that are collected when recorded.
- Various streets and sidewalks were resurfaced or reconstructed for a total of \$133,316. These improvements included resurfacing / reconstruction of Bluestem, Button, Gardenside, Alderbrook Rd, Oakwood Ln, Tanglewood Dr, and Fern Hollow. Crosswalks, sidewalks, curbing and drainage were installed and improved at various locations throughout the Town. Some of the funds for these projects were obtained through State paving grants.
- New vehicles purchased during the year included, two police cruisers, one used unmarked cruiser, one heavy duty pickup truck for the highway department, and an SUV for the Police department that was seized from a drug dealer. The total cost for these vehicles was \$101,114. The cost of the SUV was funded from Equitable sharing money.
- A new web server and air conditioning for data processing rooms at the town offices.
- Renovations to the Police Department at 81 Main St in the amount of \$43,354 funded from Equitable sharing funds.
- New security systems at various Town buildings including a door access control system, voice logging system for police calls, and upgrades to the CCTV system for a total cost of \$37,589 funded from equitable sharing funds.
- Portable laptop computers for deployment in police cruisers totaling \$61,444 and evidence drying and storage equipment totaling \$10,835 all funded from Equitable sharing funds
- Other improvements include new playground equipment at Foster Rd park, engineering for the Sprayground at the Town pool, construction of the new Columbarium at Mountain View Cemetery, and various improvements at the Town Highway garage.
- Continued work on Susie Wilson Road including new traffic signals at the David Drive intersection. Funding for this project is a combination of grants, developer contributions, and Town funds.

**Debt**

At the end of the fiscal year, the Town had \$638,892 in long-term debt outstanding compared to \$931,300 in the prior year, an approximate 31% decrease. A list of outstanding long-term debt follows:

**Economic Factors and Fiscal Year 2008 Budget**

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Notes Payable	\$ 264,350	\$ 132,000	\$ -	\$ -	\$ 264,350	\$ 132,000
Bonds Payable	125,000	60,000	470,000	395,000	595,000	455,000
Capital Lease Oblig.	71,950	51,892	-	-	71,950	51,892
<b>TOTAL</b>	<b>\$ 461,300</b>	<b>\$ 243,892</b>	<b>\$ 470,000</b>	<b>\$ 395,000</b>	<b>\$ 931,300</b>	<b>\$ 638,892</b>

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- FY 2008 was the first year after the Town completed its State mandated reappraisal. As a result the taxable grand list for the Town of Essex, Vermont increased 72% over the previous year to a total of \$22.5 million. Residential properties increased in total by approximately 95% while commercial properties increased by only 50% and IBM decreased by 30%.
- As a result of the reappraisal and it's tax burden shift away from businesses (especially IBM) and onto the residential taxpayer, the Selectboard authorized cuts to FY2008 spending to create a surplus that could be carried into FY2009 as a revenue source and alleviate the increase in property tax revenues. This action resulted in a FY2009 tax rate that was one penny less than would have been necessary without the cuts.
- The final cost of the reappraisal was covered completely from State funds that were collected in prior years specifically for that purpose. As a result, \$150,000 of Fund Balance that had been designated by the Board, in prior years for reappraisal, was undesignated and added to unreserved / undesignated Fund Balance. \$100,000 of this amount was used in conjunction with \$125,000 of expenditure cuts to provide \$225,000 of tax relief on the FY2009 tax bill.
- The rate of increase in prices of liability and workers compensation insurance, and the price of fuel oil products has grown faster than general inflationary trends.
- The Town continues to lose revenue every year as a result of the agreement with IBM when Machinery and Equipment taxes were phased out. The annual loss of revenue will be \$87,000 per year from FY 2008 through FY 2014 when the subsidy from IBM will be zero.

All of these factors were considered in preparing the Town of Essex's budget for the 2009 fiscal year. The FY 2009 total operating budget is \$9,437,138. The FY 2008 total operating budget was \$9,151,523. The increase is \$285,685 or 3.1% over the previous year. There is an increase of \$91,996 (1.4%) in the amount to be raised by taxes. The reason for the small increase in the amount to be raised by taxes is due to the use of \$225,000 of Fund balance as a revenue source in FY2009 as mentioned above. Without the use of \$225,000 the resulting tax rate for FY2009 would have been one penny higher than it was.

Rates for water and wastewater operations were increased in fiscal year 2008 in response to increased costs for water purchases and wastewater treatment. Other factors, such as fewer new connections than anticipated and reduced usage by large commercial customers have contributed to a deficit cash position in the Water / Sewer Fund. This deficit position is being addressed in the preparation of operating budgets and rates for future periods. The new rates along with better metering of wastewater flows to the Village treatment plant resulted in an operating surplus for FY2008 and helped reduce the fund's cash overdraft thereby reducing interest expense on borrowed funds.

#### **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all of its citizens, taxpayers, customers and creditors. Questions concerning any of the information provided in the report or requests for additional information should be sent to the following address:

Town of Essex  
81 Main Street  
Essex Jct., VT 05452

Town of Essex, Vermont  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**STATEMENT OF NET ASSETS**  
June 30, 2008

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 3,956,336	\$ -	\$ 3,956,336
Taxes receivable, net of allowance	549,111	-	549,111
Accounts receivables - other	32,648	360,113	392,761
Due from other funds	418,388	-	418,388
Prepaid expenses	180,188	5,764	185,952
<b>TOTAL CURRENT ASSETS</b>	<b>5,136,671</b>	<b>365,877</b>	<b>5,502,548</b>
 <b>NOTES RECEIVABLE</b>	 -	 95,388	 95,388
 <b>CAPITAL ASSETS, net</b>	 15,764,493	 6,811,192	 22,575,685
<b>TOTAL ASSETS</b>	<b>\$ 20,901,164</b>	<b>\$ 7,272,457</b>	<b>\$ 28,173,621</b>
 <b><u>LIABILITIES AND NET ASSETS</u></b>			
<b>CURRENT LIABILITIES</b>			
Cash overdraft	\$ -	\$ 412,391	\$ 412,391
Accounts payable	534,948	-	534,948
Due to other funds	-	-	-
Accrued payroll	160,533	9,398	169,931
Deferred revenue	664,944	-	664,944
Exchange	2,710	-	2,710
Other accrued expenses	5,663	1,375	7,038
Current portion notes and bonds payable	162,000	75,000	237,000
Current portion capital leases payable	25,946	-	25,946
Current portion of compensated absences	26,001	-	26,001
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,582,745</b>	<b>498,164</b>	<b>2,080,909</b>
 <b>LONG-TERM LIABILITIES</b>			
Accrued compensated absences	620,422	65,279	685,701
Capital leases payable	23,053	-	23,053
Notes and bonds payable	30,000	320,000	350,000
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>673,475</b>	<b>385,279</b>	<b>1,058,754</b>
<b>TOTAL LIABILITIES</b>	<b>2,256,220</b>	<b>883,443</b>	<b>3,139,663</b>
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt	15,523,494	6,416,192	21,939,686
Unrestricted	3,121,450	(27,178)	3,094,272
<b>NET ASSETS</b>	<b>18,644,944</b>	<b>6,389,014</b>	<b>25,033,958</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 20,901,164</b>	<b>\$ 7,272,457</b>	<b>\$ 28,173,621</b>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2008

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		<u>Total</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Revenues</u>	<u>Capital Grants and Revenues</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>
<b>Functions/Programs</b>							
<b>Governmental activities</b>							
General government	\$ 2,174,917	\$ 293,268	\$ 131,256	\$ -	\$ (1,750,393)	\$ -	\$ (1,750,393)
Public safety	3,586,045	93,386	534,551	-	(2,958,108)	-	(2,958,108)
Highways and Streets	2,036,907	57,112	(14,638)	5,410	(1,989,023)	-	(1,989,023)
Health and Welfare	572,998	5,155	440,843	-	(127,000)	-	(127,000)
Culture and Recreation	1,187,948	290,063	(2,565)	-	(900,450)	-	(900,450)
Intergovernmental	387,839	-	-	-	(387,839)	-	(387,839)
Interest on long-term debt	10,961	-	-	-	(10,961)	-	(10,961)
<b>Total governmental activities</b>	<b>9,957,615</b>	<b>738,984</b>	<b>1,089,447</b>	<b>5,410</b>	<b>(8,123,774)</b>	<b>-</b>	<b>(8,123,774)</b>
<b>Business-type activities:</b>							
Water and Sewer	1,619,395	1,589,242	182,245	-	-	152,092	152,092
<b>General Revenues:</b>							
Property taxes, levied for general purposes					8,126,682	-	8,126,682
Penalties and interest on delinquent taxes					55,688	-	55,688
IBM payment for services					543,100	-	543,100
Unrestricted investment earnings					220,018	5,366	225,384
Miscellaneous					56,034	-	56,034
<b>Total general revenues and transfers</b>					<b>9,001,522</b>	<b>5,366</b>	<b>9,006,888</b>
<b>Change in Net Assets</b>					<b>877,748</b>	<b>157,458</b>	<b>1,035,206</b>
<b>Net assets, beginning</b>					<b>17,767,196</b>	<b>6,231,556</b>	<b>23,998,752</b>
<b>Net assets, ending</b>					<b>\$ 18,644,944</b>	<b>\$ 6,389,014</b>	<b>\$ 25,033,958</b>

See Accompanying Notes to Basic Financial Statements.



Town of Essex, Vermont  
**FUND FINANCIAL STATEMENTS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
June 30, 2008

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash	\$ 1,925,876	\$ 2,448,848	\$ 4,374,724
Taxes receivable, net of allowance	66,138	-	66,138
Other receivables	27,703	4,945	32,648
Prepaid expenses	<u>180,188</u>	<u>-</u>	<u>180,188</u>
 TOTAL ASSETS	 <u>\$ 2,199,905</u>	 <u>\$ 2,453,793</u>	 <u>\$ 4,653,698</u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 534,948	\$ -	\$ 534,948
Accrued payroll	160,533	-	160,533
Exchange	2,710	-	2,710
Deferred revenue	<u>664,944</u>	<u>-</u>	<u>664,944</u>
 TOTAL LIABILITIES	 <u>1,363,135</u>	 <u>-</u>	 <u>1,363,135</u>
 <b>FUND BALANCE</b>			
Reserved	21,046	2,081,373	2,102,419
Unreserved	<u>815,724</u>	<u>372,420</u>	<u>1,188,144</u>
 TOTAL FUND BALANCE	 <u>836,770</u>	 <u>2,453,793</u>	 <u>3,290,563</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 2,199,905</u>	 <u>\$ 2,453,793</u>	 <u>\$ 4,653,698</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2008

<b>Total fund balances - governmental funds</b>	<b>\$ 3,290,563</b>
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	15,764,493
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	
Reserve for non-current tax	482,973
 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds:	
Accrued compensated absences	(646,423)
Accrued interest on long-term debt	(5,663)
Capital lease payable	(48,999)
Notes payable	<u>(192,000)</u>
 <b>Total net assets - governmental activities</b>	 <b><u>\$ 18,644,944</u></b>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
**FUND FINANCIAL STATEMENTS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property tax	\$ 7,525,684	\$ 470,087	\$ 7,995,771
Licenses and permits	58,020	-	58,020
Intergovernmental revenues	298,444	59,693	358,137
Charges for services	1,097,789	-	1,097,789
Fines and forfeits	109,773	-	109,773
Interest income	110,764	64,984	175,748
Miscellaneous income	79,310	-	79,310
Grant income	818,893	-	818,893
<b>TOTAL REVENUES</b>	<u>10,098,677</u>	<u>594,764</u>	<u>10,693,441</u>
<b>EXPENDITURES</b>			
General government	2,027,193	226,813	2,254,006
Public safety	3,581,525	-	3,581,525
Highways and Streets	1,621,362	62,185	1,683,547
Health and Welfare	131,998	16,892	148,890
Culture and Recreation	1,038,008	64,250	1,102,258
Intergovernmental	828,839	-	828,839
Debt service	115,000	-	115,000
Interest expense	10,961	-	10,961
<b>TOTAL EXPENDITURES</b>	<u>9,354,886</u>	<u>370,140</u>	<u>9,725,026</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>743,791</u>	<u>224,624</u>	<u>968,415</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of fixed assets	16,509	-	16,509
Operating transfers In	-	402,446	402,446
Operating transfers Out	(402,446)	-	(402,446)
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<u>(385,937)</u>	<u>402,446</u>	<u>16,509</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	357,854	627,070	984,924
<b>FUND BALANCE - July 1, 2007</b>	<u>478,916</u>	<u>1,826,723</u>	<u>2,305,639</u>
<b>FUND BALANCE - June 30, 2008</b>	<u>\$ 836,770</u>	<u>\$ 2,453,793</u>	<u>\$ 3,290,563</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2008

**Net change in fund balances - governmental funds** **\$ 984,924**

Amounts reported for governmental activities in the Statement of  
Activities are different because:

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.

Depreciation Expense	(941,479)
Capital Outlay	609,970
Proceeds from Sale of Asset	(16,509)
Gain on Sale of Asset	12,144

Revenues in the statement of activities that do not provide current financial  
resources are not reported as revenues in the funds.

Increase in the reserve for non-current taxes	150,548
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Repayment of long-term debt is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the  
statement of net assets.

Long-term debt	140,350
Capital lease	22,951

Some expenses reported in the statement of activities do not require the use of  
current financial resources and therefore are not reported as expenditures in  
governmental funds.

Accrued interest on long-term debt	3,185
Accrued compensated absences	<u>(88,336)</u>

**Change in net assets of governmental activities** **\$ 877,748**

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
 June 30, 2008

	<u>Water &amp; Sewer Fund</u>
<b><u>ASSETS</u></b>	
<b>CURRENT ASSETS</b>	
Accounts receivable - net	\$ 360,113
Prepaid expenses	5,764
Notes receivable	<u>95,388</u>
<b>TOTAL CURRENT ASSETS</b>	<u>461,265</u>
<b>CAPITAL ASSETS, net</b>	<u>6,811,192</u>
<b>TOTAL ASSETS</b>	<u>\$ 7,272,457</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
<b>CURRENT LIABILITIES</b>	
Cash overdraft	\$ 412,391
Current portion long-term debt	75,000
Accrued payroll	9,398
Other accrued expenses	<u>1,375</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>498,164</u>
<b>LONG-TERM LIABILITIES</b>	
Accrued compensated absences	65,279
Notes and bonds payable	<u>320,000</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>385,279</u>
<b>TOTAL LIABILITIES</b>	<u>883,443</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,416,192
Unrestricted	<u>(27,178)</u>
<b>TOTAL NET ASSETS</b>	<u>6,389,014</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 7,272,457</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
**FUND FINANCIAL STATEMENTS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS - PROPRIETARY FUNDS**  
For the Year Ended June 30, 2008

	<u>Water &amp; Sewer Fund</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,589,242
Hookup fees	159,884
Interest and penalties on delinquents	16,500
Assessments	5,529
Miscellaneous	<u>332</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>1,771,487</b></u>
<b>OPERATING EXPENSES</b>	
Regular salaries	290,531
Overtime salaries	24,352
Group health insurance	85,728
Social security	24,108
Employee retirement	24,820
Other employee benefits	19,535
Professional services	23,695
Repair and maintenance	32,197
Rental of equipment	22
Telephone/communications	1,694
Advertising	3,031
Travel	626
Small tools and equipment	175
Supplies	627
Utilities	46,170
Uniforms	2,779
Natural gas	2,488
CWD water purchases	389,950
Insurance	11,352
Dues and fees	2,457
Machinery	13,810
Depreciation expense	251,122
Sewage treatment	<u>325,410</u>
<b>TOTAL OPERATING EXPENDITURES</b>	<u><b>1,576,679</b></u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
**FUND FINANCIAL STATEMENTS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS - PROPRIETARY FUNDS**  
For the Year Ended June 30, 2008

	<u>Water &amp; Sewer Fund</u>
INCOME FROM OPERATIONS	<u>194,808</u>
NON-OPERATING REVENUE (EXPENSE)	
Interest Income	5,366
Interest Expense	<u>(42,716)</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>(37,350)</u>
INCREASE IN NET ASSETS	157,458
NET ASSETS BEGINNING OF YEAR	<u>6,231,556</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,389,014</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
**FUND FINANCIAL STATEMENTS**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
For the Year Ended June 30, 2008

	<u>Water &amp; Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,680,015
Payments to suppliers	(839,457)
Payments for employees and benefits	<u>(469,074)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>371,484</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Net loans from general fund	-
Purchases of property, plant and equipment	(195,132)
Interest payments on debt	(42,716)
Principal payments on debt	<u>(75,000)</u>
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(312,848)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Payments received on notes receivable	13,218
Interest income	<u>5,366</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>18,584</u>
 <b>NET INCREASE IN CASH</b>	77,220
 <b>CASH OVERDRAFT - BEGINNING OF YEAR</b>	<u>(489,611)</u>
 <b>CASH - END OF YEAR</b>	<u>\$ (412,391)</u>
 <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ 194,808
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	251,122
Change in net assets and liabilities:	
Receivables, net	(91,472)
Prepaid expenses	(176)
Other accrued expense	(2,849)
Accrued payroll and compensated absences	<u>20,051</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 371,484</u>

See Accompanying Notes to Basic Financial Statements.



Town of Essex, Vermont  
**FUND FINANCIAL STATEMENTS**  
**STATEMENT OF NET ASSETS - FIDUCIARY FUND**  
June 30, 2008

	<u>Cemetery Trust Fund</u>	<u>Agency Fund</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 16,380	\$ 139,870
TOTAL ASSETS	<u>\$ 16,380</u>	<u>\$ 139,870</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>LIABILITIES</b>		
Due to other funds	\$ -	\$ -
Deferred revenue	<u>-</u>	<u>139,870</u>
TOTAL LIABILITIES	-	139,870
 <b>NET ASSETS</b>		
Restricted	<u>16,379</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 16,379</u>	<u>\$ 139,870</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
**FUND FINANCIAL STATEMENTS**  
**STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUND**  
For the Year Ended June 30, 2008

	<u>Cemetery Trust Fund</u>
<b>ADDITIONS</b>	
Sales of plots	\$ 3,125
Interest on deposits	<u>670</u>
<b>TOTAL ADDITIONS</b>	<u>3,795</u>
<b>DEDUCTIONS</b>	
Repairs and maintenance	(7,472)
Cost of burials	<u>(450)</u>
<b>TOTAL DEDUCTIONS</b>	<u>(7,922)</u>
<b>CHANGES IN NET ASSETS</b>	(4,127)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>20,506</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 16,379</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Essex, Vermont operates under a Select Board Manager form of government and provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning and general administrative services.

A. Reporting Entity

The financial statements of the Town consist only of the funds and account groups of the Town. The Town has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Town. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), and the acquisition or construction of general fixed assets (capital projects). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Fiduciary Funds are used to account for assets held by the Town as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes are recognized as revenues in the 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the Town receives cash.

The Town reports the following major governmental funds:

- \* The Capital Project Fund accounts for resources that were established to fund the Town's long-term capital budget.
- \* The General Fund is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

Private-sector standards of accounting, and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to individuals and business for fees, rental, material, supplies, or services, provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Deposits and Investments**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The Town maintains one cash account in the general fund to collect money and pay bills for all funds. When money is collected and expended, the Town records a corresponding payable or receivable to the appropriate fund. This helps manage cash and eases administrative burdens.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**E. Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., current portion of inter-fund loans) or "advances from/to other funds" (i.e., the non-current portion of inter-fund loans).

**F. Capital Assets**

General capital assets should be capitalized and recorded when all of the following criteria are met:

- (1) The asset is tangible and complete.
- (2) The asset is used in the operation of the Town's activities.
- (3) The asset has a \$5,000 or greater value and useful life over one year at the date of acquisition.

All general capital assets must be recorded at either historical cost or estimated historical cost. Assets acquired through donation will be recorded at their estimated fair market value on the date of donation. In addition to purchase price or construction cost, costs of capitalization may include incidental costs, such as bond interest and issuance cost, insurance during transit, freight, duties, title search, title registration, installation, and breaking-in costs.

The straight line depreciation method will be used over the estimated useful life of each asset.

**G. Long-term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets.

**H. Fund Equity**

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**I. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**J. Allowance for Uncollectible Accounts**

The Town provides an allowance for uncollectible accounts for the estimated losses that will be incurred in the collection of all receivables. The estimated losses are based on the judgment of management and a review of the current status of existing receivables.

**K. Operating Transfers**

Operating transfers are legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008

NOTE 2 DELINQUENT TAXES RECEIVABLE

Delinquent taxes receivable consist of:

	<u>General Fund</u>
Delinquent property taxes	\$ 457,224
Penalties on taxes receivable	31,421
Interest on taxes receivable	70,466
	559,111
Allowance for uncollectible delinquent taxes	(10,000)
	\$ 549,111

Property taxes attach as an enforceable lien on property as of September 16<sup>th</sup> and March 16<sup>th</sup>. Taxes are levied in August and payable on September 15<sup>th</sup> and March 15<sup>th</sup>. The Town bills and collects its own taxes. Town property tax revenues are recognized when levied to the extent they result in current receivables. Current receivables are defined as receivables which are due or past due, and receivable within the current period and collected no later than 60 days after the close of the current period. Taxes receivable that remain uncollected as of August 31, 2008 have been charged to the Reserve for Non-current Taxes with a corresponding decrease in current year tax revenues. The Reserve for Non-current Tax Revenues amounted to \$482,973 at June 30, 2008.

NOTE 3 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,763,909	\$ -	\$ -	\$ 2,763,909
Construction in progress	80,225	117,256	-	197,481
Total capital assets not being depreciated	2,844,134	117,256	-	2,961,390
<b>Other capital assets:</b>				
Book Collection	459,726	-	-	459,726
Building and improvements	2,207,580	43,354	-	2,250,934
Equipment	4,159,221	299,809	(328,067)	4,130,963
Infrastructure	17,798,512	149,550	-	17,948,062
Total other capital assets	24,625,039	492,713	(328,067)	24,789,685

Town of Essex, Vermont  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2008

NOTE 3 CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Book collection	(278,055)	(45,972)	-	(324,027)
Building and improvements	(1,262,384)	(41,660)	-	(1,304,044)
Equipment	(2,505,216)	(414,634)	323,702	(2,596,148)
Infrastructure	<u>(7,323,150)</u>	<u>(439,213)</u>	<u>-</u>	<u>(7,762,363)</u>
 Total accumulated depreciation	 <u>(11,368,805)</u>	 <u>(941,479)</u>	 <u>323,702</u>	 <u>(11,986,582)</u>
 Total capital assets being depreciated, net	 <u>13,256,234</u>	 <u>(448,766)</u>	 <u>(4,365)</u>	 <u>12,803,103</u>
 Governmental Activities - Capital Assets, Net	 <u>\$ 16,100,368</u>	 <u>\$ (331,510)</u>	 <u>\$ (4,365)</u>	 <u>\$ 15,764,493</u>

Depreciation expense was charged to functions, as follows:

General Government	\$ 25,809
Public Safety	251,641
Highways and Streets	549,522
Storm Water	4,793
Culture and Recreation	<u>109,714</u>
TOTAL	<u>\$ 941,479</u>

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	<u>\$ 53,304</u>	<u>\$ 195,132</u>	<u>\$ -</u>	<u>\$ 248,436</u>
Capital assets being depreciated:				
Water/sewer plant	11,929,703	-	-	11,929,703
Machinery and equipment	141,316	-	-	141,316
Vehicles	<u>104,902</u>	<u>-</u>	<u>-</u>	<u>104,902</u>
	12,175,921	-	-	12,175,921
Less accumulated depreciation for:	<u>(5,362,043)</u>	<u>(251,122)</u>	<u>-</u>	<u>(5,613,165)</u>
 Total capital assets being depreciated, net	 <u>6,813,878</u>	 <u>(251,122)</u>	 <u>-</u>	 <u>6,562,756</u>
 Business-Type Activities - Capital Assets, Net	 <u>\$ 6,867,182</u>	 <u>\$ (55,990)</u>	 <u>\$ -</u>	 <u>\$ 6,811,192</u>

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008

NOTE 3 CAPITAL ASSETS (continued)

Depreciation expense for the Business-type Activities was \$251,122 for the fiscal year ended June 30, 2008.

NOTE 4 ACCRUED COMPENSATION

At June 30, 2008, the Town had the following vested benefits earned by their employees:

Vested Compensation - Water/Sewer	\$	65,279
Vested Compensation - General		646,423
		711,702
Less: Current Portion		(26,001)
TOTAL LONG-TERM PORTION	\$	685,701

NOTE 5 NOTES AND BONDS PAYABLE

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
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Notes Payable

Note payable to TD Banknorth, capital improvement note, interest at 3.22%. Annual principal payments of \$50,000 plus interest due August 15, 2008.	\$ 182,000	\$ -	\$ (50,000)	\$ 132,000	\$ 132,000
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Note payable to TD Banknorth, capital improvement note, interest at 4.34%, due November 7, 2007.	25,350	-	(25,350)	-	-
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Bonds Payable

Vermont Bond Bank, refunded July 1, 1992 with 1992 Series A Bonds, interest varies from 3.75% to 7.5%. Annual principal payments of \$35,000 payable to Deutsche Bank Trust Company America's, New York	35,000	-	(35,000)	-	-
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Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008

NOTE 5      NOTES AND BONDS PAYABLE (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Municipal Bond Bank, 1989 Series II Bonds, interest rates vary from 6.75% to 7.4%. Annual principal payments of \$35,000 through December 1, 2007 and \$30,000 thereafter due, December 1, 2009	90,000	-	(30,000)	60,000	30,000
	<u>\$ 332,350</u>	<u>\$ -</u>	<u>\$ (140,350)</u>	<u>\$ 192,000</u>	<u>\$ 162,000</u>

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Governmental Activities as of June 30, 2008, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 162,000	\$ 7,288	\$ 169,288
2010	<u>30,000</u>	<u>1,013</u>	<u>31,013</u>
	<u>\$ 192,000</u>	<u>\$ 8,301</u>	<u>\$ 200,301</u>

<u>Business-Type Funds</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Vermont Municipal Bond Bank, 2003 Series II Bonds, interest varies from 1.19% to 3.73%. Annual principal payments of \$25,000 plus interest, due December 1, 2015	\$ 175,000	\$ -	\$ (25,000)	\$ 150,000	\$ 25,000
Vermont Municipal Bond Bank, 2001 Series I Bonds, interest varies from 2.28% to 4.47%. Annual principal charge \$40,000 on December 1, 2007, due December 1, 2011	200,000	-	(40,000)	160,000	40,000

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008

NOTE 5      NOTES AND BONDS PAYABLE (continued)

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Principal</u> <u>Reduction</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Vermont Municipal Bond Bank, 1993 Series I Bonds, refunded March 27, 2003 with 2003 Series I Bonds, interest varies from 2.99% to 5.66%. Annual principal payments of \$10,000 through December 1, 2009 and \$15,000 thereafter, due December 1, 2003	95,000	-	(10,000)	85,000	10,000
	<u>\$ 470,000</u>	<u>\$ -</u>	<u>\$ (75,000)</u>	<u>\$ 395,000</u>	<u>\$ 75,000</u>

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Business-Type Funds as of June 30, 2008, are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 75,000	\$ 15,073	\$ 90,073
2010	80,000	12,014	92,014
2011	80,000	8,692	88,692
2012	80,000	5,260	85,260
2013	40,000	2,646	42,646
2014-2018	<u>40,000</u>	<u>887</u>	<u>40,887</u>
	<u>\$ 395,000</u>	<u>\$ 44,572</u>	<u>\$ 439,572</u>

NOTE 6      CAPITAL LEASE

The Town has entered into a lease agreement as lessee for financing the acquisition of a grader. This lease agreement qualifies as a capital lease for accounting purposes and, therefore has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through the capital lease are as follows:

	<u>Governmental</u> <u>Activities</u>
ASSETS	
Grader	\$ 138,000
Less: Accumulated Depreciation	<u>(27,600)</u>
	<u>\$ 110,400</u>

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008

NOTE 6 CAPITAL LEASE (continued)

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2008, are as follows:

Year ending <u>June 30,</u>	<u>Amount</u>
2009	\$ 25,946
2010	<u>25,946</u>
Total minimum lease payments	51,892
Less: Amount representing interest	<u>(2,893)</u>
Present value of net minimum lease payment	<u>\$ 48,999</u>

NOTE 7 CASH

Custodial credit risk for deposits is the risk that in the event of a bank failure the Town's deposits may not be returned. To mitigate this risk, the Town insures its cash management account.

The Town bank balances are categorized below to give an indication of the level of risk assumed by the Town at year-end.

- Category 1 - Insured by the FDIC or collateralized with securities held by the Town or its agent in the Town's name.
- Category 2 - Collateralized, with securities held by the counterparty's trust department or agent in the Town's name.
- Category 3 - Uncollateralized

	Book Balance	Bank Balance
Insured by the FDIC	\$ 126,452	\$ 126,452
Insured by Deposit Surety Bond	3,751,573	3,969,783
Uncollateralized	237,423	237,423
Petty Cash	3,145	-
Total Deposits	<u>\$ 4,118,593</u>	<u>\$ 4,333,658</u>

Due to cash flows during certain times of the year, the Town's uninsured and uncollateralized deposits in banks may be substantially higher than at year-end.

The Town's cash management account is insured under a Irrevocable Standby Letter of Credit. The coverage is in the amount of \$8,500,000 and is for the period June 30, 2008 to June 30, 2009.

Town of Essex, Vermont  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2008

NOTE 8 BUDGETARY INFORMATION

The Town's General Fund is the only fund that must legally adopt a budget. As such, no comparison of actual to budget revenues, expenditures and changes in fund balance is presented for any other fund.

NOTE 9 PENSION PLAN

Prior to January 1, 2004 all full-time employees were covered under the ICMA 401(A) Defined Contribution Plan. Under this plan the town contributes 8% and the employee contributes 3% of employee's salaries. Town contributions to the plan were \$93,907 and the employee contributions were \$35,215 for the year ended June 30, 2008.

Beginning January 1, 2004 all existing employees had the option of remaining in the ICMA plan or joining Plan C of the Vermont Municipal Employee's Retirement Plan.

All full-time employees of the Town hired after January 1, 2004 are covered under Plan C of the State of Vermont Municipal Employee's Retirement Plan. The Town contributes 8% and employees contribute 7% of employee's salaries. Benefit and contribution provisions are established by State Law (VSA, Title 25, Chapter 125). The Town contributed \$148,957 and the employee contributions were \$237,910 to the plan for the year ended June 30, 2008.

Of the Town's total compensation of \$3,817,291, \$1,173,842 was covered under the ICMA retirement plan and \$2,643,449 was covered under the Sate of Vermont Municipal Employees Retirement Plan for the year ended June 30, 2008.

NOTE 10 FUND EQUITY

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance accounts are summarized below.

Reservations and designations as of June 30, 2008 are as follows:

GENERAL FUND

Reserved for Reappraisal – Funds received from the State for the Town's reappraisal	\$ <u>21,046</u>
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CAPITAL PROJECTS FUND

Reserved for:	
Future vehicle purchases	\$ 132,976
Future parks and recreation projects	426,593
Future highway projects	507,347
Future buildings projects	<u>1,014,457</u>
Total Reserved Fund Balance	<u>\$ 2,081,373</u>

Town of Essex, Vermont  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2008

NOTE 10 FUND EQUITY (continued)

FIDUCIARY FUND

Restricted for Cemetery - These funds are accumulated for the maintenance of the cemetery. \$ 16,379

NOTE 11 ECONOMIC DEPENDENCIES

On December 3, 2001, the Town entered into a 12 year agreement with IBM. The agreement calls for the Town to cease taxing IBM on machinery and equipment which is consistent with the Town's policy of not taxing machinery and equipment in the Town. In return, IBM agreed to pay to the Town an annual declining subsidy for the term of the agreement. The amount received under this agreement in the year ended June 30, 2008 was \$513,813.

NOTE 12 INTERFUND TRANSFERS

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The following table summarizes operating transfers for the year ended June 30, 2008.

<u>Amount</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Purpose</u>
\$ 47,275	General Fund	Capital Projects	Vault Expansion
69,173	General Fund	Capital Projects	Reappraisal
3,500	General Fund	Capital Projects	Recreation Facilities
74,000	General Fund	Capital Projects	Highway Equipment
8,800	General Fund	Capital Projects	Senior Citizen Bus
<u>199,698</u>	General Fund	Capital Projects	Future Projects
 \$ <u>402,446</u>			

NOTE 13 RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town maintains insurance coverage through the Vermont League of Cities and Towns Property and Casualty Intermunicipal Fund, Inc. covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this coverage in any of the past three fiscal years. The Town must remain a member for a minimum of one year and may withdraw from the Fund after that time by giving sixty days notice. Fund underwriting and rate setting policies have been established after consultation with actuaries. Fund members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008

NOTE 14      DEFERRED LOAN RECEIVABLE

The Town received a \$490,000 Vermont Community Development Program Grant award during the year. This grant was loaned to the Essex Senior Housing Limited Partnership to assist in the acquisition of land and construction of 48 new senior housing units. The loan is deferred for 30 years and bears no interest. As such, the Town has recorded an allowance for the entire amount.

Town of Essex, Vermont  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**BUDGETARY BASIS - GENERAL FUND**  
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Property tax	\$ 7,664,308	\$ 7,664,308	\$ 7,525,684	\$ 138,624
Licenses and permits	41,100	41,100	58,020	(16,920)
Intergovernmental revenues	182,000	182,000	211,716	(29,716)
Charges for services	1,085,114	1,085,114	1,071,231	13,883
Fines and forfeits	83,000	83,000	109,773	(26,773)
Miscellaneous income	96,001	96,001	206,583	(110,582)
<b>TOTAL REVENUES</b>	<u>9,151,523</u>	<u>9,151,523</u>	<u>9,183,007</u>	<u>(31,484)</u>
<b>EXPENDITURES</b>				
General government	2,104,820	2,104,820	2,027,193	77,627
Public safety	3,319,013	3,319,013	3,157,114	161,899
Highways and Streets	1,866,368	1,866,368	1,695,362	171,006
Health and Welfare	133,300	133,300	131,998	1,302
Culture and Recreation	1,038,638	1,038,638	1,045,648	(7,010)
Debt service	297,700	297,700	325,659	(27,959)
Intergovernmental	391,684	391,684	387,839	3,845
<b>TOTAL EXPENDITURES</b>	<u>9,151,523</u>	<u>9,151,523</u>	<u>8,770,813</u>	<u>380,710</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,194</u>	<u>\$ (412,194)</u>
<b>RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS</b>				
Excess (Deficiency) of Revenues over Expenditures - Budgetary Basis			\$ 412,194	
Adjustments for non-budget:				
Grant revenues			840,606	
Other revenues			65,017	
Grant expenditures			(843,514)	
Transfer to Capital Projects Fund			<u>(116,448)</u>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES - GAAP BASIS</b>			<u>\$ 357,855</u>	

See Accompanying Notes to Basic Financial Statements.

**Town of Essex, Vermont**

**ADDITIONAL REPORTS REQUIRED BY  
THE SINGLE AUDIT ACT**

**June 30, 2008**



Town of Essex, Vermont  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2008

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF JUSTICE AND U.S. DEPARTMENT OF THE TREASURY Equitable Sharing Fund	16.000	401,403
U.S DEPARTMENT OF JUSTICE, DRUG ENFORCEMENT ADMINISTRATION DEA Overtime	16.580	24,154
STATE OF VERMONT, AGENCY OF TRANSPORTATION Essex - STP Walk	20.205	3,739
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION Passed through State of Vermont Department of Public Safety Governor's Highway Safety Program	20.600	1,967
VT DEPARTMENT OF FORESTS, PARKS AND RECREATION Resource Sharing	10.664	3,169
INSTITUTE OF MUSEUM AND LIBRARY SERVICES (IMLS) Resource Sharing Supplemental Grant for Public Libraries	45.310	604
STATE OF VERMONT, AGENCY OF COMMERCE & COMMUNITY DEVELOPMENT Essex Senior Housing	14.228	<u>441,000</u>
TOTAL FEDERAL AWARDS		<u>\$ 876,036</u>

The Schedule of Expenditure of Federal Awards was prepared using the significant accounting policies as outlined in Note 1 to the basic financial statements.

Kittell Branagan & Sargent

154 North Main Street  
St. Albans, Vermont 05478  
802 524-9531  
802 524-9533 FAX  
Burlington 802 893-4741  
Vermont License #167

REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Board of Selectmen  
Town of Essex, Vermont  
Essex, Vermont

We have audited the financial statements of the Town of Essex, Vermont as of and for the year ended June 30, 2008, and have issued our report thereon dated January 24, 2009. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Essex, Vermont's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Town of Essex, Vermont's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over the financial reporting, which we have reported to management of the Town of Essex, Vermont in a separate letter dated January 24, 2009.

This report is intended solely for the information of the Selectboard, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



St. Albans, Vermont  
January 24, 2009



Kittell Branagan & Sargent

154 North Main Street  
St. Albans, Vermont 05478  
802 524-9531  
802 524-9533 FAX  
Burlington 802 893-4741  
Vermont License #167

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Selectmen  
Town of Essex, Vermont  
Essex, Vermont

Compliance

We have audited the compliance of the Town of Essex, Vermont with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Town of Essex, Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and question costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Essex, Vermont's management. Our responsibility is to express an opinion on the Town of Essex, Vermont's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Essex, Vermont's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Essex, Vermont's compliance with those requirements.

In our opinion, the Town of Essex, Vermont complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Town of Essex, Vermont is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Essex, Vermont's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that *would be* material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

To the Board of Selectmen  
Town of Essex, Vermont  
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This report is intended solely for the information of the Selectboard, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Kittell Branayana Snyder*

St. Albans, Vermont  
January 24, 2009

Town of Essex, Vermont  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2008

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Town of Essex, Vermont.
2. There were no reportable conditions disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Town of Essex, Vermont were disclosed during the audit.
4. There were no reportable conditions disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Town of Essex, Vermont expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Town of Essex, Vermont.
7. The programs tested as major programs were Homeland Security Grants and Federal Forfeiture Equitable Sharing.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Town of Essex, Vermont was not determined to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

- There were no findings related to the financial statements audit.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

- There were no findings or questioned costs related to the major federal award programs.