

Town of Essex, Vermont
BASIC FINANCIAL STATEMENTS
June 30, 2010

Town of Essex, Vermont
TABLE OF CONTENTS
June 30, 2010

Page

INDEPENDENT AUDITOR'S REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIC FINANCIAL STATEMENTS:

Government-Wide Financial Statements:

Statement of Net Assets	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 Assets – Proprietary Funds	7
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	8
Statement of Cash Flows – Proprietary Funds	10
Statement of Net Assets - Fiduciary Fund	11
Statement of Changes in Net Assets – Fiduciary Fund	12

Notes to Basic Financial Statements	13
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REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund	25
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Town of Essex, Vermont
TABLE OF CONTENTS
June 30, 2010

Report

SINGLE AUDIT ACT - REPORTS AND SCHEDULES

Schedule of Expenditures of Federal Awards	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	3
Schedule of Findings and Questioned Costs	4



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, each major fund, and the aggregate remaining fund information of Town of Essex, Vermont, as of and for the year ended June 30, 2010, which collectively comprise the Town of Essex, Vermont's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Essex, Vermont's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Vermont, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010, on our consideration of the Town of Essex, Vermont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Kittell Branagan & Sargent

St. Albans, Vermont
December 17, 2010

Town of Essex, Vermont
Management's Discussion and Analysis
Required Supplementary Information
For the Year Ended June 30, 2010

The following is a discussion and analysis of the Town of Essex's financial performance, including an overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2010. Readers should consider this information in conjunction with the financial statements, which are located after this analysis. The Town implemented the new reporting standard, GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments during FY 2004. This discussion and analysis provides comparisons between FY 2010 and FY 2009.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

The Town's assets exceeded its liabilities at June 30, 2010, by \$27,226,525 compared to \$25,994,572 at June 30, 2009. This represents an increase of \$1,231,953 or 4.7%. The change in net assets for fiscal year 2009 was \$960,164. The 2010 increase was an increase of \$271,789 over the 2009 increase.

Fund Highlights

At the end of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$3,576,456, an increase of \$508,516 when compared with \$3,067,940 for the prior year. Of the total fund balance, \$2,464,492 represents amounts reserved or designated for specific purposes, such as reappraisal, prepaid expenses, and various capital projects. The remaining \$1,111,964 represents unreserved fund balance, including \$607,993 in the General Fund and \$503,971 in the Capital Projects Fund.

In the General Fund, the unreserved total of \$607,993 is an increase of \$1,057 from the June 30, 2009 unreserved balance of \$606,936. While the total Fund Balance increase in the General Fund was \$147,949, most of that (\$146,892) was in the reserved and designated portions of Fund Balance. There was an increase in the amount reserved for reappraisal of \$65,322 along with a decrease of \$4,200 in the reserve for encumbrances and a decrease of \$1,230 in the reserve for prepaid expenses. There were also increases in the amount of Fund Balance designated for specific purposes as follows: Economic Development - \$6,000, Planning - \$40,000, Retirement - \$30,000, and Selectboard Professional Services - \$11,000.

In the General Fund, the unreserved balance of \$607,993 represents 6.2% of the General Fund operating budget for FYE2011 or approximately three weeks of operating expenses. Various organizations recommend from 5% to 15% or two months of operating expenses as an appropriate fund balance. The Town's Unreserved Fund Balance sits at the low end of the recommended range.

Long-term Debt

The Town's total debt increased during the fiscal year to \$1,668,357 a net increase of \$138,344 or 9%. The main cause of the increase was the addition of 2 ARRA loans that were received to help fund a major upgrade to one the Town sewer pump stations and the construction of two stormwater projects. The ARRA projects provided project funding in the form of grants equal to 50% of the project costs and loans for the remaining 50%. The combined total of the two loans was \$398,409 as of June 30, 2010. These loans carry no interest rate but are subject to a 2% administrative fee each year on the outstanding balance. In the case of the stormwater projects the debt service costs will be shared between the Town and the private landowners whose property benefited from the projects. More detailed information regarding these activities begins on page 19. (See Note 5)

Town of Essex, Vermont
Management's Discussion and Analysis
Required Supplementary Information
For the Year Ended June 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- **Management's Discussion and Analysis** - An introduction to the basic financial statements that is intended to be an easily read analysis of the Town's financial activities based on currently known facts, decisions or conditions.
- **Basic Financial Statements** - This section of the report includes government-wide financial statements, fund financial statements, and notes to the financial statements.
- **Required Supplementary Information** - This section of the report includes financial information that is not part of the basic financial statements but is required by accounting principles generally accepted in the United States of America (GAAP). It is comprised of the budgetary comparison schedule for the general fund.

Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Town's financial position, which helps readers determine whether the Town's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the full accrual basis of accounting. This means that all revenue and expenditures are reflected in the financial statements even if the related cash has not been received or paid as of June 30.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the Town's funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 3 and provide detailed information about the major individual funds.

Town of Essex, Vermont
Management's Discussion and Analysis
Required Supplementary Information
For the Year Ended June 30, 2010

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

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

- **Proprietary fund** – The Proprietary fund provides water and sewer service for which the Town charges customers a fee and operates like a commercial business. The Proprietary fund provides the same type of information as the Government-wide financial statements only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for the business-type activity and the proprietary fund financial statements.
- **Fiduciary funds** - These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statement because the resources of these funds are restricted and cannot be used to finance the Town's operations. The Town's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 11. The Town's fiduciary fund is the Agency – Escheat and Developer's Escrow Fund and the Cemetery Trust Fund.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

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

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

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.

Town of Essex, Vermont
Management's Discussion and Analysis
Required Supplementary Information
For the Year Ended June 30, 2010

- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures in the fund financial statements.
- Bond proceeds provide current financial resources on the fund financial statement, but are recorded as long-term liabilities in the government-wide financial statements.

FINANCIAL ANALYSIS

Financial Analysis of Government-wide Financial Statements

The Town's combined assets exceeded its liabilities by \$27,226,525 at the end of the fiscal year.

Net Assets as of June 30, 2010 & 2009

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2010	2009	2010	2009	2010
Current and other assets	\$ 4,925,495	\$ 5,643,129	\$ 530,163	\$ 608,589	\$ 5,455,658	\$ 6,251,718
Capital assets	<u>17,114,100</u>	<u>17,439,104</u>	<u>6,641,317</u>	<u>6,999,380</u>	<u>23,755,417</u>	<u>24,438,484</u>
Total Assets	<u>\$22,039,595</u>	<u>\$23,082,233</u>	<u>\$ 7,171,480</u>	<u>\$ 7,607,969</u>	<u>\$29,211,075</u>	<u>\$30,690,202</u>
Long-term liabilities						
outstanding	\$ 926,063	\$ 1,068,082	\$ 308,724	\$ 600,275	\$ 1,234,787	\$ 1,668,357
Other liabilities	<u>1,514,529</u>	<u>1,451,529</u>	<u>467,187</u>	<u>343,791</u>	<u>1,981,716</u>	<u>1,795,320</u>
Total Liabilities	<u>\$ 2,440,592</u>	<u>\$ 2,519,611</u>	<u>\$ 775,911</u>	<u>\$ 944,066</u>	<u>\$ 3,216,503</u>	<u>\$ 3,463,677</u>
Net Assets						
Invested in capital assets, net of related debt	\$16,643,027	\$17,048,322	\$ 6,321,317	\$ 6,471,753	\$22,964,344	\$23,520,075
Unrestricted	<u>2,955,976</u>	<u>3,514,300</u>	<u>74,252</u>	<u>192,150</u>	<u>3,030,228</u>	<u>3,706,450</u>
Total Net Assets	<u>\$19,599,003</u>	<u>\$20,562,622</u>	<u>\$ 6,395,569</u>	<u>\$ 6,663,903</u>	<u>\$25,994,572</u>	<u>\$27,226,525</u>

The largest portion of the Town's net assets (86 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, construction in progress, and infrastructure); less any related outstanding debt used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (14 percent) represents unrestricted net assets. These resources are neither restricted nor invested in capital assets.

Town of Essex, Vermont
Management's Discussion and Analysis
Required Supplementary Information
For the Year Ended June 30, 2010

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

Changes in Net Assets for the Fiscal Year Ended June 30

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2010	2009	2010	2009	2010
REVENUES						
Program revenues:						
Charges for services	\$ 832,100	\$ 789,562	\$ 1,536,715	\$ 1,682,913	\$ 2,368,815	\$ 2,472,475
Operating grants & contr.	749,143	840,181	108,625	382,538	857,768	1,222,719
Capital grants & contr.	337,020	267,502	-	-	337,020	267,502
Property taxes (including penalty and interest)	8,326,982	8,671,389	-	-	8,326,982	8,671,389
IBM Payment for Services	452,545	361,989	-	-	452,545	361,989
Unrestricted investment earnings	100,152	39,013	2,057	1,510	102,209	40,523
Gain on Disposal of Assets		(2,760)				(2,760)
Other revenues	30,843	223,409	-	-	30,843	223,409
TOTAL REVENUES	<u>10,828,785</u>	<u>11,190,285</u>	<u>1,647,397</u>	<u>2,066,961</u>	<u>12,476,182</u>	<u>13,257,246</u>
EXPENSES						
Governmental activities:						
General Government	2,114,150	2,201,048	-	-	2,114,150	2,201,048
Public Safety	3,790,479	3,950,825	-	-	3,790,479	3,950,825
Highway and Streets	2,092,469	2,154,370	-	-	2,092,469	2,154,370
Health and Welfare	184,885	137,696	-	-	184,885	137,696
Culture and Recreation	1,279,021	1,329,135	-	-	1,279,021	1,329,135
Int. on long-term debt	15,518	10,022	-	-	15,518	10,022
Intergovernmental	398,204	398,070	-	-	398,204	398,070
Business-type activities:						
Water and Sewer	-	-	1,640,842	1,844,127	1,640,842	1,844,127
TOTAL EXPENSES	<u>9,874,726</u>	<u>10,181,166</u>	<u>1,640,842</u>	<u>1,844,127</u>	<u>11,515,568</u>	<u>12,025,293</u>
Change in net assets before transfers	954,059	1,009,119	6,555	222,834	960,614	1,231,953
Transfers	-	(45,500)	-	45,500	-	-
Change in net assets	954,059	963,619	6,555	268,334	960,614	1,231,953
Net assets - July 1,	<u>18,644,944</u>	<u>19,599,003</u>	<u>6,389,014</u>	<u>6,395,569</u>	<u>25,033,958</u>	<u>25,994,572</u>
Net assets - June 30,	<u>\$ 19,599,003</u>	<u>\$ 20,562,622</u>	<u>\$ 6,395,569</u>	<u>\$ 6,663,903</u>	<u>\$ 25,994,572</u>	<u>\$ 27,226,525</u>

Town of Essex, Vermont
Management's Discussion and Analysis
Required Supplementary Information
For the Year Ended June 30, 2010

Total Governmental activity expenses were \$10,181,166 and \$9,874,726 in fiscal years 2010 and 2009, respectively. The largest expenses were incurred for general government, public safety, and highways and streets. The expenses do not include capital outlays, which are now reflected in Town capital assets.

Per GASB 34, program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry. They reduce the net cost of the function to be financed from the government's general revenues. Total program revenue from governmental activities was \$1,897,245 in 2010 and \$1,918,263 in 2009. Governmental program revenues come from charges for services, which include licenses and permits, planning fees, developer fees, forfeitures, and several other revenues. Program revenues in the capital grants and contributions category include federal, state and local grants that are restricted specifically for use in specific programs, capital projects or acquisitions.

General Revenues are all other revenue not categorized as program revenues, and include property taxes, as well as unrestricted grants contributions and investment earnings. Total general revenues from governmental activities were \$9,247,540 in fiscal 2010 and \$8,910,522 in fiscal 2009. In 2009 approximately 92 percent of the Town's total general revenue came from taxes, in 2010 it was 93%.

Fund Financial Statements

The combined fund balance of the Fund Financial Statements was \$3,576,456 at June 30, 2010 and \$3,067,940 at June 30, 2009. Of the FY 2010 fund balance, \$607,993 constitutes unreserved funds in the General Fund and \$503,971 in the Capital Projects Fund, which are available for spending at the government's discretion. An amount of \$2,464,492 of the fund balance is reserved. (See note 10 on pages 22 and 23 for a description of the reserved funds.

The fund balance for the General Fund increased from \$922,300 in FY 2009 to \$1,070,249 in FY 2010. The total increase amounted to \$147,949 for the fiscal year ended June 30, 2010.

General Fund Budgetary Highlights

The fund balance of the Town's General Fund increased by \$147,949 during the current fiscal year. The reserved / designated portion of the fund balance increased by \$146,892 from \$315,364 to \$462,256. The increase was due to an increase in the amount of funds restricted specifically for reappraisal in the amount of \$65,322. The remainder of the increase in reserved / designated fund balance was for increases in amounts designated for: economic development, planning, retirement, and professional services. The unreserved portion of the fund balance increased from \$606,936 to \$607,993, an increase of \$1,057. Key factors in this change are as follows:

On the revenue side:

- Property tax revenues were less than anticipated due to a rise in delinquencies.
- License and Permit revenues were less than anticipated mainly in the area of building permits.
- Intergovernmental revenue exceeded expectations due to stormwater and the COPS grants as well as other revenue related to governmental activities such as increases in State revenues from PILOT, Current Use programs, and Act 68 revenue.
- Charges for services were greater than expected in the area of Police services, recording of legal documents, and recreation program revenues including after school programs.

Town of Essex, Vermont
Management's Discussion and Analysis
Required Supplementary Information
For the Year Ended June 30, 2010

- Interest on delinquent taxes exceeded expectations while penalties on delinquent taxes was less than anticipated.
- Lower than expected interest rates hurt miscellaneous revenue which was partially offset by increases in other miscellaneous revenues such as from the use of records preservation funds and a larger than expect distribution from the Town's health insurance provider due to employee participation in various fitness programs.

On the expenditure side:

- Expenditures for General Governmental operations were less than expected in most departments. These favorable variances were due in part to increased efficiencies and constant efforts to minimize expenses.
- Lower than anticipated increases in health insurance costs kept benefits expenses under budget in a number of departments.
- Salaries in the Public Works department were overspent due to the hiring of a part-time engineering assistant to help with coordination of the Town's stormwater program and with the administration of various grants. The additional salary expense was partially offset by some of the grant revenues.
- Salaries in the Fire Department were less than expected. This was more a result of fewer responders being available for calls as opposed to fewer calls for assistance.
- In the Highway department savings from salaries and benefits, due to less than anticipated overtime, and winter salt costs being less than anticipated allowed for greater expenditures in summer construction, sidewalks and crosswalks, and storm drains.
- Recreation program expenditures exceeded budget especially in the other purchased services line item which exceeded budget by more than \$100,000 due to the great success and high participation in programs. These program expenses were covered by program related revenues which also exceeded budget.
- Debt Service expenditures exceeded budget due to the increase in grand list over the prior year. The total amount expended for Debt service is a function of the grand list times the tax rate of 1 and 1/3 pennies as authorized at the 1994 Town Meeting.
- Other expenditures were over budget in some areas including: Insurance, repairs and maintenance services in various buildings, parks, and for the senior bus department, and Communications expenditures in Fire and Highway departments due to newly mandated radio technology.
- Conversely, other expenditures that were under budget included: Election expenses, professional services, Uniforms and Supplies, Information Technology, and supplies for winter maintenance such as salt. Utility costs were less than anticipated due in part to energy efficiency efforts in various buildings paying off.

Capital Assets

The following is a schedule of capital assets as of June 30, 2010 and 2009.

Town of Essex, Vermont
Management's Discussion and Analysis
Required Supplementary Information
For the Year Ended June 30, 2010

	Governmental Activities		Business-type Activities		Total	
	2009	2010	2009	2010	2009	2010
Land	\$ 2,763,909	\$ 2,763,909	\$ -	\$ -	\$ 2,763,909	\$ 2,763,909
Buildings & Improv.	2,407,997	2,484,293	-	-	2,407,997	2,484,293
Equip. & Vehicles	4,639,965	4,709,999	293,554	311,461	4,933,519	5,021,460
Book Collection	459,726	459,726	-	-	459,726	459,726
Infrastructure	19,362,569	19,893,882	12,121,082	12,121,082	31,483,651	32,014,964
Const. in Progress	93,251	514,671	93,738	672,557	186,989	1,187,228
Total Assets	29,727,417	30,826,480	12,508,374	13,105,100	42,235,791	43,931,580
Less: Accum. Depre.	12,613,317	13,387,376	5,867,057	6,105,720	18,480,374	19,493,096
Net Assets	\$17,114,100	\$17,439,104	\$ 6,641,317	\$ 6,999,380	\$23,755,417	\$24,438,484

The Town had \$24,438,484 and \$23,755,417 invested in capital assets, net of depreciation, on June 30, 2010 and June 30, 2009, respectively. The net increase (including additions and deductions) between the two periods amounted to \$683,067.

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

- The continuation of work on sidewalks and paths along route 15 in Essex Center. A portion of these costs were funded through Federal and State grants.
- Various streets and sidewalks were resurfaced or reconstructed at a cost of \$281,000. These improvements included resurfacing / reconstruction of Forest Rd, Foster Rd, Southdown Court, Lang Dr, Glennwood and Stearns Ave, and Billie Butler Dr. Crosswalks, sidewalks, curbing and drainage were installed and improved at various locations throughout the Town.
- Improvements and changes were made along the Susie Wilson corridor, including completion of improvements to the intersection of Susie Wilson Road and Route 15.
- Stormwater projects were started during the year to improve retention and treatment of stormwater in the Lang Center and Perkins Bend areas. The cost of these improvements is being funded through ARRA grants and loans. The ARRA funding provides 50% of the funding as a grant with the remaining 50% funded through a loan with the Vermont Bond Bank that carries no interest rate but a 2% administrative fee. A large portion of the cost of the Lang Center project will be paid by the commercial land owners in the effected area. Total costs to date on these two projects amounted to \$222,414.
- New vehicles purchased during the year included, one police cruiser, one used unmarked cruiser, and a backhoe / bucket loader for the Highway and Water / Sewer departments. The total cost for these vehicles was \$107,000.
- A sewer jetter / catch basin cleaner was purchased for use by the Highway and Water / Sewer departments.
- A Department of Energy ARRA grant was received that paid for insulation in the highway garage, a new heating system in the Fire Department, and the switch to energy efficient LED traffic lights in the Susie Wilson Rd corridor. The total cost of these improvements was \$69,500 with \$50,000 coming from the DOE grant.

Town of Essex, Vermont
Management's Discussion and Analysis
Required Supplementary Information
For the Year Ended June 30, 2010

- A new radio system building and a portable speed monitoring unit were purchased and installed with the use of federal Equitable sharing funds in the amount of \$53,000.
- A federal Byrne Block grant was used to fund an in-car video system for police cruisers in the amount of \$72,000.
- The sprayground at the Sand Hill pool complex was substantially completed during the year. Total costs to date on the project are \$152,000.
- A grant funded park-n-ride lot at the end of the Circ highway on Rt 2A was started.
- Building renovations amounting to \$20,000 included renovations to the Town offices at 81 Main St, Memorial Hall, and the installation of a new furnace at the library.
- Other improvements include a new pool liner and cover at the Sand Hill pool as well as resurfacing of the tennis courts.
- New base station radio systems were purchased for the Fire Department to comply with impending FCC requirements.
- The upgrade to the Alder Brook sewer pump station was substantially completed during the year and while not fully complete it was functional as of June 30, 2010. Total costs to date for the upgrade are \$578,819 and are funded through an ARRA grant for 50% of the cost along with a long term loan for the remainder. The loan carries no interest but rather a 2% administrative charge each year on the outstanding balance.

Debt

At the end of the fiscal year, the Town had \$918,409 in long-term debt outstanding compared to \$791,073 in the prior year, an approximate 16% increase. The reason for the increase was the ARRA loans on the sewer pump station upgrade in the amount of \$287,627 and the stormwater projects in the amount of \$110,782. A summary of outstanding long-term debt follows:

	Governmental Activities		Business-type Activities		Total	
	2009	2010	2009	2010	2009	2010
Notes Payable	\$ 416,000	\$ 390,782	\$ -	\$ 287,627	\$ 416,000	\$ 678,409
Bonds Payable	30,000	-	320,000	240,000	350,000	240,000
Capital Lease Obligations	25,073	-	-	-	25,073	-
 TOTAL	 <u>\$ 471,073</u>	 <u>\$ 390,782</u>	 <u>\$ 320,000</u>	 <u>\$ 527,627</u>	 <u>\$ 791,073</u>	 <u>\$ 918,409</u>

Economic Factors and Fiscal Year 2010 Budget

- The results of operations for the year were an increase in Fund Balance in the amount of \$147,949. Of that total \$146,892 was an increase in reserved and designated fund balance for reappraisal and other Board designated items such as economic development, Selectboard professional services, planning, and future payment of compensable time to retiring employees. The increase in unreserved Fund Balance amounted to \$1,057.

Town of Essex, Vermont
Management's Discussion and Analysis
Required Supplementary Information
For the Year Ended June 30, 2010

- The slight excess of revenues over expenditures was accomplished through a combination of increased non-tax revenues and holding expenditures to less than budget when possible.
- The Town continues to lose revenue every year as a result of the agreement with IBM when Machinery and Equipment taxes were phased out. The annual loss of revenue will be \$87,000 per year from FY 2009 through FY 2014 when the subsidy from IBM will be zero.
- At Town meeting in March 2009 the voters authorized the borrowing of up to \$600,000 for the purchase and installation of new pumps at a major sewer pump station. These new pumps will be more energy efficient and prolong the life of the station as well as provide better flow monitoring capabilities. The Town also acquired Federal Stimulus funds to pay for one half of the total cost of the project. This project was substantially completed in FYE2010 with total ARRA funding of \$575,254. One half of this funding (\$287,627) is eligible for forgiveness pending final determination of eligible costs.
- In November 2009 the Town received voter approval for borrowing up to \$450,000 to finance the construction of two stormwater projects that will enable the Town to comply with new stormwater requirements. As the projects progressed it became evident that the total project costs would be less than anticipated and the borrowing was reduced to a maximum of \$410,000. The Town again acquired Federal Stimulus funding to pay up to one half of these projects. A portion of the remaining costs for one of the projects will be paid for by the commercial property owners in the affected area. These projects were started but not completed by the end of the year.

All of these factors were considered in preparing the Town of Essex's budget for the 2011 fiscal year. At the 2010 Town meeting the voters increased the Selectboard recommended FYE 2011 budget in the amount of \$9,809,545 by \$3,000 for the purpose of increasing the contribution to the Winooski Valley Park District. The total approved budget for FYE2011 was \$9,812,545, an increase of \$375,407 over the previous year. The approved budget resulted in a tax rate for FYE2011 of \$.3165, just less than a one cent increase over FYE2010.

Rates for water and wastewater operations were increased in fiscal year 2010 in response to increased costs for water purchases and wastewater treatment. Other factors, such as fewer new connections than anticipated and reduced usage by large commercial customers have contributed to a deficit cash position in the Water / Sewer Fund in recent years. This deficit position is being addressed in the preparation of operating budgets and rates for future periods. The new rates along with better metering of wastewater flows to the Village treatment plant resulted in an operating surplus for FY2010 and helped reduce the fund's cash overdraft thereby reducing interest expense on borrowed funds.

Requests for Information

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

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

Town of Essex, Vermont
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
June 30, 2010

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
CURRENT ASSETS			
Cash	\$ 4,045,222	\$ 21	\$ 4,045,243
Taxes receivable, net of allowance	700,812	-	700,812
Accounts receivables - other	349,498	538,604	888,102
Due from other funds	330,853	-	330,853
Prepaid expenses	216,744	6,828	223,572
TOTAL CURRENT ASSETS	5,643,129	545,453	6,188,582
NOTES RECEIVABLE	-	63,136	63,136
CAPITAL ASSETS, net	17,439,104	6,999,380	24,438,484
TOTAL ASSETS	\$ 23,082,233	\$ 7,607,969	\$ 30,690,202
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 568,664	\$ -	\$ 568,664
Due to other funds	-	329,395	329,395
Accrued payroll	212,481	12,467	224,948
Deferred revenue	645,897	-	645,897
Exchange	16,753	-	16,753
Other accrued expenses	7,734	1,929	9,663
Current portion notes and bonds payable	70,000	80,000	150,000
Current portion of compensated absences	31,960	2,560	34,520
TOTAL CURRENT LIABILITIES	1,553,489	426,351	1,979,840
LONG-TERM LIABILITIES			
Accrued compensated absences	645,340	70,088	715,428
Notes and bonds payable	320,782	447,627	768,409
TOTAL LONG-TERM LIABILITIES	966,122	517,715	1,483,837
TOTAL LIABILITIES	2,519,611	944,066	3,463,677
NET ASSETS			
Invested in capital assets, net of related debt	17,048,322	6,471,753	23,520,075
Unrestricted	3,514,300	192,150	3,706,450
NET ASSETS	20,562,622	6,663,903	27,226,525
TOTAL LIABILITIES AND NET ASSETS	\$ 23,082,233	\$ 7,607,969	\$ 30,690,202

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Revenues	Capital Grants and Revenues	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 2,201,048	\$ 263,509	\$ 183,166	\$ -	\$ (1,754,373)	\$ -	\$ (1,754,373)
Public safety	3,950,825	79,701	490,469	-	(3,380,655)	-	(3,380,655)
Highways and Streets	2,154,370	63,330	165,568	170,859	(1,754,613)	-	(1,754,613)
Health and Welfare	137,696	1,325	-	-	(136,371)	-	(136,371)
Culture and Recreation	1,329,135	381,697	978	96,643	(849,817)	-	(849,817)
Intergovernmental	398,070	-	-	-	(398,070)	-	(398,070)
Interest on long-term debt	10,022	-	-	-	(10,022)	-	(10,022)
Total governmental activities	10,181,166	789,562	840,181	267,502	(8,283,921)	-	(8,283,921)
Business-type activities:							
Water and Sewer	1,844,127	1,682,913	382,538	-	-	221,324	221,324
Total business-type activities	1,844,127	1,682,913	382,538	-	-	221,324	221,324
General Revenues:							
Property taxes, levied for general purposes					8,545,897	-	8,545,897
Penalties and interest on delinquent taxes					125,492	-	125,492
IBM payment for services					361,989	-	361,989
Unrestricted investment earnings					39,013	1,510	40,523
Transfers					(45,500)	45,500	-
Gain/loss on sale of fixed assets					(2,760)	-	(2,760)
Miscellaneous					223,409	-	223,409
Total general revenues and transfers					9,247,540	47,010	9,294,550
Change in Net Assets					963,619	268,334	1,231,953
Net assets, beginning					19,599,003	6,395,569	25,994,572
Net assets, ending					\$ 20,562,622	\$ 6,663,903	\$ 27,226,525

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2010

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 1,830,124	\$ 2,215,098	\$ 4,045,222
Taxes receivable, net of allowance	77,934	-	77,934
Other receivables	58,389	291,109	349,498
Due from other funds	330,853	-	330,853
Prepaid expenses	<u>216,744</u>	<u>-</u>	<u>216,744</u>
 TOTAL ASSETS	 <u>\$ 2,514,044</u>	 <u>\$ 2,506,207</u>	 <u>\$ 5,020,251</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
 LIABILITIES			
Accounts payable	\$ 568,664	\$ -	\$ 568,664
Accrued payroll	212,481	-	212,481
Exchange	16,753	-	16,753
Deferred revenue	<u>645,897</u>	<u>-</u>	<u>645,897</u>
 TOTAL LIABILITIES	 <u>1,443,795</u>	 <u>-</u>	 <u>1,443,795</u>
 FUND BALANCE			
Reserved	462,256	2,002,236	2,464,492
Unreserved	<u>607,993</u>	<u>503,971</u>	<u>1,111,964</u>
 TOTAL FUND BALANCE	 <u>1,070,249</u>	 <u>2,506,207</u>	 <u>3,576,456</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 2,514,044</u>	 <u>\$ 2,506,207</u>	 <u>\$ 5,020,251</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2010

Total fund balances - governmental funds	\$ 3,576,456
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	17,439,104
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	
Reserve for non-current tax	622,878
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	(677,300)
Accrued interest on long-term debt	(7,734)
Notes payable	<u>(390,782)</u>
Total net assets - governmental activities	<u>\$ 20,562,622</u>

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, 2010

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Property tax	\$ 8,032,794	\$ 461,299	\$ 8,494,093
Licenses and permits	44,279	-	44,279
Intergovernmental revenues	286,982	96,643	383,625
Charges for services	1,015,591	74,418	1,090,009
Fines and forfeits	125,492	-	125,492
Interest income	27,607	11,406	39,013
Miscellaneous income	35,657	-	35,657
Grant income	563,276	160,782	724,058
TOTAL REVENUES	<u>10,131,678</u>	<u>804,548</u>	<u>10,936,226</u>
EXPENDITURES			
General government	2,181,127	125,701	2,306,828
Public safety	3,866,102	14,336	3,880,438
Highways and Streets	1,510,021	352,032	1,862,053
Stormwater	202,614	222,414	425,028
Sanitation	12,831	-	12,831
Health and Welfare	137,696	-	137,696
Culture and Recreation	1,196,969	299,791	1,496,760
Intergovernmental	398,070	-	398,070
Debt service	166,000	-	166,000
Interest expense	16,209	-	16,209
TOTAL EXPENDITURES	<u>9,687,639</u>	<u>1,014,274</u>	<u>10,701,913</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>444,039</u>	<u>(209,726)</u>	<u>234,313</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of long-term debt	-	110,782	110,782
Proceeds from sale of fixed assets	208,921	-	208,921
Operating transfers In	-	459,511	459,511
Operating transfers Out	(505,011)	-	(505,011)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(296,090)</u>	<u>570,293</u>	<u>274,203</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	147,949	360,567	508,516
FUND BALANCE - July 1, 2009	<u>922,300</u>	<u>2,145,640</u>	<u>3,067,940</u>
FUND BALANCE - June 30, 2010	<u>\$ 1,070,249</u>	<u>\$ 2,506,207</u>	<u>\$ 3,576,456</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, 2010

Net change in fund balances - governmental funds \$ 508,516

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	(993,265)
Capital Outlay	1,324,939
Proceeds from Sale of Asset	(3,910)
Gain/Loss on Sale of Asset	(2,760)

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

Increase in the reserve for non-current taxes	51,805
Proceeds from issuance of debt	(110,782)

Repayment of long-term debt is an expenditure in the governmental
 funds, but the repayment reduces long-term liabilities in the
 statement of net assets.

Long-term debt	166,000
Capital lease	25,073

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

Accrued interest on long-term debt	6,187
Accrued compensated absences	<u>(8,184)</u>

Change in net assets of governmental activities \$ 963,619

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
 June 30, 2010

Water & Sewer
Fund

ASSETS

CURRENT ASSETS

Cash	\$	21
Accounts receivable - net		538,604
Prepaid expenses		6,828
Notes receivable		<u>63,136</u>

TOTAL CURRENT ASSETS

608,589

CAPITAL ASSETS, net

6,999,380

TOTAL ASSETS

\$ 7,607,969

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Due to other funds	\$	329,395
Current portion compensated absences		2,560
Current portion long-term debt		80,000
Accrued payroll		12,467
Other accrued expenses		<u>1,929</u>

TOTAL CURRENT LIABILITIES

426,351

LONG-TERM LIABILITIES

Accrued compensated absences		70,088
Notes and bonds payable		<u>447,627</u>

TOTAL LONG-TERM LIABILITIES

517,715

TOTAL LIABILITIES

944,066

NET ASSETS

Invested in capital assets, net of related debt		6,471,753
Unrestricted - designated		312,382
Unrestricted		<u>(120,232)</u>

TOTAL NET ASSETS

6,663,903

TOTAL LIABILITIES AND NET ASSETS

\$ 7,607,969

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS - PROPRIETARY FUNDS
 For the Year Ended June 30, 2010

	Water & Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 1,682,913
Hookup fees	71,294
Interest and penalties on delinquents	19,668
Assessments	3,967
Miscellaneous	287,609
TOTAL OPERATING REVENUES	2,065,451
OPERATING EXPENSES	
Regular salaries	314,737
Overtime salaries	36,355
Group health insurance	105,113
Social security	26,893
Employee retirement	27,624
Other employee benefits	5,751
Professional services	22,594
Repair and maintenance	40,987
Rental of equipment	9
Telephone/communications	1,744
Advertising	3,765
Travel	242
Small tools and equipment	656
Supplies	55
Utilities	50,712
Uniforms	2,750
Natural gas	1,374
CWD water purchases	452,888
Insurance	13,157
Dues and fees	2,193
Machinery	46,111
Depreciation expense	261,594
Sewage treatment	409,286
TOTAL OPERATING EXPENDITURES	1,826,590

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS - PROPRIETARY FUNDS
 For the Year Ended June 30, 2010

	<u>Water & Sewer Fund</u>
INCOME FROM OPERATIONS	<u>238,861</u>
NON-OPERATING REVENUE (EXPENSE)	
Transfers	45,500
Interest Income	1,510
Interest Expense	<u>(17,537)</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>29,473</u>
INCREASE IN NET ASSETS	268,334
NET ASSETS BEGINNING OF YEAR	<u>6,395,569</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,663,903</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, 2010

	Water & Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,970,129
Payments to suppliers	(1,044,372)
Payments for employees and benefits	(516,473)
NET CASH PROVIDED BY OPERATING ACTIVITIES	409,284
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of property, plant and equipment	(619,657)
Interest payments on debt	(16,745)
Proceeds from issuance of debt	287,627
Principal payments on debt	(80,000)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(428,775)
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments received on notes receivable	17,981
Interest income	1,510
NET CASH PROVIDED BY INVESTING ACTIVITIES	19,491
NET INCREASE IN CASH	-
CASH - BEGINNING OF YEAR	21
CASH - END OF YEAR	\$ 21
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 238,861
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	261,594
Change in net assets and liabilities:	
Receivables, net	(95,322)
Prepaid expenses	(499)
Accrued payroll and compensated absences	4,650
Net cash provided (used) by operating activities	\$ 409,284

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 STATEMENT OF NET ASSETS - FIDUCIARY FUND
 June 30, 2010

	<u>Cemetery Trust Fund</u>	<u>Agency Fund</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 22,621	\$ 157,072
TOTAL ASSETS	<u>\$ 22,621</u>	<u>\$ 157,072</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Due to other funds	\$ 1,468	\$ -
Deferred revenue	<u>-</u>	<u>157,072</u>
TOTAL LIABILITIES	<u>1,468</u>	<u>157,072</u>
 <u>NET ASSETS</u>		
Restricted	<u>21,153</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 22,621</u>	<u>\$ 157,072</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUND
 For the Year Ended June 30, 2010

	<u>Cemetery Trust Fund</u>
ADDITIONS	
Sales of plots	\$ 4,200
Interest on deposits	<u>56</u>
TOTAL ADDITIONS	<u>4,256</u>
DEDUCTIONS	
Repairs and maintenance	(2,000)
Supplies	<u>(232)</u>
TOTAL DEDUCTIONS	<u>(2,232)</u>
CHANGES IN NET ASSETS	2,024
NET ASSETS AT BEGINNING OF YEAR	<u>19,129</u>
NET ASSETS AT END OF YEAR	<u>\$ 21,153</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information of the Town as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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.

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.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, sewer usage fees and water usage fees are recognized under the susceptible to accrual concept in accordance with Governmental Accounting Standards Board ("GASB") pronouncements. Revenues received from the State of Vermont are also recognized when 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

The Town reports the following major governmental funds:

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

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

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

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Deposits and Investments

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

E. Receivables and Payables

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

F. Capital Assets

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

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

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

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

G. Long-term Obligations

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

H. Fund Equity

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

I. Estimates

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

J. Allowance for Uncollectible Accounts

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

Town of Essex, Vermont
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Operating Transfers

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

NOTE 2 DELINQUENT TAXES RECEIVABLE

Delinquent taxes receivable consist of:

	<u>General Fund</u>
Delinquent property taxes	\$ 566,222
Penalties on taxes receivable	38,490
Interest on taxes receivable	106,100
	710,812
Allowance for uncollectible delinquent taxes	(10,000)
	\$ 700,812

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 60 days after the close of the current period. Taxes receivable that remain uncollected as of August 31, 2010 have been charged to the Reserve for Non-current Taxes with a corresponding decrease in current year tax revenues. The Reserve for Non-current Tax Revenues amounted to \$622,878 at June 30, 2010.

NOTE 3 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,763,909	\$ -	\$ -	\$ 2,763,909
Construction in progress	93,251	634,011	(212,591)	514,671
Total capital assets not being depreciated	2,857,160	634,011	(212,591)	3,278,580

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 3 CAPITAL ASSETS (continued)

<u>Governmental Activities (cont'd)</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Other capital assets:				
Book Collection	459,726	-	-	459,726
Building and improvements	2,407,997	76,296	-	2,484,293
Equipment	4,639,965	295,910	(225,876)	4,709,999
Infrastructure	<u>19,362,569</u>	<u>531,313</u>	<u>-</u>	<u>19,893,882</u>
Total other capital assets	<u>26,870,257</u>	<u>903,519</u>	<u>(225,876)</u>	<u>27,547,900</u>
Less accumulated depreciation for:				
Book collection	(370,000)	(45,973)	-	(415,973)
Building and improvements	(1,346,226)	(48,777)	-	(1,395,003)
Equipment	(2,666,348)	(396,511)	219,206	(2,843,653)
Infrastructure	<u>(8,230,743)</u>	<u>(502,004)</u>	<u>-</u>	<u>(8,732,747)</u>
Total accumulated depreciation	<u>(12,613,317)</u>	<u>(993,265)</u>	<u>219,206</u>	<u>(13,387,376)</u>
Total capital assets being depreciated, net	<u>14,256,940</u>	<u>(89,746)</u>	<u>(6,670)</u>	<u>14,160,524</u>
Governmental Activities - Capital Assets, Net	<u>\$ 17,114,100</u>	<u>\$ 544,265</u>	<u>\$ (219,261)</u>	<u>\$ 17,439,104</u>

Depreciation expense was charged to functions as follows:

General Government	\$ 25,619
Public Safety	255,312
Highways and Streets	588,083
Storm Water	5,133
Culture and Recreation	<u>119,118</u>
TOTAL	<u>\$ 993,265</u>

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	<u>\$ 93,738</u>	<u>\$ 578,819</u>	<u>\$ -</u>	<u>\$ 672,557</u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 3 CAPITAL ASSETS (continued)

<u>Business-Type Activities (cont'd)</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Water/sewer plant	12,121,082	-	-	12,121,082
Machinery and equipment	188,652	40,838	-	229,490
Vehicles	104,902	-	(22,931)	81,971
Total Capital assets being depreciated	<u>12,414,636</u>	<u>40,838</u>	<u>(22,931)</u>	<u>12,432,543</u>
Less accumulated depreciation for:				
Water/sewer plant	(5,602,899)	(245,649)	-	(5,848,548)
Machinery and equipment	(171,128)	(8,754)	-	(179,882)
Vehicles	(93,030)	(7,191)	22,931	(77,290)
Total accumulated depreciation	<u>(5,867,057)</u>	<u>(261,594)</u>	<u>22,931</u>	<u>(6,105,720)</u>
Total capital assets being depreciated, net	<u>6,547,579</u>	<u>(220,756)</u>	<u>-</u>	<u>6,326,823</u>
Business-Type Activities - Capital Assets, Net	<u>\$ 6,641,317</u>	<u>\$ 358,063</u>	<u>\$ -</u>	<u>\$ 6,999,380</u>

Depreciation expense for the Business-type Activities was \$261,594 for the fiscal year ended June 30, 2010.

NOTE 4 ACCRUED COMPENSATION

At June 30, 2010, the Town had the following vested benefits earned by their employees:

	<u>General Fund</u>	<u>Water/Sewer Fund</u>
Vested Compensation	\$ 677,300	\$ 72,648
Less: Current Portion	<u>(31,960)</u>	<u>(2,560)</u>
TOTAL LONG-TERM PORTION	<u>\$ 645,340</u>	<u>\$ 70,088</u>

Town of Essex, Vermont
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 5 SHORT TERM DEBT

	Principal Balance 06/30/09	Fiscal Year Activity		Principal Balance 06/30/10
		Borrowings	Repayments	
<u>Governmental Activities</u>				
TD Bank, N.A., payable in full October 7, 2009, plus 2.99% interest, used to purchase a highway truck	\$ 61,000	\$ -	\$ (61,000)	\$ -
TOTAL SHORT TERM DEBT	\$ 61,000	\$ -	\$ (61,000)	\$ -

NOTE 6 NOTES AND BONDS PAYABLE

	Beginning Balance	Additions	Principal Reduction	Ending Balance	Current Portion
<u>Governmental Activities</u>					
<u>Notes Payable</u>					
Note payable to TD Banknorth, capital improvement note, interest at 2.99%. Annual principal payments of \$66,000 plus interest due August 14, 2009.	\$ 66,000	\$ -	\$ (66,000)	\$ -	\$ -
Note payable to TD Banknorth, fire truck note, interest at 3.79%, due October 7, 2013.	350,000	-	(70,000)	280,000	70,000
Note payable to State of Vermont, ARRA note, 2% administrative fee, due September 1, 2016	-	110,782	-	110,782	-
Municipal Bond Bank, 1989 Series II Bonds, interest rates vary from 6.75% to 7.4%. Annual principal payments of \$35,000 through December 1, 2007 and \$30,000 thereafter due, December 1, 2009	30,000	-	(30,000)	-	-
	\$ 446,000	\$ 110,782	\$ (166,000)	\$ 390,782	\$ 70,000

Town of Essex, Vermont
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 6 NOTES AND BONDS PAYABLE (continued)

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Governmental Activities as of June 30, 2010, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 70,000	\$ 10,612	\$ 80,612
2012	92,156	7,959	100,115
2013	92,156	5,306	97,462
2014	92,156	2,653	94,809
2015	22,156	-	22,156
2016-2020	22,158	-	22,158
TOTAL	\$ 390,782	\$ 26,530	\$ 417,312

<u>Business-Type Funds</u>	Beginning Balance	Additions	Principal Reduction	Ending Balance	Current Portion
Vermont Municipal Bond Bank, 2003 Series II Bonds, interest varies from 1.19% to 3.73%. Annual principal payments of \$25,000 plus interest, due December 1, 2013	\$ 125,000	\$ -	\$ (25,000)	\$ 100,000	\$ 25,000
Vermont Municipal Bond Bank, 2001 Series I Bonds, interest varies from 2.28% to 4.47%. Annual principal charge \$40,000 on December 1, 2007, due December 1, 2011	120,000	-	(40,000)	80,000	40,000
Vermont Municipal Bond Bank, 1993 Series I Bonds, refunded March 27, 2003 with 2003 Series I Bonds, interest varies from 2.99% to 5.66%. Annual principal payments of \$10,000 through December 1, 2009 and \$15,000 thereafter, due December 1, 2013	75,000	-	(15,000)	60,000	15,000
Note payable to State of Vermont, ARRA note, 2% administrative fee, due October 1, 2032.	-	287,627	-	287,627	-
	\$ 320,000	\$ 287,627	\$ (80,000)	\$ 527,627	\$ 80,000

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 6 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, 2010, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 80,000	\$ 8,692	\$ 88,692
2012	80,000	5,260	85,260
2013	50,741	2,646	53,387
2014	54,322	887	55,209
2015	14,322	-	14,322
2016-2020	71,610	-	71,610
2021-2025	71,610	-	71,610
2026-2030	71,610	-	71,610
2031-2035	33,412	-	33,412
	<u>\$ 527,627</u>	<u>\$ 17,485</u>	<u>\$ 440,090</u>

NOTE 7 CASH

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

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

Category 1 - Insured by the FDIC or collateralized with securities held by the Town or its agent in the Town's name.

Category 2 - Collateralized, with securities held by the counterparty's trust department or agent in the Town's name.

Category 3 - Uncollateralized

	Book Balance	Bank Balance
Insured by the FDIC	\$ 527,167	\$ 705,934
Insured by Deposit Surety Bond	3,694,623	3,618,982
Petty Cash	3,146	-
Total Deposits	<u>\$ 4,224,936</u>	<u>\$ 4,324,916</u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 7 CASH (continued)

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

The Town's cash management account is insured under two Irrevocable Standby Letters of Credit. The coverage with TD Bank is in the amount of \$13,000,000 and is for the period January 19, 2010 to June 30, 2010. The coverage with Merchants bank is in the amount of \$800,000 and is for the period of June 15, 2010 to September 30, 2010.

NOTE 8 BUDGETARY INFORMATION

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

NOTE 9 PENSION PLAN

Prior to January 1, 2004 all full-time employees were covered under the ICMA 401(A) Defined Contribution Plan. Under this plan the town contributes 8% and the employee contributes 3% of employee's salaries. Town contributions to the plan were \$89,026 and the employee contributions were \$33,430 for the year ended June 30, 2010. Under this plan the town also makes fixed quarterly contributions for the Town Manager totaling \$19,420 for the year ended June 30, 2010.

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

All full-time employees of the Town hired after January 1, 2004 are covered under Plan C, a defined benefit plan, of the State of Vermont Municipal Employee's Retirement Plan. The Town contributes 8% and employees contribute 7% of employee's salaries. Benefit and contribution provisions are established by State Law (VSA, Title 25, Chapter 125). The Town contributed \$245,684 and the employee contributions were \$203,499 to the plan for the year ended June 30, 2010. The State of Vermont issues an audited financial report that includes financial statements and required disclosures. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

Of the Town's total compensation of \$4,619,182, \$1,112,825 was covered under the ICMA retirement plan, \$2,994,553 was covered under the State of Vermont Municipal Employees Retirement Plan and \$511,804 was not covered for the year ended June 30, 2010.

NOTE 10 FUND EQUITY

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

Town of Essex, Vermont
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 10 FUND EQUITY (continued)

Reservations and designations as of June 30, 2010 are as follows:

GENERAL FUND

Reserved for:	
Encumbrances	\$ 7,000
Prepaid expenses	216,744
Economic development	6,000
Planning	40,000
Retirement	30,000
BOS Professional services	11,000
Reappraisal	<u>151,512</u>
 Total Reserved Fund Balance	 <u>\$ 462,256</u>

CAPITAL PROJECTS FUND

Reserved for:	
Future vehicle purchases	\$ 119,027
Future parks and recreation projects	468,591
Future highway projects	338,073
Future stormwater project	59,150
Future building projects	<u>1,017,395</u>
 Total Reserved Fund Balance	 <u>\$ 2,002,236</u>

WATER & SEWER FUND

Designated for:	
Future capital expenses	\$ 302,242
Prepaid expenses	6,828
Future bond payments	<u>3,312</u>
 Total Reserved Fund Balance	 <u>\$ 312,382</u>

FIDUCIARY FUND

Restricted for Cemetery - These funds are accumulated for the maintenance of the cemetery.	<u>\$ 21,153</u>
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Town of Essex, Vermont
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 11 ECONOMIC DEPENDENCIES

On December 3, 2001, the Town entered into a 12 year agreement with IBM. The agreement calls for the Town to cease taxing IBM on machinery and equipment which is consistent with the Town's policy of not taxing machinery and equipment in the Town. In return, IBM agreed to pay to the Town an annual declining subsidy for the term of the agreement. The amount received under this agreement in the year ended June 30, 2010 was \$361,989.

NOTE 12 INTERFUND TRANSFERS

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The following table summarizes operating transfers for the year ended June 30, 2010.

<u>Amount</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Purpose</u>
\$ 9,233	General Fund	Capital Projects	Stormwater Equipment
12,500	General Fund	Capital Projects	Parks Equipment
14,336	General Fund	Capital Projects	Forfeiture Funds
118,000	General Fund	Capital Projects	Highway Equipment
4,000	General Fund	Capital Projects	Senior Citizen Bus
159,511	General Fund	Capital Projects	Tree Farm Purchase
141,931	General Fund	Capital Projects	Future Projects
<u>45,500</u>	General Fund	Water & Sewer	Repayment of Costs
<u>\$ 505,011</u>			

NOTE 13 RISK MANAGEMENT

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

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 14 DEFERRED LOAN 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.

NOTE 15 LANDFILL POST CLOSURE COSTS

Landfill post closure costs are 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. Sufficient funds were not set aside in the tipping fee during the landfill's years of operation to cover these continuing expenses. The Town must budget on an annual basis for site maintenance and testing as set forth in the legal closure order. The Town's cost of the site maintenance and testing were \$12,831 for the year ended June 30, 2010.

NOTE 16 DISCLOSURE OF SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Town has evaluated subsequent events through December 17, 2010, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2010, have been incorporated into the financial statements herein.

SUPPLEMENTARY INFORMATION

Town of Essex, Vermont
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGETARY BASIS - GENERAL FUND
For the Year Ended June 30, 2010

	Original Budget	Budget	Actual	Variance
REVENUES				
Property tax	\$ 8,094,536	\$ 8,094,536	\$ 8,032,794	\$ (61,742)
Licenses and permits	50,550	50,550	43,179	(7,371)
Intergovernmental revenues	187,000	187,000	289,730	102,730
Charges for services	893,051	893,051	1,015,591	122,540
Fines and forfeits	106,000	106,000	125,493	19,493
Interest income	75,000	75,000	27,607	(47,393)
Miscellaneous income	31,001	31,001	38,076	7,075
TOTAL REVENUES	9,437,138	9,437,138	9,572,470	135,332
EXPENDITURES				
General government	2,158,789	2,158,789	2,133,926	24,863
Public safety	3,480,391	3,480,391	3,417,645	62,746
Highways and Streets	1,631,091	1,631,091	1,628,021	3,070
Stormwater	208,993	208,993	211,847	(2,854)
Sanitation	12,500	12,500	12,831	(331)
Health and Welfare	137,447	137,447	137,696	(249)
Culture and Recreation	1,092,049	1,092,049	1,211,306	(119,257)
Debt service	316,990	316,990	324,141	(7,151)
Intergovernmental	398,888	398,888	398,070	818
TOTAL EXPENDITURES	9,437,138	9,437,138	9,475,483	(38,345)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 96,987	\$ 96,987
RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS				
Excess (Deficiency) of Revenues over Expenditures - Budgetary Basis			\$ 96,987	
Adjustments for non-budget:				
Grant revenues			494,181	
Other revenues			68,929	
Sale of capital assets			205,011	
Grant expenditures			(505,785)	
Other expenditures			(2,163)	
Liquidation of prior year encumbrances			(4,200)	
Interfund transfers			(205,011)	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES - GAAP BASIS			\$ 147,949	

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont

ADDITIONAL REPORTS REQUIRED BY
THE SINGLE AUDIT ACT

June 30, 2010

Town of Essex, Vermont
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
 For the Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Pass Through Grantor Number	Federal CFDA Number	Expended
U. S. Department of Justice			
DEA Overtime		16.580	\$ 13,164
Public Safety Partnership and Community Policing Grants		16.710	28,108
Edward Byrne Memorial Justice Assistance Grant		16.738	71,688
Bullet Proof Vest		16.607	1,023
U. S. Department of Justice and U.S. Department of the Treasury			
Equitable Sharing Fund		16.000	318,913
U.S. Department of Transportation			
Essex STP Walk - Design Grant		20.205	8,839
Essex STP Walk - Construction Grant		20.205	51,441
Kellog Road Storm water - Design Grant		20.205	7,958
Colbert Street Project Grant		20.205	2,119
STAG Grant		20.205	<u>28,908</u>
Cluster Subtotal			<u>99,265</u>
U.S. Department of Transportation, passed through Chittenden County Metropolitan Planning Organization			
Kellog Road Storm water - Construction Grant	TAG 09-2	20.205	32,843
Institute of Museum and Library Services (IMLS)			
Resource Sharing Supplemental Grant for Public Libraries		45.310	978
U.S. Department of Energy			
Energy Efficiency and Conservation Block Grant		ARRA 81.128	50,000
U.S. Department of the Interior			
Sand Hill Park Sprayground and Waterslide		15.916	36,364
Environmental Protection Agency			
Capitalization Grant for Clean Water State Revolving Funds		66.458	351,700
Capitalization Grant for Clean Water State Revolving Funds		ARRA 66.458	<u>397,589</u>
Cluster Subtotal			<u>749,289</u>
			<u>\$ 1,401,635</u>

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



Kittell Branagan & Sargent

Certified Public Accountants

Vermont License #167

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

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

We have audited the basic financial statements of the Town of Essex, Vermont as of and for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Essex, Vermont's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Essex, Vermont's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

A handwritten signature in black ink that reads "Kittell Branagan + Sugrue". The signature is written in a cursive style with a horizontal line extending from the end.

St. Albans, Vermont
December 17, 2010



Kittell Branagan & Sargent

Certified Public Accountants

Vermont License #167

REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Town of Essex, Vermont with the types of compliance requirements described in OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Town of Essex, Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Essex, Vermont's management. Our responsibility is to express an opinion on the Town of Essex, Vermont's compliance based on our audit.

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

In our opinion, the Town of Essex, Vermont complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Town of Essex, Vermont is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Essex, Vermont's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Essex, Vermont's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Kittell Branagan & Sargent

St. Albans, Vermont
December 17, 2010

Town of Essex, Vermont
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Town of Essex, Vermont.
2. There were no significant deficiencies disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Town of Essex, Vermont were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Town of Essex, Vermont expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Town of Essex, Vermont.
7. The program tested as a major programs was:
 - CFDA # 16.000 Federal Forfeiture Equitable Sharing Fund
 - CFDA # 66.458 Capitalization Grants for Clean Water State Revolving Funds - ARRA
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Essex, Vermont was determined not to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

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

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

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