

Town of Essex, Vermont
BASIC FINANCIAL STATEMENTS
June 30, 2018

Town of Essex, Vermont
TABLE OF CONTENTS
June 30, 2018

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	
MANAGEMENT’S DISCUSSION AND ANALYSIS	
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
Statement of Net Position – Proprietary Funds	8
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	9
Statement of Cash Flows – Proprietary Funds	10
Statement of Net Position – Fiduciary Funds	11
Statement of Changes in Net Position – Fiduciary Fund	12
Notes to Basic Financial Statements	13
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	40
Schedule of Proportionate Share of Net Pension Liability	41
Schedule of Contributions	42



Kittell Branagan & Sargent

Certified Public Accountants

Vermont License # 167

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, 2018, and the related notes to the financial statements, which collectively comprise the Town's 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. 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, Vermont, as of June 30, 2018, 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, budgetary comparison information on page 40, the schedule of proportionate share of the net pension liability on page 41 and the schedule of contributions on page 42 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.

Kittell Branagan + sycint

St. Albans, Vermont
January 14, 2019

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

Management of the Town of Essex (the Town) offers readers of the basic financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018. Readers should consider this information in conjunction with the financial statements immediately following this analysis. Please note that this section of the Basic Financial Statements is unaudited.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$36,133,650 (net position). Of this amount, \$8,552,193 (unrestricted net position) may be used to meet the Town's ongoing obligations. The balance of net position is made up of \$26,900,947 invested in capital assets net of related debt and \$680,510 restricted for specific purposes.
- The Town's total net position increased by \$1,517,903 (4.40%). Of this amount, net position of the governmental activities increased by \$1,392,367 (5.24%), and net position attributable to business-type activities increased by \$125,536 (1.59%).
- The Town's total debt decreased during the fiscal year to \$6,595,153 a net decrease of \$432,936. There was no new debt issued during the fiscal year. Principal payments were made totaling \$432,936; of these, \$13,331 were in the water and sewer fund.

Fund Highlights

- At the end of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$7,334,501 an increase of \$791,359 from the prior year's combined ending fund balance, as restated.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$3,324,201; or approximately 25% of total general fund expenditures in the fiscal year ended June 30, 2018. The town has a fund balance policy authorizing the Town to maintain and administer an unassigned fund balance of up to 15% of the current year General Fund operating budget. The unassigned fund balance of \$2,150,169 as of June 30, 2018 is exactly 15% of the General Fund operating budget for the fiscal year ending June 30, 2019 (\$14,344,932).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements which are presented in three sections: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. In addition to the basic financial statements, this report also contains other and required supplementary information such as a general fund budget to actual comparison.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

It is important for the reader to understand that, although governmental accounting resembles private sector accounting, the two differ significantly. The government-wide financial statements will be the most familiar for readers versed in private sector financial reporting. Readers should know that the financial activities of the government unit are recorded in funds. A fund, generally, is a separate set of books for each major activity. For example, the Town has a Water and Sewer Fund and a Recreation Programs Fund. These operations are referred to as business-type activities, they are supported by user fees, and are recorded in enterprise funds separately from the general governmental activities which are accounted for primarily in the general fund and supported in large part by property tax revenues.

Government-Wide Financial Statements

The government-wide financial statements provide a general overview of the Town's operations presenting all data on a full accrual basis, similar to the way a private sector business would present its financial statements. There are two statements presented at the government-wide level: the Statement of Net Position and the Statement of Activities. Within each of these statements, governmental activities are presented separately from business-type activities. The governmental activities reflect the Town's basic services; including general government, public safety, public works, community development, parks and recreation, and public improvements. Property taxes finance the majority of these services supplemented by program fees, grant revenues, and other miscellaneous revenues such as investment earnings or proceeds from the sale of assets. The business-type activities reflect private-sector-type operations for which user fees recover all or a significant portion of costs. The business-type activities of the Town include the water and sewer operations and recreation programming.

The Statement of Net Position presents information on all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 reports how the Town'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 and earned but unused leave time).

The government-wide financial statements include not only the Town itself (referred to as the primary government), but also other legally separate entities for which the Town is financially accountable (referred to as component units). During the current year, the Town was not responsible for any entities that qualify as component units.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements

A fund is a group of related accounts 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 finance-related legal compliance. The funds of the Town are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Consequently, the governmental fund financial statements provide a detailed short-term view that helps the reader determine the level of financial resources that are available to finance the Town's programs in the near future. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided that reconciles the governmental fund financial statements to the government-wide statements explaining the relationship between the two. The Town maintains two governmental funds - the General Fund and the Capital Projects Fund.

The basic governmental fund financial statements can be found on pages 3 through 6 of this report. The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement is provided on page 38 for the purpose of demonstrating compliance with the duly appropriated budget.

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 or 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.

Proprietary funds are used to account for a government's business-type activities at the fund level. There are two types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town maintains two enterprise funds: the Water and Sewer Fund and the Recreation Programs Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. At this time, the Town has no internal service funds.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund and the Recreation Programs Fund separately. The proprietary fund financial statements of the Town may be found on pages 8 through 10.

Fiduciary funds, also known as trust and agency funds, 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 programs of the Town. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains a Cemetery Trust Fund and an Agency Fund for developer escrow funds. The Town's fiduciary activities are reported in a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position beginning on page 11.

Notes to the Financial Statements provide additional information that is necessary to obtain a full understanding of the data provided in the government-wide and fund financial statements. The notes serve to explain, clarify, and expand upon the financial data presented in the financial statements, and provide some additional information. The notes can be found immediately following the basic financial statements.

In addition to the basic financial statements and accompanying notes, certain *Supplementary Information* is provided, including a budgetary comparison statement for the general fund, information on changes in the net pension liability, employer contributions to pensions, and investment returns. The supplementary information can be found immediately following the notes to the financial statements in this report.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Summary Statement of Net Position

	Governmental Activities		Business-type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Assets:						
Cash	\$ 11,638,773	\$ 11,536,715	\$ 3,056,322	\$ 2,862,972	\$ 14,695,095	\$ 14,399,687
Other Assets	1,216,019	1,108,247	689,079	573,718	1,905,098	1,681,965
Capital Assets	28,629,995	28,154,058	4,866,105	5,105,265	33,496,100	33,259,323
Total Assets	41,484,787	40,799,020	8,611,506	8,541,955	50,096,293	49,340,975
Deferred Outflows of Resources	1,411,904	1,499,677	131,728	165,597	1,543,632	1,665,274
Liabilities:						
Other Liabilities	5,326,546	5,993,918	170,926	203,525	5,497,472	6,197,443
Noncurrent Liabilities	9,220,712	9,580,129	537,249	599,367	9,757,961	10,179,496
Total Liabilities	14,547,258	15,574,047	708,175	802,892	15,255,433	16,376,939
Deferred Inflows of Resources	244,681	138,181	6,161	1,298	250,842	139,479
Net Position:						
Net Investment in Capital Asset	22,234,464	21,388,922	4,666,483	4,892,312	26,900,947	26,281,234
Restricted	680,510	613,539	0	0	680,510	613,539
Unrestricted	5,189,778	4,584,008	3,362,415	3,011,050	8,552,193	7,595,058
Total Net Position	\$ 28,104,752	\$ 26,586,469	\$ 8,028,898	\$ 7,903,362	\$ 36,133,650	\$ 34,489,831

As noted earlier, net position serves as a useful indicator of a government's financial position over time. At the end of the most recent fiscal year, the Town's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$36,133,650. The Town's total net position is split between governmental activities net position of \$28,104,752 and business-type activities net position of \$8,028,898.

The largest portion of the Town's total net position \$26,900,947 (74.45%) reflects its investment in capital assets (construction in progress, equipment, land, buildings and infrastructure) net of any outstanding debt used to acquire or construct those assets. The Town uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in 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.

The Town's total net position includes \$680,510 (1.88%) of restricted net position. Restricted net position represents assets whose use is subject to external restrictions. The remaining balance of \$8,552,193 (23.67%) is unrestricted net position, which may be used to meet the government's ongoing financial obligations. Included in unrestricted net position are amounts that have been assigned for particular purposes, such as capital reserve funds and reserves for expenditures in subsequent years.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

Summary of the Statement of Activities

	Governmental Activities		Business-type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for Services	\$ 785,139	\$ 682,585	\$ 2,906,527	\$ 2,972,339	\$ 3,691,666	\$ 3,654,924
Operating Grants & Revenues	775,125	866,585	323,046	339,018	1,098,171	1,205,603
Capital Grants & Revenues	937,647	212,356	-	-	937,647	212,356
General Revenues:						
Property Taxes	13,018,543	12,473,618	-	-	13,018,543	12,473,618
Other	270,551	361,550	(13,513)	6,759	257,038	368,309
Total Revenues	15,787,005	14,596,694	3,216,060	3,318,116	19,003,065	17,914,810
Expenses:						
General Government	3,154,514	2,923,651	-	-	3,154,514	2,923,651
Public Safety	5,064,127	4,820,287	-	-	5,064,127	4,820,287
Highways and Streets	3,968,520	3,871,552	-	-	3,968,520	3,871,552
Health and Welfare	255,330	224,249	-	-	255,330	224,249
Culture and Recreation	1,333,683	1,222,392	-	-	1,333,683	1,222,392
Intergovernmental	392,851	445,830	-	-	392,851	445,830
Interest on Long-Term Debt	201,177	257,936	-	-	201,177	257,936
Water and Sewer	-	-	2,697,109	2,643,167	2,697,109	2,643,167
Recreation Programs	-	-	417,851	427,774	417,851	427,774
Total Expenses	14,370,202	13,765,897	3,114,960	3,070,941	17,485,162	16,836,838
Increase (Decrease) in Net Position						
Before Transfers	1,416,803	830,797	101,100	247,175	1,517,903	1,077,972
Transfers	(24,436)	44,734	24,436	9,668	-	54,402
Increase (Decrease) in Net Position	1,392,367	875,531	125,536	256,843	1,517,903	1,132,374
Beginning Net Position, as restated	26,712,385	25,710,938	7,903,362	7,646,519	34,615,747	33,357,457
Ending Net Position	\$ 28,104,752	\$ 26,586,469	\$ 8,028,898	\$ 7,903,362	\$ 36,133,650	\$ 34,489,831

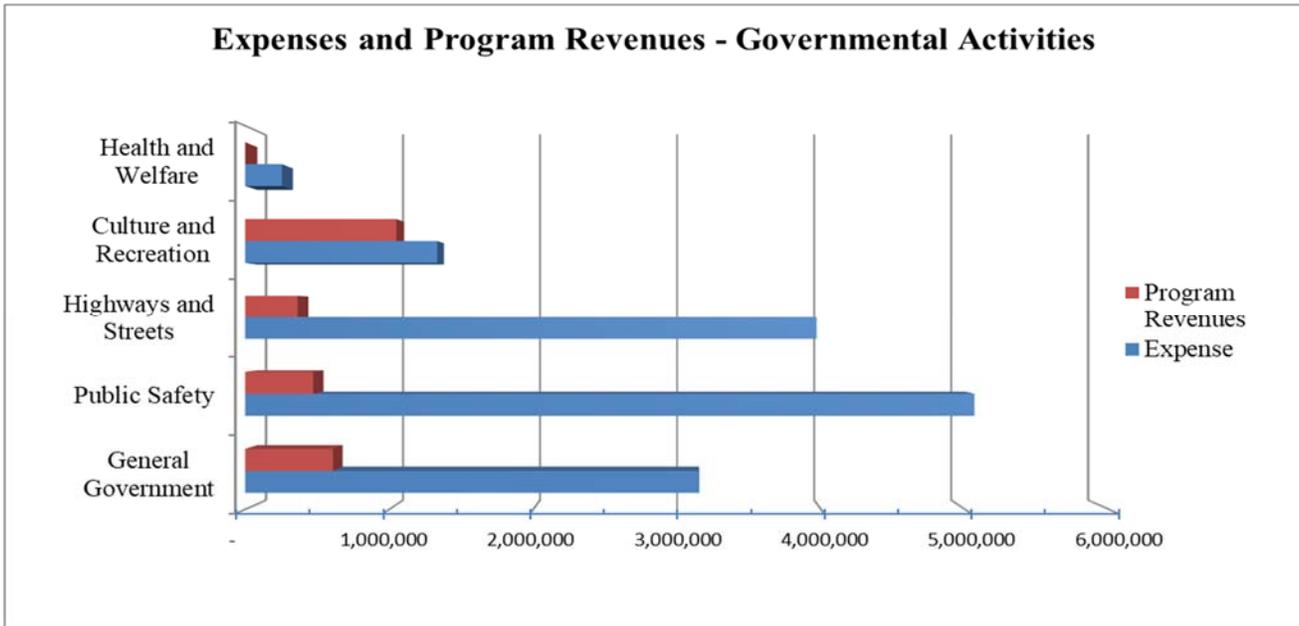
Governmental Activities

Governmental activities increased the Town's net position by \$1,392,367 for the year ended June 30, 2018. Key elements of the change are as follows.

- Total governmental activities' revenues increased by 8.2% (\$1,190,311) from 2017 to 2018. Capital grants and revenues increased by \$725,291 from the prior year as a result of \$899,337 in land donations during the year.
- Property tax revenues increased 4.4% or \$544,925 from the previous year as a result of growth in the grand list combined with a 0.0153 cent (3.2%) increase in the Town general fund tax rate.
- Total governmental activities' expenses increased by 4.4% (\$604,305) from 2017 to 2018. Public Safety expenses end the year at 35.2% (\$5,064,127) of total governmental activities' expenses. Public Safety remains the largest category of expenses from year to year followed by Highways and Streets which ended the year at 27.6% (\$3,968,520) of total governmental activities' expenses and includes funding for the operating budgets of the Highways and Stormwater departments of the Village of Essex Junction.

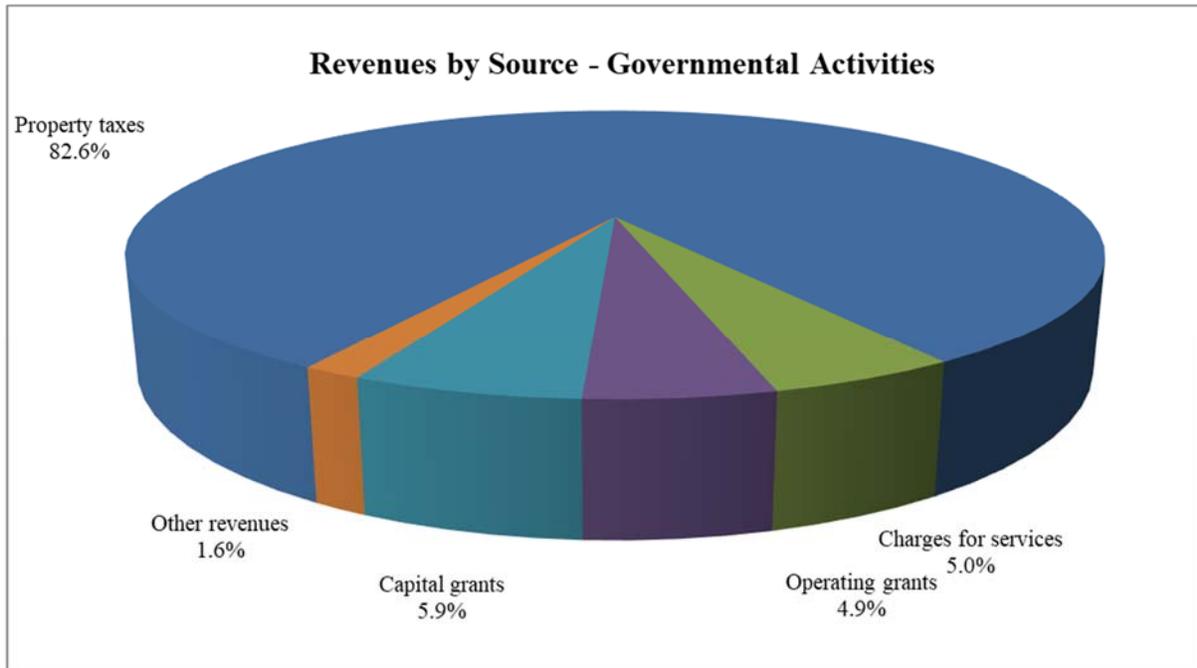
Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

The following graph entitled Expense and Program Revenues – Governmental Activities, gives the reader an idea of how each major program is funded. The revenues included in this graph are program specific revenues including user fees, operating grants, and capital grants. General revenues such as property taxes and interest earnings are excluded from the graph but are used to support the cost of each major program that is not covered by program specific revenues. The supporting data may be found in the Statement of Activities on page 2. As noted previously, Public Safety is the largest category of expenses in the current year and historically, followed by Highways and Streets.



The majority of revenue for governmental activities comes from property taxes; 82.6% of total revenue or \$13,018,543. The second largest category of revenue is capital grants and revenues coming in at \$937,647, 5.9% of of total revenue. Charges for services are the third largest category of revenue accounting for 5.0% or \$785,139 of total revenue for the year. This is relatively consistent with the prior year when property tax revenue accounted for 85.2% of total revenues, followed by operating grants and revenues with 5.9%, and then charges for services at 4.7% of total revenues. In FY2018 the Town received land donations worth \$899,337 resulting in capital grants and revenues being the second largest category of revenue for the year. The following graph shows the distribution of governmental activities revenues by source for the year ended June 30, 2018.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018



Business-type Activities

Business-type activities increased the Town's net position by \$125,536 (1.59%) during the current fiscal year. Key elements of this increase are as follows.

- Total revenues of \$3,216,060 were \$102,056 or 3.1% lower than the previous year. The decrease is largely attributable to a \$65,812 (2.2%) decrease in charges for services driven by fewer new water and sewer accounts added during the year.
- Total expenses of \$3,114,960 reflect an increase of \$44,019 (1.4%) over the prior year. This increase is primarily on the water and sewer side with \$53,942 of the change offset by a \$9,923 decrease in recreation costs.

The Town's business-type activities are supported by user fees, also referred to as charges for services (\$2,906,527) with assistance from operating grants (\$323,046) and investment income.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

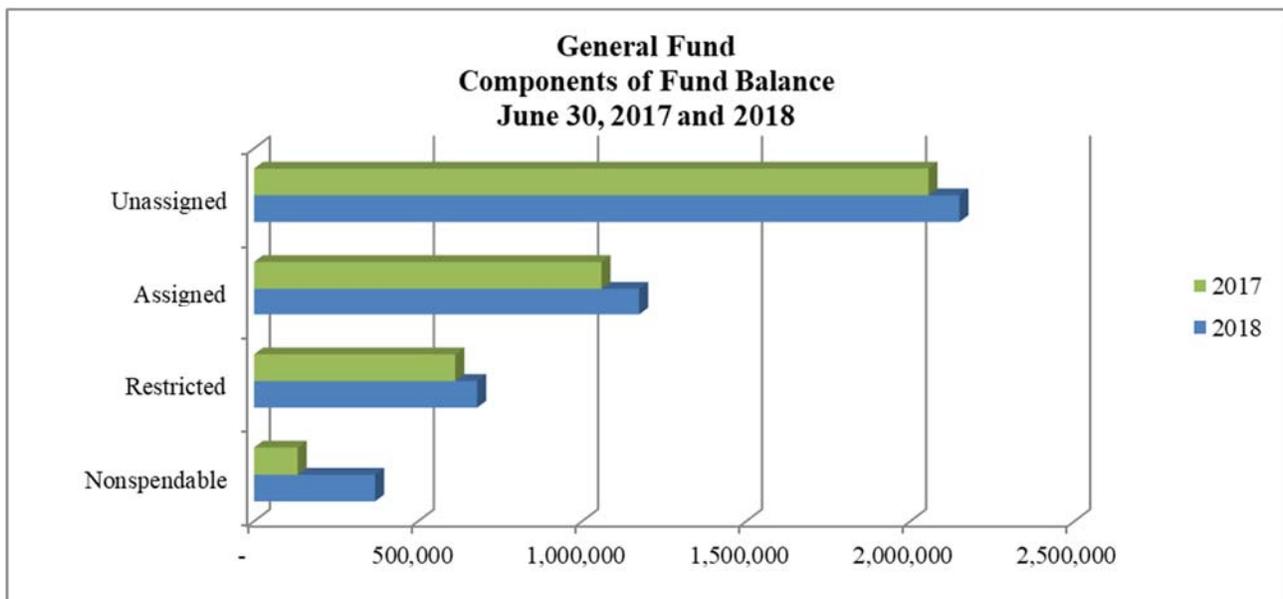
As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Information presented and discussed in this section is specific to the fund financial statements.

Governmental Funds

The focus of the Town's governmental funds is to provide information on current year revenue, expenditures, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

At the end of the current fiscal year, the Town's governmental funds (general fund and capital projects fund) reported combined ending fund balances of \$7,334,501, an increase of \$917,275 over the prior year. Of this total amount, \$368,992 is non-spendable (prepaid items and inventories) and \$680,510 is restricted, which indicates it is not available for discretionary spending, as it is otherwise restricted by grant agreements, statutes, or debt covenants. Of the remaining amount, \$4,134,830 has been assigned by the Town for various purposes (detailed in Note 12 Fund Balances and Net Position) and unassigned fund balance is \$2,150,169.



The general fund is the chief operating fund of the Town. At the end of the year, total fund balance in the general fund was \$4,373,703, an increase of \$512,338 from the previous year. Of this amount, \$368,992 is non-spendable and \$680,510 is restricted for reappraisal. Non-spendable fund balance increased over the prior year as a result of a restatement to include sand and gravel inventories in addition to salt. Assignments totaling \$1,174,032 in the general fund are detailed in Note 12 and unassigned fund balance is \$2,150,169. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total general fund expenditures. Total fund balance represents approximately 32.63% of total general fund expenditures, however, this amount includes nonspendable and restricted balances which would not be available to finance general fund expenditures if necessary. The remaining categories of fund balance (committed, assigned, and unassigned) are referred to as unrestricted fund balance and are resources that could be liquidated to support general fund expenditures if necessary. Unrestricted fund balance represents 24.8% of total general fund expenditures.

The selectboard is the body that authorizes assignments of fund balance in accordance with its fund balance policy and has the authority to make changes if they see fit. The Town's fund balance policy limits the amount of unassigned fund balance in the general fund to 15% of the current year's general fund operating budget. Recognizing that the Town is facing a number of retirements for which an accrued liability for the payout of accumulated compensated absences does not exist in the general fund (by nature of modified accrual accounting), the amount assigned for retirements increased from \$457,081 to \$502,444. The Town has assigned fund balance at the end of the year equal to the payout of compensated absences for all employees of retirement age.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

General Fund Budgetary Highlights

The Town's budget for the year ended June 30, 2018 passed on the first vote at Town Meeting in March of 2017 and there were no amendments made to the budget during the year.

On the revenue side, the Town recorded property tax revenue greater than the amount budgeted by \$66,930 and fines and forfeits revenue greater than the amount budgeted by \$108,232. Both of these are a direct result of a reduction in the amount of unavailable property tax revenue (property taxes that remain uncollectible sixty days after the end of the fiscal year). During the year, the Town implemented a new Selectboard tax sale policy and initiated tax sale proceedings for the first time in a number of years. Intergovernmental revenues exceeded budget by \$64,564; of this \$67,051 is the amount received for future reappraisals which has been reserved for such in the general fund fund balance. The final large variance in revenues was in miscellaneous income where the Town recognized \$138,838 in revenue in excess of budget. This relates primarily to recognizing revenue that was previously unearned, records preservation funds which will be assigned for that purpose, and unanticipated forfeited funds received.

Public safety expenditures were \$108,169 under budget driven by unanticipated vacancies. Culture and recreation expenditures were \$93,466 under budget, the majority of which was a result of actual personnel costs that were less than budgeted. General government expenditures were over budget by \$85,763. Driving this overage is payouts of accumulated compensated absences upon retirement of long standing personnel. These costs had been anticipated and assigned fund balance exists to cover those overages. Intergovernmental expenses were under budget by \$66,548 as the Town corrected an accounting method for expensing the county tax bill.

During the year, the Town collected unbudgeted grants and other revenues totaling \$286,115 which went to offset unbudgeted grant and other expenditures totaling \$369,269. The largest grant was the grant funding the Community Justice Center at \$214,000 for the year. Other items in this category are federal forfeiture funds used for public safety purposes, unrestricted revenue raised by the Community Justice Center, and a small amount of miscellaneous grants.

Proprietary Funds

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

Total net position in the Water and Sewer Fund is \$7,969,943, an increase of 2.02% or \$157,980 from the previous year. Over half of the Water and Sewer Fund's net position is invested in capital assets net of related debt; 58.55% or \$4,666,483. This is a decrease from the previous year when the net investment in capital assets was \$4,892,312. Over time, the net book value (historical cost less accumulated depreciation) of assets decreases with the systematic allocation of the cost of said assets over their useful life by way of annual depreciation expense. Of the \$3,303,460 balance in unrestricted net position at the end of the year, \$1,038,600 is designated for future capital projects and \$5,447 is designated for prepaid expenses. This balance grows annually by the amount of connection fees received in excess of the amount budgeted.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

The Town's second proprietary fund is the Recreation Programs Fund which was authorized by the Selectboard during the fiscal year ended June 30, 2011. This fund accounts for the majority of recreation programs which are expected to be supported by user fees. Program revenues, unlike property tax revenues, are derived from exchange transactions where the user receives a service of perceived equal value to the amount the user is willing to pay for the service. For the year ended June 30, 2018, this fund realized a net loss from operations in the amount of \$32,444. The fund has a fund balance of \$58,955, which remains in the Fund and is used to support future growth of the programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's capital assets for governmental and business-type activities as of June 30, 2018 were \$61,167,733 offset by \$27,671,633 in accumulated depreciation resulting in capital assets net of accumulated depreciation of \$33,496,100. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

Summary of Capital Assets

	Governmental Activities		Business-type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Capital Assets:						
Land	\$ 4,431,181	\$ 3,531,844	\$ -	\$ -	\$ 4,431,181	\$ 3,531,844
Construction in Progress	337,049	537,930	33,196	43,605	370,245	581,535
Buildings and Improvements	11,311,418	11,203,146	-	-	11,311,418	11,203,146
Machinery and Equipment	7,288,352	7,019,101	499,168	433,490	7,787,520	7,452,591
Infrastructure	24,488,531	24,406,703	12,778,838	12,766,648	37,267,369	37,173,351
	<u>47,856,531</u>	<u>46,698,724</u>	<u>13,311,202</u>	<u>13,243,743</u>	<u>61,167,733</u>	<u>59,942,467</u>
Less: Accumulated Depreciation	(19,226,536)	(18,544,666)	(8,445,097)	(8,138,478)	(27,671,633)	(26,683,144)
Total Assets, Net	<u>\$ 28,629,995</u>	<u>\$ 28,154,058</u>	<u>\$ 4,866,105</u>	<u>\$ 5,105,265</u>	<u>\$ 33,496,100</u>	<u>\$ 33,259,323</u>

Major capital asset activity for the year ended June 30, 2018 included the following.

Governmental Activities

- A total of 280.42 acres of land was donated to the Town during the year with a value of \$899,337
- The Route 2A and Old Colchester Road Path and the Pinewood – Lang Path were both completed after being in work in process in previous years for a total of \$301,783. Work continues on Sleepy Hollow Road, Pinecrest Drive Path, a Path from VT15 to West Street, improvements to traffic signals at Essex Way, and multiple Stormwater infrastructure projects.
- Road projects including reconstruction, paving and culvert replacement totaled \$338,582 with work done on seven different roads in town.
- A new fence and air conditioning unit were installed at the Essex Free Library.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

- Four vehicles were purchased including two highway vehicles, and two police vehicles for a total of \$299,761. This was offset by the retirement, disposal or trade of three vehicles with original cost totaling \$96,078. All of these but one were fully depreciated.

Business-Type Activities

- Asset additions include one new vehicle, half the cost of a hot box shared with governmental activities, and upgrades to pump station controls.
- The Town has two projects in process: waterline improvements in the Susie Wilson Road – Dalton Drive area and upgrades to pump station controls at the Alderbrook Pump Station.
- Many years ago a study of the Painesville sewer had been completed in anticipation of a capital project that has not happened. The Town decided in FY2018 to remove that project from construction in process resulting in the non-operating expense of \$22,782 for abandoned projects.

Additional information on the Town's capital assets can be found in Note 7 Capital Assets.

Long-Term Debt

The Town began the year with \$7,028,089 in long-term debt outstanding. As of June 30, 2018, this amount had decreased by \$432,936 or 6.16% to end the current year with \$6,595,153 in long-term debt outstanding.

Summary of Long Term Debt

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
Governmental Activities				
General Obligation Bonds	\$ 5,865,000	\$ -	\$ 345,000	\$ 5,520,000
Capital Lease	950,136	-	74,605	875,531
Business-type Activities				
Water and Sewer Bond	212,953	-	13,331	199,622
Total Government	<u>\$ 7,028,089</u>	<u>\$ -</u>	<u>\$ 432,936</u>	<u>\$ 6,595,153</u>

The Town issued no new debt during the fiscal year and made all required payments on the three items of long-term debt outstanding. Additional information about long-term debt can be found in Note 10 Notes and Bonds Payable and Note 11 Capital Lease.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Consolidation of Service Delivery Systems

- Starting in FY2015 the Town entered into an agreement with the Village of Essex Junction and the Essex Junction School District to bill and collect their property taxes. This action was an effort to reduce the duplication of services that existed. As part of the agreement the Town assumed the delinquent taxes of the Village and Village School District. These delinquent taxes of approximately \$130,000 caused an increase in the Town's unavailable property tax balance which negatively affected Tax revenue for the year FY15. In FY18, due to collection efforts and a newly established Tax Sale Policy, the amount of unavailable property taxes declined from \$585,200 to \$465,000. This continues a downward trend in this deferred inflow of resources from \$700,342 in FY16, and \$624,753 at the end of FY17. The Town of Essex will continue to do the school tax billing for those residents that reside in the Town of Essex.
- In FY14 the Town and Village entered into an agreement to share the services of the Town Manager as the Municipal Manager for both entities. This arrangement led to the Village sharing the salary costs of the Manager with the Town, thereby reducing the cost to all taxpayers. In FY2015 it was determined that this cost sharing was beneficial and efforts should continue to find more areas to cooperate in the delivery of services to be more efficient.
- FY16 was the first of a three-year commitment to combine Highway and Street budgets with the Village of Essex Junction. The Village Trustees adopted the Village Street budget and the Town of Essex voters approved the funding for this budget as part of the Town budget. A Committee was formed in the spring of 2017 to evaluate how successful this arrangement has been so far and whether it should be continued. The Public Works Consolidation Committee came to the following conclusions:
 - Maintain the MOU until June 2018 and do the studies outlined in the report.
 - Extend the MOU from July 1, 2018 until the studies are complete or well underway. The goal is full consolidation eventually.
 - Benchmarks will be established as a result of the studies
 - Cross-train staff in the Village and Town and identify common best practices
 - Consolidate rolling stock and equipment budgets as well as capital planning.
 - Practice resources management with assets, administration, processes, services.
 - Both the Selectboard and the Trustees approved the report.
- In FY16 the Town and the Village combined accounts payable, accounts receivable, cash receipts and general ledger. Two Village employees were relocated to the Town offices to share this work.
- In FY17 the Village Clerk/Treasurer became the combined Town and Village Clerk/Treasurer when the Town Clerk/Treasurer position became vacant through retirement.
- In FY18 a Human Resources Director was hired as the combined Town and Village Human Resources Director.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

FY19 Budgets

The above listed factors were considered in preparing the Town of Essex's budget for the 2019 fiscal year. At the 2018 Town meeting the voters approved the Selectboard recommended FY19 budget, in the amount of \$14,344,932 an increase of \$640,193 over the previous year. The approved budget resulted in a tax rate for FY19 of \$0.5132 (Town General and Capital Tax), an increase of \$0.0153 over FY18.

Rates for water and sewer operations were increased in fiscal year 2019 in response to increased costs for water purchases and an increase in repairs and maintenance. The use of initiation fees applied to the rate dropped from \$63,000 in FY18 to \$20,000 in FY19.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances to all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department at 81 Main Street, Essex Jct., VT 05452. The report is available online at www.essex.org.

TOWN OF ESSEX, VERMONT
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 11,638,773	\$ 3,056,322	\$ 14,695,095
Taxes receivable, net of allowance	690,600	-	690,600
Other accounts receivable	156,427	683,632	840,059
Inventory	184,680	-	184,680
Prepaid expenses	184,312	5,447	189,759
Capital assets not being depreciated:			
Land	4,431,181	-	4,431,181
Construction in progress	337,049	33,196	370,245
Capital assets, net of accumulated depreciation			
Buildings	9,097,379	-	9,097,379
Infrastructure	11,570,497	-	11,570,497
Machinery, equipment, and vehicles	3,193,889	116,096	3,309,985
Water and sewer infrastructure	-	4,716,813	4,716,813
	<u>41,484,787</u>	<u>8,611,506</u>	<u>50,096,293</u>
Total Assets			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to the Town's participation in VMERS	1,411,904	131,728	1,543,632
	<u>1,411,904</u>	<u>131,728</u>	<u>1,543,632</u>
CURRENT LIABILITIES			
Accounts payable	476,067	112,689	588,756
Due to Village of Essex Junction	4,005,107	-	4,005,107
Accrued payroll and benefits payable	152,363	23,793	176,156
Unearned revenue	180,475	17,918	198,393
Accrued interest payable	35,878	998	36,876
Current portion of compensated absences	54,895	1,930	56,825
Current portion notes and bonds payable	345,000	13,598	358,598
Current portion capital lease payable	76,761	-	76,761
	<u>5,326,546</u>	<u>170,926</u>	<u>5,497,472</u>
Total Current Liabilities			
NONCURRENT LIABILITIES			
Accrued compensated absences	912,531	120,823	1,033,354
Net pension liability	2,334,411	230,402	2,564,813
Notes and bonds payable	5,175,000	186,024	5,361,024
Capital lease payable	798,770	-	798,770
	<u>9,220,712</u>	<u>537,249</u>	<u>9,757,961</u>
Total Noncurrent Liabilities			
Total Liabilities	<u>14,547,258</u>	<u>708,175</u>	<u>15,255,433</u>
DEFERRED INFLOWS OF RESOURCES			
Prepaid property taxes	178,635	-	178,635
Deferred inflows of resources related to the Town's participation in VMERS	66,046	6,161	72,207
	<u>244,681</u>	<u>6,161</u>	<u>250,842</u>
Total Deferred Inflows of Resources			
NET POSITION			
Net investment in capital assets	22,234,464	4,666,483	26,900,947
Restricted	680,510	-	680,510
Unrestricted- designated	-	1,044,047	1,044,047
Unrestricted	5,189,778	2,318,368	7,508,146
	<u>28,104,752</u>	<u>8,028,898</u>	<u>36,133,650</u>
Total Net Position			

See Accompanying Notes to Basic Financial Statements.

TOWN OF ESSEX, VERMONT
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total	
		Charges for Services	Operating Grants and Revenues	Capital Grants and Revenues	Governmental Activities		Business-Type Activities
Governmental activities:							
General government	\$ 3,154,514	\$ 391,765	\$ 218,021	\$ -	\$ (2,544,728)	\$ -	\$ (2,544,728)
Public safety	5,064,127	257,841	215,198	-	(4,591,088)	-	(4,591,088)
Highways and Streets	3,968,520	37,904	288,383	38,310	(3,603,923)	-	(3,603,923)
Health and Welfare	255,330	820	-	-	(254,510)	-	(254,510)
Culture and Recreation	1,333,683	96,809	53,523	899,337	(284,014)	-	(284,014)
Intergovernmental	392,851	-	-	-	(392,851)	-	(392,851)
Interest on long-term debt	201,177	-	-	-	(201,177)	-	(201,177)
Total governmental activities	<u>14,370,202</u>	<u>785,139</u>	<u>775,125</u>	<u>937,647</u>	<u>(11,872,291)</u>	<u>-</u>	<u>(11,872,291)</u>
Business-type activities:							
Water and Sewer	2,697,109	2,521,424	323,046	-	-	147,361	147,361
Recreation	417,851	385,103	-	-	-	(32,748)	(32,748)
Total business-type activities	<u>\$ 3,114,960</u>	<u>\$ 2,906,527</u>	<u>\$ 323,046</u>	<u>\$ -</u>	<u>-</u>	<u>114,613</u>	<u>114,613</u>
General Revenues:							
Property taxes, levied for general purposes					13,018,543	-	13,018,543
Penalties and interest on delinquent taxes					187,717	-	187,717
Unrestricted investment earnings					35,985	9,269	45,254
Transfers					(24,436)	24,436	-
Loss on disposal and abandonment of fixed assets					(658)	(22,782)	(23,440)
Other revenues					47,507	-	47,507
Total general revenues and transfers					<u>13,264,658</u>	<u>10,923</u>	<u>13,275,581</u>
Change in Net Position					1,392,367	125,536	1,517,903
Net position, beginning, restated					<u>26,712,385</u>	<u>7,903,362</u>	<u>34,615,747</u>
Net position, ending					<u>\$ 28,104,752</u>	<u>\$ 8,028,898</u>	<u>\$ 36,133,650</u>

See Accompanying Notes to Basic Financial Statements.

TOWN OF ESSEX, VERMONT
FUND FINANCIAL STATEMENTS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 8,596,032	\$ 3,042,741	\$ 11,638,773
Taxes receivable, net of allowance	690,600	-	690,600
Other receivables	101,245	55,182	156,427
Inventory	184,680	-	184,680
Prepaid expenses	<u>184,312</u>	<u>-</u>	<u>184,312</u>
 Total Assets	 <u>\$ 9,756,869</u>	 <u>\$ 3,097,923</u>	 <u>\$ 12,854,792</u>
LIABILITIES			
Accounts payable	\$ 363,276	\$ 112,791	\$ 476,067
Due to Village of Essex Junction	4,005,107	-	4,005,107
Accrued payroll and benefits payable	152,363	-	152,363
Unearned revenue	<u>180,475</u>	<u>-</u>	<u>180,475</u>
 Total Liabilities	 <u>4,701,221</u>	 <u>112,791</u>	 <u>4,814,012</u>
DEFERRED INFLOWS OF RESOURCES			
Prepaid property taxes	178,635	-	178,635
Unavailable revenue - property taxes	465,000	-	465,000
Unavailable revenue - other	<u>38,310</u>	<u>24,334</u>	<u>62,644</u>
 Total Deferred Inflows of Resources	 <u>681,945</u>	 <u>24,334</u>	 <u>706,279</u>
FUND BALANCE			
Nonspendable	368,992	-	368,992
Restricted	680,510	-	680,510
Assigned	1,174,032	2,960,798	4,134,830
Unassigned	<u>2,150,169</u>	<u>-</u>	<u>2,150,169</u>
 Total Fund Balances	 <u>4,373,703</u>	 <u>2,960,798</u>	 <u>7,334,501</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 9,756,869</u>	 <u>\$ 3,097,923</u>	 <u>\$ 12,854,792</u>

See Accompanying Notes to Basic Financial Statements.

**TOWN OF ESSEX, VERMONT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total fund balances - governmental funds \$ 7,334,501

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. 28,629,995

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds

Unavailable property tax revenue 465,000

Unavailable grant revenue 24,334

Unearned Revenue 38,310

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 (967,426)

Net pension liabilities (2,334,411)

Accrued interest on long-term debt (35,878)

Notes payable (5,520,000)

Capital Lease (875,531)

Deferred outflows of resources represent the consumption of net position that is applicable to a future reporting period and therefore not reported as assets in the funds. 1,411,904

Deferred inflows of resources represent the acquisition of net position applicable to a future reporting period and therefore are not reported as liabilities in funds. (66,046)

Total net position - governmental activities \$ 28,104,752

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, 2018

	General Fund	Capital Projects Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property tax	\$ 12,560,218	\$ 517,010	\$ 13,077,228
Licenses and permits	88,817	-	88,817
Intergovernmental revenues	453,364	-	453,364
Charges for services	491,557	63,737	555,294
Fines and forfeits	249,232	-	249,232
Interest income	26,445	9,540	35,985
Grant income	289,311	56,238	345,549
Miscellaneous income	160,423	2,200	162,623
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	14,319,367	648,725	14,968,092
EXPENDITURES			
Current expenditures:			
General government	2,973,530	31,601	3,005,131
Public safety	4,511,282	3,161	4,514,443
Highways and Streets	2,765,429	48,648	2,814,077
Stormwater	273,935	34,060	307,995
Sanitation	10,816	-	10,816
Health and Welfare	255,330	-	255,330
Culture and Recreation	1,165,220	7,443	1,172,663
Intergovernmental	392,850	-	392,850
Capital Outlays:			
Public safety	197,931	134,842	332,773
Highways and Streets	313,326	330,880	644,206
Culture and Recreation	-	61,797	61,797
Debt Service:			
Principal	345,000	74,606	419,606
Interest	198,117	27,458	225,575
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	13,402,766	754,496	14,157,262
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	916,601	(105,771)	810,830
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of fixed assets	-	4,965	4,965
Operating transfers in/(out)	(530,179)	505,743	(24,436)
	<u> </u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	(530,179)	510,708	(19,471)
Net Change in Fund Balance	386,422	404,937	791,359
Fund Balance - July 1, 2017, restated	3,987,281	2,555,861	6,543,142
	<u> </u>	<u> </u>	<u> </u>
Fund Balance - June 30, 2018	\$ 4,373,703	\$ 2,960,798	\$ 7,334,501
	<u> </u>	<u> </u>	<u> </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, 2018**

Net change in fund balances - governmental funds \$ 791,359

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	(1,455,653)
Capital Outlay	1,937,213
Proceeds from Sale of Asset	(4,965)
Loss on Sale of Asset	(658)

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

Decrease in the unavailable property taxes	(120,200)
Increase in the unearned and other unavailable revenue	40,434

Issuance and repayment of long-term debt are revenue and expenditures in the
governmental funds, but the Issuance and repayment increase and decrease
long-term liabilities in the statement of net position.

Repayment of long-term debt	345,000
Repayment of capital lease	74,605

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, 2018**

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.

Pension expense	(223,982)
Accrued interest on long-term debt	(593)
Accrued compensated absences	<u>9,807</u>
Change in net position of governmental activities	<u>\$ 1,392,367</u>

See Accompanying Notes to Basic Financial Statements.

TOWN OF ESSEX, VERMONT
FUND FINANCIAL STATEMENTS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

	Water & Sewer Fund	Recreation Fund	Total
ASSETS			
Current Assets:			
Cash	\$ 2,928,539	\$ 127,783	\$ 3,056,322
Accounts receivable - net	683,632	-	683,632
Prepaid expenses	5,447	-	5,447
Total Current Assets	3,617,618	127,783	3,745,401
Noncurrent Assets:			
Capital assets not being depreciated:			
Construction in progress	33,196	-	33,196
Capital assets, net of accumulated depreciation:			
Machinery, equipment, and vehicles	116,096	-	116,096
Water and sewer infrastructure	4,716,813	-	4,716,813
Total Noncurrent Assets	4,866,105	-	4,866,105
 Total Assets	 8,483,723	 127,783	 8,611,506
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to the Town's participation in VMERS			
	125,889	5,839	131,728
 Total Assets and Deferred Outflows of Resources	 \$ 8,609,612	 \$ 133,622	 \$ 8,743,234
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 91,466	\$ 21,223	\$ 112,689
Current portion compensated absences	1,930	-	1,930
Current portion long-term debt	13,598	-	13,598
Accrued payroll	11,617	12,176	23,793
Unearned revenue	-	17,918	17,918
Other accrued expenses	998	-	998
Total Current Liabilities	119,609	51,317	170,926
Noncurrent Liabilities:			
Accrued compensated absences	120,823	-	120,823
Net pension liabilities	207,324	23,078	230,402
Notes and bonds payable	186,024	-	186,024
Total Noncurrent Liabilities	514,171	23,078	537,249
 Total Liabilities	 633,780	 74,395	 708,175
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to the Town's participation in VMERS			
	5,889	272	6,161
NET POSITION			
Net investment in capital assets	4,666,483	-	4,666,483
Unrestricted - designated	1,044,047	-	1,044,047
Unrestricted	2,259,413	58,955	2,318,368
 Total Net Position	 7,969,943	 58,955	 8,028,898
 Total Liabilities, Deferred Inflows of Resources and Net Position	 \$ 8,609,612	 \$ 133,622	 \$ 8,743,234

See Accompanying Notes to Basic Financial Statements.

TOWN OF ESSEX, VERMONT
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Water & Sewer Fund	Recreation Fund	Total
OPERATING REVENUES			
Charges for services	\$ 2,521,424	\$ 382,677	\$ 2,904,101
Connection fees	291,890	-	291,890
Interest and penalties	30,140	-	30,140
Other income	1,016	2,426	3,442
	<u>2,844,470</u>	<u>385,103</u>	<u>3,229,573</u>
Total Operating Revenues			
OPERATING EXPENSES			
Salaries and benefits	658,146	121,770	779,916
Professional services	40,307	3,481	43,788
Repair and maintenance	68,374	-	68,374
Rentals	-	15,042	15,042
Printing and postage	-	19,049	19,049
Travel	2,135	10,167	12,302
Utilities	60,848	3,078	63,926
CWD water purchases	627,233	-	627,233
Insurance	28,002	-	28,002
Machinery	68,368	-	68,368
Bond expense	298,512	-	298,512
Other operating	14,171	24,445	38,616
Depreciation expense	306,619	-	306,619
Recreation programming	-	220,819	220,819
Sewage treatment	520,202	-	520,202
	<u>2,692,917</u>	<u>417,851</u>	<u>3,110,768</u>
Total Operating Expenses			
Operating Income (Loss)	<u>151,553</u>	<u>(32,748)</u>	<u>118,805</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	8,965	304	9,269
Interest expense	(4,192)	-	(4,192)
Abandoned projects	(22,782)	-	(22,782)
Transfers	24,436	-	24,436
	<u>6,427</u>	<u>304</u>	<u>6,731</u>
Total Nonoperating Revenues (Expenses)			
Change in Net Position	157,980	(32,444)	125,536
Net Position - July 1, 2017	<u>7,811,963</u>	<u>91,399</u>	<u>7,903,362</u>
Net Position - June 30, 2018	<u>\$ 7,969,943</u>	<u>\$ 58,955</u>	<u>\$ 8,028,898</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, 2018

	Water & Sewer Fund	Recreation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,728,839	\$ 385,103	\$ 3,113,942
Payments to suppliers	(1,751,647)	(305,537)	(2,057,184)
Payments for salaries and benefits	<u>(670,586)</u>	<u>(118,763)</u>	<u>(789,349)</u>
Net Cash Provided (Used) by Operating Activities	<u>306,606</u>	<u>(39,197)</u>	<u>267,409</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of property, plant and equipment	(90,241)	-	(90,241)
Interest payments on debt	(4,192)	-	(4,192)
Principal payments on debt	<u>(13,331)</u>	<u>-</u>	<u>(13,331)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(107,764)</u>	<u>-</u>	<u>(107,764)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Transfers	24,436	-	24,436
Interest income	<u>8,965</u>	<u>304</u>	<u>9,269</u>
Net Cash Provided by Investing Activities	<u>33,401</u>	<u>304</u>	<u>33,705</u>
Net Increase (Decrease) in Cash	232,243	(38,893)	193,350
Cash - July 1, 2017	<u>2,696,296</u>	<u>166,676</u>	<u>2,862,972</u>
Cash - June 30, 2018	<u>\$ 2,928,539</u>	<u>\$ 127,783</u>	<u>\$ 3,056,322</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 151,553	\$ (32,748)	\$ 118,805
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	306,619	-	306,619
Change in net assets and liabilities:			
Receivables, net	(115,631)	-	(115,631)
Prepaid expenses	270	-	270
Deferred outflows of resources	7,313	26,556	33,869
Accounts payable	(23,698)	(8,344)	(32,042)
Accrued payroll and compensated absences	(32,411)	2,085	(30,326)
Unearned revenue	-	(1,112)	(1,112)
Other accrued expenses	(67)	-	(67)
Net pension liability	7,813	(25,652)	(17,839)
Deferred inflows of resources	<u>4,845</u>	<u>18</u>	<u>4,863</u>
Net cash provided (used) by operating activities	<u>\$ 306,606</u>	<u>\$ (39,197)</u>	<u>\$ 267,409</u>

See Accompanying Notes to Basic Financial Statements.

TOWN OF ESSEX, VERMONT
FUND FINANCIAL STATEMENTS
STATEMENT OF NET POSITION - FIDUCIARY FUND
June 30, 2018

	<u>Cemetery Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 42,970	\$ 242,545
Total Assets	<u>\$ 42,970</u>	<u>\$ 242,545</u>
 LIABILITIES		
Unearned revenue	<u>\$ -</u>	<u>\$ 242,545</u>
Total Liabilities	<u>-</u>	<u>242,545</u>
 NET POSITION		
Restricted	<u>42,970</u>	<u>-</u>
Total Net Position and Liabilities	<u>\$ 42,970</u>	<u>\$ 242,545</u>

See Accompanying Notes to Basic Financial Statements.

**TOWN OF ESSEX, VERMONT
 FUND FINANCIAL STATEMENTS
 STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Cemetery Trust Fund</u>
ADDITIONS	
Sales of plots	\$ 5,150
Interest on deposits	<u>126</u>
Total Additions	<u>5,276</u>
DEDUCTIONS	
Repairs and maintenance	<u>(2,400)</u>
Total Deductions	<u>(2,400)</u>
Increase in Net Position	2,876
Net Position - July 1, 2017	<u>40,094</u>
Net Position - June 30, 2018	<u><u>\$ 42,970</u></u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Essex, Vermont, (herein the “Town”) 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.

The accounting policies adopted by the Town conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the more significant accounting policies employed in the preparation of these financial statements.

A. Financial 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. Basis of Presentation

The accounts of the Town are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

The basic financial statements of the Town include both government-wide statements and fund financial statements. The focus of the government-wide statements is on reporting the operating results and financial position of the Town as a whole and present a longer-term view of the Town's finances. The focus of the fund financial statements is on reporting the operating results and financial position of the most significant funds of the Town and present a shorter-term view of how operations were financed and what remains available for future spending.

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government, the Town. These statements report the financial activities of the overall government, excluding fiduciary activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Eliminations have been made to minimize the double counting of activities between funds.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The Town reports on the following major governmental funds:

General Fund – This is the Town's primary operating fund. It accounts for all financial resources of the general government except those accounted for in another fund.

Capital Projects Fund – This capital project fund accounts for resources established to fund the Town's long-term capital plan.

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.

The Town reports on the following major enterprise funds:

Water and Sewer Fund – This fund accounts for the operations of the Water and Sewer Department of the Town.

Recreation Fund – This fund accounts for the majority of programs sponsored by the Town's Recreation Department. Programs in this fund are supported by user fees.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis is to be financed or recovered primarily through user charges. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of that fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Additionally, the Town reports the following fiduciary funds:

Cemetery Trust Fund – This fund accounts for monies maintained for use in operating the Town’s cemeteries.

Agency Fund – This fund accounts for resources held by the Town in a purely custodial capacity for other governments, private organizations or individuals.

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 and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, intergovernmental revenues, sewer usage fees and water usage fees are considered susceptible to accrual. Miscellaneous revenues and fees are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

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. Measurable means the amount of the transaction can be determined, and available means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. 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, except for principal and interest on general long-term debt, the net pension liability, certain compensated absences and other long-term liabilities which are recognized when the obligations are expected to be liquidated or are funded with expendable available financial resources.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes, licenses, fees and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within sixty days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the Town.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity

1. Cash 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 primary 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.

2. Receivables

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

3. Internal Balances

Activities between funds that is representative of lending or borrowing arrangements that are outstanding at the end of the fiscal year are referred to as Advances to/from Other Funds. All other outstanding balances between funds are reported as Due to/from Other Funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Inventories and Prepaid Expenses

Inventory quantities are determined by physical count and are valued at the lower of cost or market. Inventory in the General Fund consists of salt, sand and various gravels. Certain payments to vendors reflect costs that are applicable to future accounting periods and are recorded as prepaid expenses. Inventories and prepaid expenses of governmental funds in the fund financial statements are offset by a nonspendable fund balance as these are not in spendable form.

5. Capital Assets

Capital assets are reported at actual cost or estimated historical cost based on appraisals or deflated current replacement cost if purchased or constructed. Contributed assets are recorded at their estimated fair value at the time received. Major outlays for capital assets and improvements are capitalized as constructed. Interest incurred during the construction phase for proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of any interest earned on the invested proceeds during the same period. Interest is not capitalized during the construction phase of capital assets used in governmental activities. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Capital assets reported in the government-wide and proprietary fund financial statements are depreciated in order that the cost of these assets will be charged to expenses over their estimated service lives, generally using the straight-line method of calculating depreciation. Assets are 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 greater than one year at the date of acquisition.

Capital assets are not reported in the governmental fund financial statements. Capital outlays in these funds are recorded as expenditures in the year they are incurred.

6. Long-term Liabilities

Long-term liabilities include bonds, notes and capital leases payable and other obligations such as compensated absences and the net pension liability. Long-term liabilities are reported in the government-wide and proprietary fund financial statements. Governmental fund financial statements do not include any long-term liabilities as those statements use the current financial resources measurement focus and only include current liabilities on their balance sheets.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The Town has one type of item which arises under the accrual basis of accounting that qualifies for reporting in this category. The governmental activities, the business-type activities and the proprietary funds report deferred outflows of resources related to the Town's participation in VMERS.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items which arise under the accrual basis of accounting and three types which arise under the modified accrual basis of accounting that qualify for reporting in this category.

The governmental activities, the business-type activities and the proprietary funds report deferred inflows of resources from two sources: prepaid property taxes and deferred inflows of resources related to the Town's participation in VMERS. The governmental funds report deferred inflows of resources from three sources: prepaid property taxes, unavailable property taxes (including penalty and interest) and unavailable other revenue. Unavailable other revenue includes grant revenues earned but not received within sixty days of the end of the current period.

8. Pensions

For purposes of measuring the proportionate share of the net pension liability and the related deferred outflows and inflows of resources and pension expense, information about the fiduciary net position of the Vermont Municipal Employees' Retirement System (VMERS) pension plan and additions to or deductions from the VMERS fiduciary net position have been determined on the same bases as they are reported by VMERS. 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.

9. Net Position

Government-wide and proprietary fund net position is divided into three components:

Net Investment in Capital Assets – consists of the historical cost of capital assets less accumulated depreciation and less any outstanding debt that was used to finance those assets.

Restricted – consists of net position that is restricted by the Town's creditors, by enabling legislation, by grantors (both federal and state) and/or by contributors.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrestricted – all other net position is reported in this category

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to use restricted net position before unrestricted net position.

10. Fund Balance

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Fund balances are classified as nonspendable (not in spendable form or legally required to remain intact); restricted (constraints on the use of resources are either externally imposed by creditors, grantors, or donors, or imposed by law through enabling legislation); committed (constraints on the use of resources are imposed by formal action of the voters); assigned (reflecting the Selectboard's intended use of the resources); and unassigned. Positive unassigned fund balance can only be reported in the General Fund.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The Town has a minimum fund balance policy of maintaining an unassigned fund balance of no more than fifteen percent (15%) of the total fund balance.

E. Estimates

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

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND AND GOVERNMENT - WIDE STATEMENTS

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, whereas government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. These differences in the measurement focus and basis of accounting lead to differences between the governmental fund financial statements and the government-wide financial statements as follows.

Long-term revenue differences arise because governmental funds report revenues only when they are considered available, whereas government-wide statements report revenues when they are earned. Long-term expense differences arise because governmental funds report expenditures (including interest) using the modified accrual basis of accounting, whereas government-wide statements report expenses using the accrual basis of accounting.

Capital-related differences arise because governmental funds report capital outlays as current period expenditures, whereas government-wide statements report depreciation as an expense. Further, governmental funds report the proceeds from the sale of capital assets as an other financing source, whereas government-wide statements report the gain or loss from the sale of capital assets as revenue or expense.

Long-term debt transaction differences arise because governmental funds report proceeds of long-term debt as other financing sources and principal payments as expenditures, whereas government-wide statements report those transactions as increases and decreases in liabilities, respectively.

Pension related differences arise because governmental funds report the current year's required employer contributions as current period expenditures, whereas government-wide statements report those transactions as deferred outflows of resources. In addition, the accrual for the Town's proportionate share of the VMERS net pension liability is recorded in the government-wide financial statements along with the related deferred inflows and outflows of resources.

NOTE 3 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.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2018 consisted of the following:

	Book Balance	Bank Balance
Insured by the FDIC	\$ 750,000	\$ 750,000
Insured by Deposit Surety Bond	14,227,264	14,386,011
Uninsured	-	184,596
Petty Cash	3,346	-
Total Deposits	\$ 14,980,610	\$ 15,320,607

The difference between the book and bank balance is due to reconciling items such as deposits in transit and outstanding checks.

The Town's cash management account is insured under an Irrevocable Standby Letter of Credit. The coverage with TD Bank is in the amount of \$2,530,000 and is for the period October 1, 2017 – July 16, 2018. The Town's general fund checking account is insured by a sweep account. The coverage with Community Bank, NA is in the full amount of the bank balance at the close of business on any given day if the bank were to fail. The funds swept from the account are secured by a perfected security interest in purchased securities and therefore would not be considered deposits with the bank.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counter-party (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in possession of another party. The Town's policy only allows deposits in banks that are FDIC insured and agree to collateralize amounts in excess of FDIC limits. The Town has no investments subject to credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town has no investments subject to interest rate risk disclosure.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 CASH AND CASH EQUIVALENTS (continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Town's policy does not allow investment in securities that are subject to credit risk unless issued by the Federal Government.

Concentration of Credit Risk

The Town has no limit on the amount that they may invest with any one issuer. As June 30, 2018, the Town is not exposed to concentration of credit risk.

NOTE 5 RECEIVABLES

Receivables at June 30, 2018, as reported in the statement of net position, net of applicable allowances for uncollectible accounts, are as follows.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Delinquent Taxes	\$ 673,386	\$ -	\$ 673,386
Penalties and Interest	127,214	-	127,214
Billed Services	71,535	216,132	287,667
Unbilled Services	-	470,000	470,000
Grants	55,182	-	55,182
Other	29,710	-	29,710
Allowance for Doubtful Accounts	<u>(110,000)</u>	<u>(2,500)</u>	<u>(112,500)</u>
	<u>\$ 847,027</u>	<u>\$ 683,632</u>	<u>\$ 1,530,659</u>

Property taxes attach as an enforceable lien on property as of September 16th and March 16th. Taxes are levied in August and payable on September 15th and March 15th. 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 sixty days after the close of the current period. Taxes receivable that remain uncollected as of August 31, 2018 have been recorded as unavailable property tax revenue, a deferred inflow of resources, with a corresponding decrease in current year tax revenues. Unavailable property tax revenue amounted to \$465,000 at June 30, 2018.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 NOTES RECEIVABLE

The Town received a \$490,000 Vermont Community Development Program Grant award during the fiscal year 2008. 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.

The Town received a \$515,500 Vermont Community Development Program Grant award during the fiscal year 2012. This grant was loaned to the Cedar's Edge Apartments Limited Partnership to assist in the acquisition of an affordable housing development located on 47 Susie Wilson Drive in Essex, Vermont. The loan is deferred for 30 years and bears no interest. As such, the Town has recorded an allowance for the entire amount.

Governmental Activities	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 3,531,844	\$ 899,337	\$ -	\$ 4,431,181
Construction in progress	<u>537,930</u>	<u>450,051</u>	<u>(650,932)</u>	<u>337,049</u>
Total capital assets not being depreciated	<u>4,069,774</u>	<u>1,349,388</u>	<u>(650,932)</u>	<u>4,768,230</u>
Other capital assets:				
Book collection	459,726	-	-	459,726
Building and improvements	11,203,146	108,272	-	11,311,418
Infrastructure	24,406,703	640,364	(558,536)	24,488,531
Equipment	<u>6,559,375</u>	<u>493,911</u>	<u>(224,660)</u>	<u>6,828,626</u>
Total other capital assets	<u>42,628,950</u>	<u>1,242,547</u>	<u>(783,196)</u>	<u>43,088,301</u>
Less accumulated depreciation for:				
Book collection	(459,726)	-	-	(459,726)
Building and improvements	(1,937,455)	(276,584)	-	(2,214,039)
Infrastructure	(12,815,374)	(659,464)	556,804	(12,918,034)
Equipment	<u>(3,332,111)</u>	<u>(519,605)</u>	<u>216,979</u>	<u>(3,634,737)</u>
Total accumulated depreciation	<u>(18,544,666)</u>	<u>(1,455,653)</u>	<u>773,783</u>	<u>(19,226,536)</u>
Total capital assets being depreciated, net	<u>24,084,284</u>	<u>(213,106)</u>	<u>(9,413)</u>	<u>23,861,765</u>
Governmental Activities - Capital Assets, Net	<u>\$28,154,058</u>	<u>\$1,136,282</u>	<u>\$ (660,345)</u>	<u>\$28,629,995</u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 CAPITAL ASSETS

Depreciation expense was charged to functions, as follows:

General Government	\$ 100,107
Public Safety	453,382
Highways and Streets	793,566
Storm Water	14,410
Culture and Recreation	<u>94,188</u>
TOTAL	<u>\$ 1,455,653</u>

Business-Type Activities	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	\$ 43,605	\$ 12,373	\$ (22,782)	\$ 33,196
Capital assets being depreciated:				
Water and sewer infrastructure	12,766,648	12,190	-	12,778,838
Machinery and equipment	280,863	-	-	280,863
Vehicles	<u>152,627</u>	<u>65,678</u>	<u>-</u>	<u>218,305</u>
Total Capital assets being depreciated	<u>13,200,138</u>	<u>77,868</u>	<u>-</u>	<u>13,278,006</u>
Less accumulated depreciation for:				
Water and sewer infrastructure	(7,783,969)	(278,056)	-	(8,062,025)
Machinery and equipment	(228,904)	(11,686)	-	(240,590)
Vehicles	<u>(125,605)</u>	<u>(16,877)</u>	<u>-</u>	<u>(142,482)</u>
Total accumulated depreciation	<u>(8,138,478)</u>	<u>(306,619)</u>	<u>-</u>	<u>(8,445,097)</u>
Total capital assets being depreciated, net	<u>5,061,660</u>	<u>(228,751)</u>	<u>-</u>	<u>4,832,909</u>
Business-Type Activities - Capital Assets, Net	<u>\$ 5,105,265</u>	<u>\$ (216,378)</u>	<u>\$ (22,782)</u>	<u>\$ 4,866,105</u>

Depreciation expense for the Business-type Activities was \$306,619 for the fiscal year ended June 30, 2018.

June 30, 2018
Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8 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, 2018.

<u>Amount</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Purpose</u>
\$ 170,000	General Fund	Capital Projects	Fire Department
6,000	General Fund	Capital Projects	Administration Vehicles
31,000	General Fund	Capital Projects	Parks Equipment
175,000	General Fund	Capital Projects	Highway Equipment
4,000	General Fund	Capital Projects	Senior Vans
139,605	General Fund	Capital Projects	FY18 Assignments for Capital
2,850	General Fund	Capital Projects	Information Technology
1,724	General Fund	Water & Sewer	Conservation
<u>22,712</u>	Capital Projects Fund	Water & Sewer	Accumulated Project Funds
 <u><u>\$ 552,891</u></u>			

The Town generally maintains one cash account in the General Fund to pay expenditures and receive payments for efficiency. All interfund balances resulted from the time lag between the dates that (1) reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) repayments between funds are made.

NOTE 9 ACCRUED COMPENSATION

Accrued compensation includes vacation, comp-time and sick leave for eligible employees. Upon termination (voluntary or involuntary) the employee shall be entitled to receive the accrued and unused vacation and compensatory time in a cash payment. Sick time is only paid out upon retirement. In the past, it was the Town's policy to begin accruing sick time for individuals upon turning 55. In 2018, the policy changed to begin accruing the time at age 50.

At June 30, 2018, the Town had the following vested benefits earned by their employees:

	<u>General Fund</u>	<u>Water/Sewer Fund</u>
Vested Compensation	\$ 967,426	122,753
Less: Current Portion	<u>(54,895)</u>	<u>(1,930)</u>
 TOTAL LONG-TERM PORTION	 <u><u>\$ 912,531</u></u>	 <u><u>\$ 120,823</u></u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 NOTES AND BONDS PAYABLE

	Beginning Balance	Additions	Principal Reduction	Ending Balance	Current Portion
Governmental Activities					
Vermont Municipal Bond Bank, 2013 Series I Bonds, interest varies from .444% to 4.644%. Annual principal payments of \$345,000 plus interest, due November 15, 2033	\$ 5,865,000	\$ -	\$ (345,000)	\$5,520,000	\$ 345,000

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Governmental Activities as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 345,000	\$ 203,290	\$ 548,290
2020	345,000	194,973	539,973
2021	345,000	184,890	529,890
2022	345,000	174,408	519,408
2023	345,000	162,844	507,844
2024-2028	1,725,000	582,491	2,307,491
2029-2033	1,725,000	211,214	1,936,214
2034	345,000	843	345,843
TOTAL	\$ 5,520,000	\$ 1,714,953	\$ 7,234,953

	Beginning Balance	Additions	Principal Reduction	Ending Balance	Current Portion
Business-Type Funds					
Note payable to State of Vermont, note, 2% administrative fee, due January 1, 2031.	\$ 212,953	\$ -	\$ (13,331)	\$ 199,622	\$ 13,598

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 NOTES AND BONDS PAYABLE (continued)

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Business-Type Funds as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 13,598	\$ 3,992	\$ 17,590
2020	13,870	3,720	17,590
2021	14,147	3,443	17,590
2022	14,430	3,160	17,590
2023	14,719	2,872	17,591
2024-2028	78,129	9,822	87,951
2029-2032	50,729	2,043	52,772
	<u>\$ 199,622</u>	<u>\$ 29,052</u>	<u>\$ 228,674</u>

Total interest expense paid for the year ended June 30, 2018 was \$198,117 in the governmental activities funds and \$4,192 in the business-type funds.

NOTE 11 CAPITAL LEASE

The Town has entered into a lease agreement as lessee for financing the acquisition of a firetruck valued at \$737,104, respectively. The equipment has a 15-year estimated useful life. This year, \$41,140 was included in depreciation expense. 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 future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018 were as follows:

Year Ending June 30,	Future Minimum Payments	Net Present Value	Interest
2019	\$ 102,064	\$ 76,761	25,303
2020	102,064	78,979	23,085
2021	102,064	81,262	20,802
2022	102,064	83,610	18,454
2023	102,063	86,026	16,037
2024-2028	510,318	468,893	41,425
Total minimum lease payments	<u>\$ 1,020,637</u>	<u>\$ 875,531</u>	<u>\$ 145,106</u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 FUND BALANCES AND NET POSITION

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use. The Town has implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

Governmental fund balances are classified as: nonspendable (not in spendable form or legally required to remain intact); restricted (constraints on the use of resources are either externally imposed by creditors, grantors or donors, or imposed by law through enabling legislation); committed (constraints on the use of resources are imposed by formal action of the voters); assigned (reflecting the Selectboard's intended use of resources); and unassigned.

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, 2018 are as follows:

Governmental Activities

Restricted for:	
Reappraisal	<u>\$ 680,510</u>

General Fund

Nonspendable for:	
Inventory	\$ 184,680
Prepaid expenses	<u>184,312</u>
Total Nonspendable Fund Balance	<u>\$ 368,992</u>
Restricted for:	
Reappraisal	<u>\$ 680,510</u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 FUND BALANCES AND NET POSITION (continued)

Assigned for:	
Transfer for Stormwater	50,000
Economic development	9,713
Planning	18,316
Retirement	502,444
Fire Salaries	13,332
Police Early Retirement	66,240
Steps to End Domestic Violence	1,000
Tax Equity in Merger	50,000
Building Maintenance	71,467
Governance Advisory Attorney	26,500
Records preservation	96,299
Reduce FY19 Taxes	150,000
Assigned for future tax reduction	<u>118,721</u>
 Total Assigned Fund Balance	 <u><u>\$ 1,174,032</u></u>

Capital Projects Fund

Assigned for:	
Future vehicle purchases	\$ 487,243
Future firefighting equipment purchases	36,758
Future parks and recreation projects	732,308
Future highway projects	731,798
Future stormwater projects	352,118
Future building projects	142,525
Future paths projects	187,121
Future capital projects	<u>290,927</u>
 Total Assigned Fund Balance	 <u><u>\$ 2,960,798</u></u>

Water and Sewer Fund

Designated for:	
Future capital expenses	\$ 1,038,600
Prepaid expenses	<u>5,447</u>
 Total Designated Net Assets	 <u><u>\$ 1,044,047</u></u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 FUND BALANCES AND NET POSITION (continued)

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Town's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Town's policy to use the fund balances in the following order: (1) Committed (2) Assigned (3) Unassigned.

NOTE 13 DEFINED CONTRIBUTION 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 \$37,314 and the employee contributions were \$13,993 for the year ended June 30, 2018.

NOTE 14 PENSION PLAN

Plan Description

The Vermont Municipal Employees' Retirement System (VMERS) is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirements is required to join the system. During the year ended June 30, 2017, the retirement system consisted of 423 participating employers.

The plan was established effective July 1, 1975, and is governed by Title 24, V.S.A. Chapter 125. The general administration and responsibility for formulating administrative policy and procedures of the retirement System for its members and their beneficiaries is vested in the Board of Trustees consisting of five members. They are the State Treasurer, two employee representatives elected by the membership of the system, and two employer representatives—one elected by the governing bodies of participating employers of the system, and one selected by the Governor from a list of four nominees. The list of four nominees is jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association.

All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are based on average final compensation (AFC) and years of creditable service.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 14 PENSION PLAN (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

Net pension liabilities, deferred pension outflows of resources, deferred pension inflows of resources, and pension expense are all presented as of the Town's reporting date June 30, 2018 and for the Town's reporting period (the year ended June 30, 2018). These amounts are measured as of the measurement date and for the measurement period (the period between the prior and current measurement dates). GASB Statement No. 68 requires that the current measurement date be no earlier than the end of the employer's prior fiscal year. For the reporting date of the Town, the State has chosen to use the end of the prior fiscal year (June 30, 2017) as the measurement date, and the year ended June 30, 2017 as the measurement period.

The total pension liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. The State has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of July 1, 2015, to the measurement date of June 30, 2017.

As of June 30, 2017, the Town's proportionate share of the total VMERS net pension liability was 2.11696%, an increase from 1.94312% as of June 30, 2016. For the year ended June 30, 2018, the Town recognized pension expense of \$663,621.

As of June 30, 2018, the Town reported deferred outflows or resources and deferred inflows of resources from the following sources.

	Deferred Outflows <u>of Resources</u>	Deferred Inflows <u>of Resources</u>
Changes in proportional share of contributions	\$ 123,704	\$ 8,714
Difference between projected and actual earnings on pension plan investments	427,184	-
Difference between expected and actual experience	37,312	63,492
Changes in assumptions	536,939	-
Town's required employer contributions made subsequent to the measurement date	<u>418,493</u>	<u>-</u>
Total	<u>\$ 1,543,632</u>	<u>\$ 72,206</u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 14 PENSION PLAN (continued)

The deferred outflows or resources resulting from the Town's required employer contributions made subsequent to the measurement date in the amount of \$418,493 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows.

Year Ended June 30	
2019	\$ 519,495
2020	154,439
2021	<u>2,020</u>
Total	<u>\$ 675,954</u>

Summary of System Provisions

Membership: Full time employees of participating municipalities. Municipality elected coverage under Groups A, B, C or D provisions. The Town has elected coverage under Group C and D provisions for the year ended June 30, 2018

Credible Service: Service as a member plus purchased service.

Average Final Compensation (AFC): Group C – Average annual compensation during the highest three consecutive years.
Group D – Average annual compensation during highest two consecutive years.

Service Retirement Allowance:

Eligibility: Group C and D – Age 55 with five (5) years of service.

Amount: Group C – 2.5% of AFC times service as a Group C member plus percentage earned as a Group A or B member times AFC.

Group D – 2.5% of AFC times service as a Group C member plus percentage earned as a Group A or B or C member times AFC.

Maximum benefit is 50% of AFC for Group C and D. The previous amounts include the portion of the allowance provided by member contributions.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 14 PENSION PLAN (continued)

Early Retirement Allowance:

Eligibility: There is no early retirement allowance for Group C. Age 50 with 20 years of Service for Group D.

Amount: Normal allowance on service and AFC at early retirement.

Vested Retirement Allowance:

Eligibility: Five (5) years of service.

Amount: Allowance beginning at normal retirement age based on AFC and service at termination. The AFC is to be adjusted annually by one-half of the percentage change in the Consumer Price Index, subject to the limits on "Post-Retirement Adjustments".

Disability Retirement Allowance:

Eligibility: Five (5) years of service and disability as determined by Retirement Board.

Amount: Immediate allowance based on AFC and service to date of disability. Children's benefit of 10% of AFC payable to up to three minor children (or children up to age 23 if enrolled full-times studies) of a disabled Group D member.

Death Benefit:

Eligibility: Death after five (5) years of service.

Amount: For Group C, reduced early retirement allowance under 100% survivor option commencing immediately or, if greater, survivor's benefit under disability annuity computed as of date of death. For Group D, 70% of the unreduced accrued benefit plus children's benefit.

Optional Benefit and Death after Retirement: For Group C, lifetime allowance or actuarially equivalent 50% or 100% joint and survivor allowance with refund of contribution guarantee. For Group D, lifetime allowance or 70% contingent annuitant option with no reduction.

Refund of Contribution: Upon termination, if the member so elects or if no other benefit is payable, the member's accumulated contributions are refunded.

Post-Retirement Adjustments: Allowance in payment for at least one year increased on each January 1 by one-half of the percentage increase in the Consumer Price Index but not more than 3% for Group C and D.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 14 PENSION PLAN (continued)

Member Contributions: Group C – 10.00%
Group D – 11.35%

Employer Contributions: Group C – 7.25%
Group D – 9.85%

Retirement Stipend: \$25 per month payable at the option of the Board of Trustees.

Significant Actuarial Assumptions and Methods

Interest Rate: 7.50%, net of pension plan investment expenses including inflation

Salary Increases: 5% per year.

Deaths:

Death in Service:

Group C- 98% of RP-2014 blended 60% Blue Collar Annuitant, 40% Healthy Annuitant with generational projection using Scale SSA-2017.

Group D- 100% of RP-2014 Blue Collar Annuitant Table with generation projection using Scale SSA-2017.

Health Post-Retirement:

Group C- 98% of RP-2014 blended 60% Blue Collar Annuitant, 40% Healthy Annuitant with generational projection using Scale SSA-2017.

Group D- 100% of RP-2014 Blue Collar Annuitant Table with generation projection using Scale SSA-2017.

Disabled Post-Retirement:

All Groups- RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017

Spouse's Age: Females three years younger than males.

Cost-of-Living Assumed to occur on January 1 following one year of retirement at the rate of 1.3% per annum for members from Groups C and D (beginning at Normal Retirement eligibility age for members who elect reduced early retirement, at age 62 for members of Groups D who receive a disability retirement benefit.) The January 1, 2018 COLA is assumed to be 0.75% for all groups and at age 55 for members of Group C who receive a disability retirement benefit.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 14 PENSION PLAN (continued)

Actuarial Cost Method: Entry Age Actuarial Cost Method. Entry Age is the age at date of employment or, if date is unknown, current age minus years of service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary with Normal Cost determined using the plan benefits applicable to each participant.

Asset Valuation Method: Invested assets are reported at fair value.

Note: For funding purposes a smoothing method is used, under which the value of assets for actuarial purposes equals market value less a five-year phase-in of the differences between actual and assumed investment return. The value of assets for actuarial purposes may not differ from the market value of assets by more than 20% (not for GASB 68).

Inflation: 2.5%

Long-term Expected Rate of Return: 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US Equity	16%	6.07%
Non-US Equity	16%	7.42%
Global Equity	9%	6.85%
Real Estate	8%	4.62%
Private Markets	15%	7.80%
Hedge Funds	8%	3.95%
Risk Parity	4%	4.84%

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 14 PENSION PLAN (continued)

Discount Rate: The discount rate used to measure the total pension liability was 7.5%. In accordance with paragraph 29 of GASB 68, professional judgement was applied to determine that the System's projected fiduciary net position exceeds projected benefit payments for current active and inactive members for all years. The analysis was based on the expectation that employers will continue to contribute at the rates set by the Board, which exceed the actuarially determined contribution, which is comprised on an employer normal cost payment and a payment to reduce the unfunded liability to zero by June 30, 2038, 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 7.5%, as well as what the proportionate share would be if it were calculated using a discount rate that is one percent lower (6.5%) or one percent higher (8.5%).

Impact of a 1% Change in the Discount Rate

	<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% Decrease	6.50%	\$ 4,579,305
Current Rate	7.50%	\$ 2,564,813
1% Increase	8.50%	\$ 894,117

Additional Information

Additional information regarding the State of Vermont Municipal Employees' Retirement System, including the details of the Fiduciary Net Position, is available upon request from the State of Vermont.

NOTE 15 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, 2018

NOTE 16 LANDFILL POST CLOSURE COSTS

Landfill post closure costs were necessitated by the closure of the Town landfill in 1992 and the continuing site maintenance and testing requirements of the State of Vermont as ordered in the Closure Order. The monitoring program outlined in the Closure Order expired in May 2013. Annual water quality monitoring has continued per the request of the State of VT Solid Waste Management Program. Sufficient funds were not set aside in the tipping fee during the landfill's years of operation to cover these continuing expenses. The Town budgets on an annual basis for continued site maintenance and testing. The Town's cost of the site maintenance and testing were \$10,816 for the year ended June 30, 2018.

NOTE 17 RELATED PARTY

In July 2014 the Town entered agreements with the Village of Essex Junction and the Essex Junction School District to bill and collect property taxes for each entity. Under the terms of the agreements, the Town purchased the outstanding delinquent taxes, penalty and interest receivables as of July 1, 2014, and assumes liability for the collection of those balances due. The Town will turn over to each entity, one half of the total amounts billed within 20 days of each due date. All penalties and interest that accrues on delinquent balances shall belong to the Town. Included in the Reserve for non-current taxes, is a provision for the delinquent balances associated with the taxes billed for the Village of Essex Junction and The Essex Junction School District. Effective July 2015, the accounting departments of the Village of Essex (the Village) and the Town merged and operate under one accounting system and one operating cash account. At June 30, 2018 \$4,005,107 was owed to the Village from the Town. The Town also owed the village \$14,056 for expenses included in accounts payable at year end.

NOTE 18 CONCENTRATION OF REVENUES

The Town receives a major portion of its revenue from Global Foundries. For the year ended June 30, 2018, the Town received 3.1% of its total property tax income from Global Foundries.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 19 TAX ABATEMENT

The Town has one tax stabilization agreement that qualifies as a tax abatement per GASB Statement no. 77 Tax Abatement Disclosures. The Town, under the authority of the Town of Essex Selectboard Commercial/Industrial/Mixed Use Tax Stabilization Policy, has entered into a ten year tax stabilization agreement beginning in FY2018. In exchange the recipient agrees to keep and maintain its manufacturing operation on the property in the Town and create and maintain at least 170 jobs in the Town for the duration of the agreement. The Town has agreed to abate 100% of the municipal taxes for the first five years of the agreement. The percentage of abated taxes decreases to 80% in year 6, 70% in year 7, 60% in year 8, 40% in year 9, and 20% in year 10. For FY2018 the amount of taxes abated totaled \$28,079. The agreement includes provisions to recapture foregone property taxes if the agreement is terminated. If the years elapsed between the close of the tax year when the tax reduction was provided and the year the company became ineligible are two or less the recapture will be 100%; if years elapsed are two to four the recapture will be 50%; and if years elapsed are four to six the recapture will be 25%. This agreement applies to Town taxes only and has no impact on Educational property taxes.

NOTE 20 RESTATEMENT

During fiscal year 2018, it was discovered that the beginning inventory recorded by the Town was understated by \$125,916.

Fund Balance- Governmental Activities:

Fund Balance, Beginning of Year, as previously reported	\$ 3,861,365
Prior Period Correction	<u>125,916</u>
Fund Balance, Beginning of Year, as restated	<u><u>\$ 3,987,281</u></u>

Net Position- Government-Wide Financial Statements

The correction noted above was also corrected for the government-wide net position.

Net Position, Beginning of Year, as previously reported	\$ 26,586,469
Prior Period Correction	<u>125,916</u>
Net Position, Beginning of Year, as restated	<u><u>\$ 26,712,385</u></u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 21 CHANGE IN ESTIMATE

During the year 2018, the Town began the accrual for sick time payout as of age 50 rather than 55. The change is accounted for prospectively and the current year liability increased \$145,640 due to the change.

NOTE 22 DISCLOSURE OF SUBSEQUENT EVENTS

Subsequent to year end the Town entered into Master Lease Purchase Agreement on October 1, 2018 with Santander Bank, NA for the lease of a Sidewalk Tractor with Snow Blower in the amount of \$145,420. The lease is payable over a 5 year period with annual payments, including interest at 4.14% of \$31,490.

In accordance with professional accounting standards, the Town has evaluated subsequent events through January 14, 2019, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2018, have been incorporated into the financial statements herein.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF ESSEX, VERMONT
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGETARY BASIS - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Property tax	\$ 12,493,288	\$ 12,493,288	\$ 12,560,218	\$ 66,930
Licenses and permits	66,300	66,300	88,817	22,517
Intergovernmental revenues	388,800	388,800	453,364	64,564
Charges for services	424,350	424,350	471,337	46,987
Fines and forfeits	141,000	141,000	249,232	108,232
Interest income	20,000	20,000	26,445	6,445
Miscellaneous income	45,001	45,001	183,839	138,838
	<u>13,578,739</u>	<u>13,578,739</u>	<u>14,033,252</u>	<u>454,513</u>
EXPENDITURES				
General government	2,887,767	2,887,767	2,973,530	(85,763)
Public safety	4,448,113	4,448,113	4,339,944	108,169
Highways and Streets	3,108,068	3,108,068	3,078,755	29,313
Stormwater	324,481	324,481	273,935	50,546
Sanitation	14,500	14,500	10,816	3,684
Health and Welfare	253,108	253,108	255,330	(2,222)
Culture and Recreation	1,258,686	1,258,686	1,165,220	93,466
Debt service	560,318	560,318	543,117	17,201
Intergovernmental	459,398	459,398	392,850	66,548
	<u>13,314,439</u>	<u>13,314,439</u>	<u>13,033,497</u>	<u>280,942</u>
Excess of Revenues over Expenditures	<u>264,300</u>	<u>264,300</u>	<u>999,755</u>	<u>735,455</u>
OTHER FINANCING SOURCES/(USES)				
Operating Transfers Out	<u>(390,300)</u>	<u>(390,300)</u>	<u>(530,179)</u>	<u>(139,879)</u>
Net Change in Fund Balance	<u>\$ (126,000)</u>	<u>\$ (126,000)</u>	<u>\$ 469,576</u>	<u>\$ 595,576</u>
RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS				
Excess of Revenues over Expenditures- Budgetary Basis			\$ 469,576	
Adjustments for non-budget:				
Grant revenues			265,895	
Other revenues			20,220	
Grant expenditures			(356,927)	
Other expenditures			<u>(12,342)</u>	
Excess of Revenues over Expenditures- GAAP Basis			<u>\$ 386,422</u>	

See Accompanying Notes to Basic Financial Statements.

TOWN OF ESSEX, VERMONT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Town's proportion of the net pension liability (asset)	2.1170%	1.9431%	1.8136%	1.8721%	1.7839%
Town's proportionate share of the net pension liability (asset)	<u>\$ 2,564,813</u>	<u>\$ 2,500,717</u>	<u>\$ 1,398,230</u>	<u>\$ 170,857</u>	<u>\$ 649,480</u>
Town's covered-employee payroll	<u>\$ 4,765,037</u>	<u>\$ 4,109,687</u>	<u>\$ 3,653,790</u>	<u>\$ 3,610,210</u>	<u>\$ 3,294,379</u>
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	53.83%	60.85%	38.27%	4.73%	19.71%
Plan fiduciary net position as a percentage of the total pension liability	83.64%	80.95%	87.42%	98.32%	92.71%

Significant Actuarial Assumptions and methods are described in Note 14 to the financial statements. Changes in Assumptions and Methods were effective June 30, 2017:

Assumed inflation was lowered from 3% to 2.5%

The investment return assumption was lowered from 7.95% to 7.5%

Assumed COLA increases were lowered from 1.5% to 1.15% for Group A members and from 1.8% to 1.3% for Groups B, C, and D members.

The mortality tables were updated from variations of RP-2000 with static projection to variations of RP-2014 with generational improvement.

See Accompanying Notes to Basic Financial Statements.

TOWN OF ESSEX, VERMONT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions (Actuarially Determined)	\$ 345,718	\$ 295,324	\$ 253,517	\$ 241,486	\$ 214,135
Contributions in Relation to the Actuarially Determined Contributions	<u>345,718</u>	<u>295,324</u>	<u>253,517</u>	<u>241,486</u>	<u>214,135</u>
Covered Employee Payroll	<u>\$ 4,765,037</u>	<u>\$ 4,109,687</u>	<u>\$ 3,653,790</u>	<u>\$ 3,610,210</u>	<u>\$ 3,294,379</u>
Contributions as a Percentage of Covered Employee Payroll	7.26%	6.20%	6.17%	6.69%	6.50%

Significant Actuarial Assumptions and methods are described in Note 14 to the financial statements. Changes in Assumptions and Methods were effective June 30, 2017:

- assumed inflation was lowered from 3% to 2.5%*
- the investment return assumption was lowered from 7.95% to 7.5%*
- assumed COLA increases were lowered from 1.5% to 1.15% for Group A members and from 1.8% to 1.3% for Groups B, C, and D members.*
- the mortality tables were updated from variations of RP-2000 with static projection to variations of RP-2014 with generational improvement.*

See Accompanying Notes to Basic Financial Statements.