

Town of Essex, Vermont  
BASIC FINANCIAL STATEMENTS  
June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Town of Essex, Vermont as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Town of Essex, Vermont's management. Our responsibility is to express an opinion on these basic 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 basic 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 significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Town of Essex, Vermont as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2006, on our consideration of the Town of Essex, Vermont's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the budgetary comparison information starting on page 24 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Town of Essex, Vermont. 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 not a required part of the basic financial statement. Such information 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  
November 2, 2006

**Town of Essex, Vermont**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

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, 2006. 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 2006 and FY 2005.

## **FINANCIAL HIGHLIGHTS**

### **Government-wide Highlights**

The Town's assets exceeded its liabilities at June 30, 2006, by \$23,594,037 compared to \$23,343,976 at June 30, 2005. This represents an increase of \$250,061 or 1.07%. The change in net assets for fiscal year 2005 was \$925,892. The 2006 increase was a decrease of \$656,659 over the 2005 increase.

### **Long-term Debt**

The Town's total debt decreased during the fiscal year to \$1,688,526, a decrease of \$145,695 or 7.9%. More detailed information regarding these activities begins on page 17. (See Notes 4 through 6)

### **Fund Highlights**

At the end of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$2,022,038, a decrease of \$372,992 in comparison with \$2,395,030 for the prior year. Of the total fund balance, \$82,664 represents unreserved fund balance and the remaining \$1,939,374 represents amounts reserved or designated for specific purposes, such as reappraisal, Records Preservation, Public Safety, and various capital projects.

## **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.

**Town of Essex, Vermont**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

### **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.

- **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 three (3) individual governmental funds. Information is presented separately in the governmental fund statements for the General Fund and the Capital Projects Fund.

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

**Town of Essex, Vermont**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

- **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 funds are the Agency – Escheat and Developer's Escrow Fund and the Cemetery Trust Fund.

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

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

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

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

**Town of Essex, Vermont**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

**FINANCIAL ANALYSIS**

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

The Town's combined assets exceeded its liabilities by \$23,594,037 during the fiscal year.

**Net Assets as of June 30, 2005 & 2006**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Current and other assets	\$ 3,863,226	\$ 3,660,898	\$ 362,899	\$ 371,608	\$ 4,226,125	\$ 4,032,506
Capital assets	15,167,056	15,977,154	7,185,116	6,982,518	22,352,172	22,959,672
<b>Total Assets</b>	<b>\$ 19,030,282</b>	<b>\$ 19,638,052</b>	<b>\$ 7,548,015</b>	<b>\$ 7,354,126</b>	<b>\$ 26,578,297</b>	<b>\$ 26,992,178</b>
Long-term liabilities outstanding	\$ 1,149,859	\$ 1,095,285	\$ 684,362	\$ 593,241	\$ 1,834,221	\$ 1,688,526
Other liabilities	1,244,664	1,369,852	155,436	339,763	1,400,100	1,709,615
<b>Total Liabilities</b>	<b>\$ 2,394,523</b>	<b>\$ 2,465,137</b>	<b>\$ 839,798</b>	<b>\$ 933,004</b>	<b>\$ 3,234,321</b>	<b>\$ 3,398,141</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$ 14,531,678	\$ 15,405,695	\$ 6,565,116	\$ 6,437,518	\$ 21,096,794	\$ 21,843,213
Restricted	1,273,956	0	0	0	1,273,956	0
Unrestricted	830,125	1,767,220	143,101	(16,396)	973,226	1,750,824
<b>Total Net Assets</b>	<b>\$ 16,635,759</b>	<b>\$ 17,172,915</b>	<b>\$ 6,708,217</b>	<b>\$ 6,421,122</b>	<b>\$ 23,343,976</b>	<b>\$ 23,594,037</b>

The largest portion of the Town's net assets (93 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 (7 percent) represents unrestricted net assets. These resources are neither restricted nor invested in capital assets.

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

**Town of Essex, Vermont**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2006**

**Changes in Net Assets for the Fiscal Year Ended June 30,**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2005	2005	2005	2005	2005
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 684,952	\$ 632,322	\$1,177,144	\$1,209,438	\$ 1,862,096	\$ 1,841,760
Operating grants and contributions	370,356	379,139	326,887	81,438	697,243	460,577
Capital grants and contributions	1,137,518	561,950	0	0	1,137,518	561,950
Property taxes (including penalty and interest)	5,862,859	6,524,781	0	0	5,862,859	6,524,781
IBM Payment for Services	835,594	734,626	0	0	835,594	734,626
Unrestricted investment earnings	67,100	146,799	3,578	10,582	70,678	157,381
Gain on Disposal of Assets	11,293	20,000	0	0	11,293	20,000
Other revenues	54,544	130,702	0	0	54,544	130,702
<b>Total Revenues</b>	<b>\$ 9,024,216</b>	<b>\$ 9,130,319</b>	<b>\$1,507,609</b>	<b>\$1,301,458</b>	<b>\$10,531,825</b>	<b>\$10,431,777</b>
<b>Expenses</b>						
Governmental activities:						
General Government	\$ 1,818,837	\$ 1,867,538	\$ 0	\$ 0	\$ 1,861,930	\$ 1,867,538
Public Safety	3,031,999	3,299,815	0	0	3,031,999	3,299,815
Highway and Streets	1,799,894	1,825,574	0	0	1,760,393	1,825,574
Health and Welfare	131,342	131,900	0	0	123,445	131,900
Culture and Recreation	924,179	1,059,729	0	0	932,076	1,059,729
Interest on long-term debt	38,635	26,008	0	0	35,043	26,008
Intergovernmental	339,058	363,427	0	0	339,058	363,427
Business-type activities:						
Water and Sewer	0	0	1,521,989	1,588,553	1,521,989	1,588,553
<b>Total Expenses</b>	<b>\$ 8,083,944</b>	<b>\$ 8,573,991</b>	<b>\$1,521,989</b>	<b>\$1,588,553</b>	<b>\$ 9,605,933</b>	<b>\$10,162,544</b>
Change in net assets before transfers	940,272	556,328	-14,380	-287,095	925,892	269,233
Transfers						
Change in net assets	940,272	556,328	-14,380	-287,095	925,892	269,233
Net assets - July 1,	15,695,487	16,616,587	6,722,597	6,708,217	22,418,084	23,324,804
Net assets - June 30,	\$16,635,759	\$17,172,915	\$6,708,217	\$6,421,122	\$23,343,976	\$23,594,037

Total Governmental activity expenses were \$8,573,991 and \$8,083,944 in fiscal years 2006 and 2005, 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.

**Town of Essex, Vermont  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006**

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 \$1,573,411 in 2006 and \$2,192,826 in 2005. 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 \$7,556,908 in fiscal 2006 and \$6,831,390 in fiscal 2005. Approximately 86 percent of the Town's total general revenue came from taxes in 2006 and 2005.

**Capital Assets**

The following is a schedule of capital assets as of June 30, 2006 and 2005.

	Governmental Activities		Business-type Activities		Total	
	6/30/2005	6/30/2006	6/30/2005	6/30/2006	6/30/2005	6/30/2006
Land	\$ 2,763,909	\$ 2,763,909	\$ 0	\$ 0	\$ 2,763,909	\$ 2,763,909
Buildings & Improvements	1,964,582	2,177,427			1,964,582	2,177,427
Equipment and Vehicles	3,589,818	3,990,101	221,336	246,218	3,811,154	4,236,319
Book Collection	459,726	459,726	0	0	459,726	459,726
Infrastructure	14,911,267	16,705,053	11,819,153	11,819,153	26,730,420	28,524,206
Construction in Progress	1,464,652	386,599	0	23,034	1,464,652	409,633
<b>Total Assets</b>	<b>\$25,153,954</b>	<b>\$26,482,815</b>	<b>\$12,040,489</b>	<b>\$12,088,405</b>	<b>\$37,194,443</b>	<b>\$38,571,220</b>
Less: Accumulated Depreciation	\$ 9,986,898	\$10,505,661	\$ 4,855,373	\$ 5,105,887	\$14,842,271	\$15,611,548
<b>Net Assets</b>	<b>\$15,167,056</b>	<b>\$15,977,154</b>	<b>\$ 7,185,116</b>	<b>\$ 6,982,518</b>	<b>\$22,352,172</b>	<b>\$22,959,672</b>

The Town had \$22,959,672 and \$22,352,172 invested in capital assets, net of depreciation, on June 30, 2006 and June 30, 2005, respectively. Net increase (including additions and deductions) between the two periods amounted to \$607,500.

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

- Completion of the reconstruction of the Butlers Corner intersection on Route 15 in the total amount of \$1,469,072. The majority of these costs were funded through Federal and State grants.
- Special equipment for the Fire department such as breathing apparatus and hydraulic rescue equipment in the amount of \$39,890. These equipment purchases were made through Homeland Security and Assistance to Firefighters grants.

**Town of Essex, Vermont  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006**

- Various streets were resurfaced or reconstructed for a total of \$294,735. These improvements included resurfacing / reconstruction of Greenfield Rd, Essex Free Library parking lot, Susie Wilson Road, Richard Street, Weed Road, and Lamell Avenue. Crosswalk improvements, sidewalks and curbing were installed at various locations throughout the Town. Some of the funds for these projects were obtained through State paving grants.
- New vehicles purchased during the year included, two police cruisers, one used unmarked cruiser, two dump trucks and a Caterpillar motor grader for the highway department. The total cost for these vehicles was \$376,173.
- Renovations to the Town Office at 81 Main St. including residing for a total amount of \$145,753.
- Improvements at the Town Highway garage including a calcium chloride storage shed and canopy for the fuel system. These improvements were mandated by storm water regulations and were funded in part through grants.

**Debt**

At the end of the fiscal year, the Town had \$1,688,526 in long-term debt outstanding compared to \$1,834,221 in the prior year, an approximate 7.9% decrease. A list of outstanding long-term debt follows.

	Governmental Activities		Business-type Activities		Total	
	6/30/2005	6/30/2006	6/30/2005	6/30/2006	6/30/2005	6/30/2006
Accrued Compensation	\$ 514,481	\$ 523,826	\$ 64,362	\$ 48,241	\$ 578,843	\$ 572,067
Notes Payable	329,250	282,700	0	0	329,250	282,700
Bonds Payable	265,000	195,000	620,000	545,000	885,000	740,000
Capital Lease Obligations	41,128	93,759	0	0	41,128	93,759
<b>Total</b>	<b>\$ 1,149,859</b>	<b>\$ 1,092,285</b>	<b>\$ 684,362</b>	<b>\$ 593,241</b>	<b>\$ 1,834,221</b>	<b>\$ 1,688,526</b>

**Fund Financial Statements**

The combined fund balance of the Fund Financial Statements was \$2,022,038 at June 30, 2006 and \$2,395,030 at June 30, 2005. Of the FY 2006 fund balance, \$82,664 constitutes unreserved funds, which are available for spending at the government's discretion. However, the General Fund has an unreserved deficit Fund Balance of \$48,237 which will be recovered in future years. An amount of \$1,939,374 of the fund balance is reserved. (See note 11, page 22) for a description of the reserved funds.

The fund balance for the General Fund decreased from \$616,110 in FY 2005 to \$423,671 in FY 2006. The total decrease amounted to \$192,439 for the fiscal year ended June 30, 2006.

**Town of Essex, Vermont  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006**

**General Fund Budgetary Highlights**

The fund balance of the Town of Essex's general fund decreased by \$192,439 during the current fiscal year. Key factors in this change are as follows:

- Funds from the excess of revenues over expenditures in previous years, which had been designated for subsequent period expenditures, were utilized in the current fiscal year to maintain a stable tax rate: (\$100,000),
- Revenue from recording of legal documents was less than expected due to rising interest rates which affected refinancing (\$27,000),
- Expenditures were over budget in some areas including: Insurance, data processing, general supplies, advertising for vacancies, gasoline for vehicles, and legal services.

**Economic Factors and Fiscal Year 2007 Budget**

- The taxable grand list for the Town of Essex, Vermont increased \$197,000 or 1.5 percent over the previous year.
- The rate of increase in prices of health and dental insurance, and the price of fuel oil products has grown faster than general inflationary trends.
- The Town continues to lose \$97,500 per year as a result of the agreement with IBM when Machinery and Equipment taxes were phased out.

All of these factors were considered in preparing the Town of Essex's budget for the 2007 fiscal year. The FY 2007 total operating budget is \$8,636,755. The FY 2006 total operating budget was \$8,002,407. The increase is \$634,348 or 7.9% over the previous year. There is an increase of \$782,266 (12.2%) in the amount to be raised by taxes. The Town did not utilize \$100,000 in unreserved fund balance to pay for expenditures included in this budget as was done in previous years.

Rates for water and wastewater operations were increased in fiscal year 2006 in response to increased costs for water purchases and wastewater treatment. Other factors, such as fewer new connections than anticipated and reduced usage by large commercial customers have contributed to a deficit cash position in the Water/Sewer Fund. This deficit position is being addressed in the preparation of operating budgets and rates for future periods.

**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 05402

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

June 30, 2006

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash	\$ 2,987,469	\$ -	\$ 2,987,469
Taxes receivable, net of allowance	297,007	-	297,007
Accounts receivables - other	231,456	244,738	476,194
Prepaid expenses	144,966	5,046	150,012
Notes receivable	-	121,824	121,824
Capital assets, net	15,977,154	6,982,518	22,959,672
TOTAL ASSETS	\$ 19,638,052	\$ 7,354,126	\$ 26,992,178
 <u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Cash overdraft	\$ -	\$ 298,936	\$ 298,936
Accounts payable	417,072	30,202	447,274
Accrued payroll	100,444	7,109	107,553
Other accrued expenses	9,117	3,516	12,633
Current portion long-term debt	145,350	75,000	220,350
Current portion capital lease	21,809	-	21,809
Current portion of compensated absences	34,309	-	34,309
Deferred revenue	843,219	-	843,219
TOTAL CURRENT LIABILITIES	1,571,320	414,763	1,986,083
LONG-TERM LIABILITIES			
Accrued compensated absences	489,517	48,241	537,758
Capital leases payable	71,950	-	71,950
Notes and bonds payable	332,350	470,000	802,350
TOTAL LONG-TERM LIABILITIES	893,817	518,241	1,412,058
TOTAL LIABILITIES	2,465,137	933,004	3,398,141
NET ASSETS			
Invested in capital assets, net of related debt	15,405,695	6,437,518	21,843,213
Unrestricted	1,767,220	(16,396)	1,750,824
NET ASSETS	17,172,915	6,421,122	23,594,037
TOTAL LIABILITIES AND NET ASSETS	\$ 19,638,052	\$ 7,354,126	\$ 26,992,178

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 GOVERNMENT-WIDE FINANCIAL STATEMENTS  
 STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Revenues	Capital Grants and Revenues	Governmental Activities	Business-Type Activities	
<u>Functions/Programs</u>							
Governmental activities							
General government	\$ 1,867,538	\$ 260,619	\$ 138,682	\$ -	\$ (1,468,237)	\$ -	\$ (1,468,237)
Public safety	3,299,815	89,739	95,395	178,334	(2,936,347)	-	(2,936,347)
Highways and Streets	1,825,574	29,283	135,121	383,616	(1,277,554)	-	(1,277,554)
Health and Welfare	131,900	2,962	-	-	(128,938)	-	(128,938)
Culture and Recreation	1,059,729	249,719	9,941	-	(800,069)	-	(800,069)
Intergovernmental	363,427	-	-	-	(363,427)	-	(363,427)
Interest on long-term debt	26,008	-	-	-	(26,008)	-	(26,008)
Total governmental activities	<u>8,573,991</u>	<u>632,322</u>	<u>379,139</u>	<u>561,950</u>	<u>(7,000,580)</u>	<u>-</u>	<u>(7,000,580)</u>
Business-type activities:							
Water and Sewer	<u>1,588,553</u>	<u>1,209,438</u>	<u>81,438</u>	<u>-</u>	<u>-</u>	<u>(297,677)</u>	<u>(297,677)</u>
Total business-type activities	<u>1,588,553</u>	<u>1,209,438</u>	<u>81,438</u>	<u>-</u>	<u>-</u>	<u>(297,677)</u>	<u>(297,677)</u>
General Revenues:							
Property taxes, levied for general purposes					6,436,550	-	6,436,550
Penalties and interest on delinquent taxes					88,231	-	88,231
IBM payment for services					734,626	-	734,626
Unrestricted investment earnings					146,799	10,582	157,381
Gain on disposal of asset					20,000	-	20,000
Miscellaneous					<u>130,702</u>	<u>-</u>	<u>130,702</u>
Total general revenues and transfers					<u>7,556,908</u>	<u>10,582</u>	<u>7,567,490</u>
Change in Net Assets					556,328	(287,095)	269,233
Net assets, beginning - restated					<u>16,616,587</u>	<u>6,708,217</u>	<u>23,324,804</u>
Net assets, ending					<u>\$ 17,172,915</u>	<u>\$ 6,421,122</u>	<u>\$ 23,594,037</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 June 30, 2006

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 1,524,456	\$ 1,463,013	\$ 2,987,469
Taxes receivable, net of allowance	18,882	-	18,882
Other receivables	96,102	135,354	231,456
Prepaid expenses	<u>144,966</u>	<u>-</u>	<u>144,966</u>
 TOTAL ASSETS	 <u>\$ 1,784,406</u>	 <u>\$ 1,598,367</u>	 <u>\$ 3,382,773</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
 LIABILITIES			
Accounts payable	\$ 417,072	\$ -	\$ 417,072
Accrued payroll	100,444	-	100,444
Deferred revenue	<u>843,219</u>	<u>-</u>	<u>843,219</u>
 TOTAL LIABILITIES	 <u>1,360,735</u>	 <u>-</u>	 <u>1,360,735</u>
 FUND BALANCE			
Reserved	471,908	1,467,466	1,939,374
Unreserved	<u>(48,237)</u>	<u>130,901</u>	<u>82,664</u>
 TOTAL FUND BALANCE	 <u>423,671</u>	 <u>1,598,367</u>	 <u>2,022,038</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 1,784,406</u>	 <u>\$ 1,598,367</u>	 <u>\$ 3,382,773</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, 2006

**Total fund balances - governmental funds** \$ 2,022,038

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

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in governmental funds. 15,977,154

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 278,125

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	(523,826)
Accrued interest on long-term debt	(9,117)
Capital lease payable	(93,759)
Notes payable	<u>(477,700)</u>

**Total net assets - governmental activities** \$ 17,172,915

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, 2006

	General Fund	Capital Projects Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES			
Property tax	\$ 6,265,624	\$ 128,679	\$ 6,394,303
Licenses and permits	39,170	-	39,170
Intergovernmental revenues	553,467	-	553,467
Charges for services	1,274,073	52,375	1,326,448
Fines and forfeits	84,991	-	84,991
Interest income	83,454	63,345	146,799
Miscellaneous income	34,915	-	34,915
Grant income	-	381,250	381,250
TOTAL REVENUES	<u>8,335,694</u>	<u>625,649</u>	<u>8,961,343</u>
EXPENDITURES			
General government	1,793,113	-	1,793,113
Public safety	3,244,582	-	3,244,582
Highways and Streets	1,592,121	-	1,592,121
Health and Welfare	120,078	-	120,078
Culture and Recreation	940,734	-	940,734
Intergovernmental	363,427	-	363,427
Debt service	192,037	-	192,037
Capital expenditures	-	1,119,772	1,119,772
TOTAL EXPENDITURES	<u>8,246,092</u>	<u>1,119,772</u>	<u>9,365,864</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	89,602	(494,123)	(404,521)
OTHER FINANCING SOURCES (USES)			
Proceeds of long-term debt	-	50,700	50,700
Operating transfers In	11,213	293,254	304,467
Operating transfers Out	(293,254)	(11,213)	(304,467)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(282,041)</u>	<u>332,741</u>	<u>50,700</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(192,439)	(161,382)	(353,821)
FUND BALANCE - July 1, 2005	<u>616,110</u>	<u>1,759,749</u>	<u>2,375,859</u>
FUND BALANCE - June 30, 2006	<u>\$ 423,671</u>	<u>\$ 1,598,367</u>	<u>\$ 2,022,038</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, 2006

**Net change in fund balances - governmental funds** \$ (353,821)

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	(730,168)
Capital Outlay	1,446,927

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	42,247
Proceeds of long-term debt	(50,700)

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	167,250
Capital lease	40,699

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

Accrued interest on long-term debt	3,239
Accrued compensated absences	<u>(9,345)</u>

**Change in net assets of governmental activities** \$ 556,328

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
 June 30, 2006

	Water & Sewer Fund
<u>ASSETS</u>	
CURRENT ASSETS	
Accounts receivable - net	\$ 244,738
Prepaid expenses	5,046
Notes receivable	121,824
Capital assets, net	6,982,518
TOTAL ASSETS	\$ 7,354,126
<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 30,202
Cash overdraft	298,936
Current portion long-term debt	75,000
Accrued payroll	7,109
Other accrued expenses	3,516
TOTAL CURRENT LIABILITIES	414,763
LONG-TERM LIABILITIES	
Accrued compensated absences	48,241
Notes and bonds payable	470,000
TOTAL LONG-TERM LIABILITIES	518,241
TOTAL LIABILITIES	933,004
NET ASSETS	
Invested in capital assets, net of related debt	6,437,518
Unrestricted	(16,396)
TOTAL NET ASSETS	6,421,122
TOTAL LIABILITIES AND NET ASSETS	\$ 7,354,126

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, 2006

	Water & Sewer Fund
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,209,438
Hookup fees	61,940
Interest and penalties on delinquents	12,365
Assessments	6,814
Miscellaneous	319
<b>TOTAL OPERATING REVENUES</b>	<b>1,290,876</b>
 <b>OPERATING EXPENSES</b>	
Regular salaries	298,461
Overtime salaries	23,907
Group health insurance	86,307
Social security	24,585
Employee retirement	25,335
Other employee benefits	(14,338)
Professional services	12,141
Repair and maintenance	36,929
Rental of equipment	216
Telephone/communications	1,658
Advertising	3,165
Professional services	1,509
Travel	10
Small tools and equipment	1,719
Supplies	700
Utilities	40,092
Uniforms	2,899
Natural gas	7,900
CWD water purchases	404,507
Insurance	9,883
Dues and fees	2,465
Machinery	1,777
Depreciation expense	250,514
Sewage treatment	319,612
<b>TOTAL OPERATING EXPENDITURES</b>	<b>1,541,953</b>

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, 2006

	<u>Water &amp; Sewer Fund</u>
INCOME (LOSS) FROM OPERATIONS	<u>(251,077)</u>
NON-OPERATING REVENUE (EXPENSE)	
Interest Income	10,582
Interest Expense	<u>(46,600)</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>(36,018)</u>
DECREASE IN NET ASSETS	(287,095)
NET ASSETS BEGINNING OF YEAR	<u>6,708,217</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,421,122</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, 2006

	Water & Sewer Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,269,158
Payments to suppliers	(838,828)
Payments for employees and benefits	(444,257)
NET CASH (USED) BY OPERATING ACTIVITIES	(13,927)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of property, plant and equipment	(24,882)
Interest payments on debt	(46,600)
Construction in Progress	(23,034)
Principal payments on debt	(75,000)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(169,516)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Payments received on notes receivable	13,219
Interest income	10,582
NET CASH PROVIDED BY INVESTING ACTIVITIES	23,801
NET DECREASE IN CASH	(159,642)
CASH OVERDRAFT - BEGINNING OF YEAR	(139,294)
CASH OVERDRAFT - END OF YEAR	\$ (298,936)
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (251,077)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	250,514
Change in net assets and liabilities:	
Receivables, net	(21,718)
Prepaid expenses	(210)
Other accrued expense	(817)
Accrued payroll and compensated absences	(20,821)
Net cash provided (used) by operating activities	\$ (13,927)
<b>NON-CASH INVESTING &amp; FINANCING ACTIVITIES:</b>	
Purchase of equipment with capital lease	\$ 93,759

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF NET ASSETS - FIDUCIARY FUND  
 June 30, 2006

	Cemetery Trust Fund	Agency Fund
<u>ASSETS</u>		
Cash and cash equivalents	\$ 15,226	\$ 138,292
TOTAL ASSETS	\$ 15,226	\$ 138,292
 <u>LIABILITIES AND NET ASSETS</u>		
NET ASSETS		
Restricted	\$ 15,226	\$ 138,292
TOTAL NET ASSETS	\$ 15,226	\$ 138,292

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, 2006

	<u>Cemetery Trust Fund</u>
ADDITIONS	
Sales of plots	\$ 7,350
Interest on deposits	<u>704</u>
TOTAL ADDITIONS	<u>8,054</u>
DEDUCTIONS	
Repairs and maintenance	(6,800)
Cost of burials	<u>(5,200)</u>
TOTAL DEDUCTIONS	<u>(12,000)</u>
CHANGES IN NET ASSETS	(3,946)
NET ASSETS AT BEGINNING OF YEAR	<u>19,171</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 15,225</u></u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The Town reports the following major governmental funds:

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

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

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

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

D. Deposits and Investments

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

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Receivables and Payables

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

F. Capital Assets

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

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

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

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

G. Long-term Obligations

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

H. Fund Equity

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

I. Estimates

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

J. Allowance for Uncollectible Accounts

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

K. Operating Transfers

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

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

NOTE 2 DELINQUENT TAXES RECEIVABLE

Delinquent taxes receivable consist of:

	<u>General Fund</u>
Delinquent property taxes	\$ 229,965
Penalties on taxes receivable	16,733
Interest on taxes receivable	60,309
	307,007
Allowance for uncollectible delinquent taxes	(10,000)
	\$ 297,007

Property taxes attach as an enforceable lien on property as of September 16<sup>th</sup> and March 16<sup>th</sup>. Taxes are levied in August and payable on September 15<sup>th</sup> and March 15<sup>th</sup>. The Town bills and collects its own taxes. Town property tax revenues are recognized when levied to the extent they result in current receivables. Current receivables are defined as receivables which are due or past due, and receivable within the current period and collected no later than 60 days after the close of the current period. Taxes receivable that remain uncollected as of August 31, 2006 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 \$278,125 at June 30, 2006.

NOTE 3 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ 2,763,909	\$ -	\$ -	\$ 2,763,909
Construction in progress	1,464,652	415,113	(1,493,166)	386,599
Total capital assets not being depreciated	4,228,561	415,113	(1,493,166)	3,150,508
Other capital assets:				
Book collection	459,726	-	-	459,726
Building and improvements	1,964,582	212,845	-	2,177,427
Equipment	3,589,818	611,688	(211,405)	3,990,101
Infrastructure	14,911,267	1,793,786	-	16,705,053
Total other capital assets	20,925,393	2,618,319	(211,405)	23,332,307
Less accumulated depreciation for:				
Book collection	(186,108)	(45,973)	-	(232,081)
Building and improvements	(1,185,753)	(36,055)	-	(1,221,808)
Equipment	(2,072,788)	(303,275)	211,405	(2,164,658)
Infrastructure	(6,542,249)	(344,865)	-	(6,887,114)
Total accumulated depreciation	(9,986,898)	(730,168)	211,405	(10,505,661)
Governmental Activities – Capital Assets, Net	\$ 15,167,056	\$ 2,303,264	\$ (1,493,166)	\$ 15,977,154

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

NOTE 3 CAPITAL ASSETS (continued)

Depreciation expense was charged to functions, as follows:

General Government	\$ 17,067
Public Safety	212,101
Highways and Streets	396,153
Storm water	3,602
Culture and Recreation	<u>101,245</u>
TOTAL	<u>\$ 730,168</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	\$ -	\$ 23,034	\$ -	\$ 23,034
Capital assets being depreciated:				
Water/sewer plant	11,819,153	-	-	11,819,153
Machinery and equipment	116,434	24,882	-	141,316
Vehicles	<u>104,902</u>	<u>-</u>	<u>-</u>	<u>104,902</u>
	12,040,489	24,882	-	12,065,371
Less accumulated depreciation	<u>(4,855,373)</u>	<u>(250,514)</u>	<u>-</u>	<u>(5,105,887)</u>
Total capital assets being depreciated, net	<u>7,185,116</u>	<u>(225,632)</u>	<u>-</u>	<u>6,959,484</u>
Business-Type Activities – Capital Assets, Net	<u>\$ 7,185,116</u>	<u>\$ (202,598)</u>	<u>\$ -</u>	<u>\$ 6,982,518</u>

Depreciation expense for the Business-type Activities was \$250,514 for the fiscal year ended June 30, 2006

NOTE 4 ACCRUED COMPENSATION

At June 30, 2006, the Town had the following vested benefits earned by their employees:

Vested Compensation – Water/Sewer	\$ 48,241
Vested Compensation - General	<u>523,826</u>
	572,067
Less: Current Portion	<u>(34,309)</u>
TOTAL LONG-TERM PORTION	<u>\$ 537,758</u>

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

NOTE 5      NOTES AND BONDS PAYABLE

<u>Governmental Activities</u>	<u>Balance</u>	<u>Beginning Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
<u>Notes Payable</u>					
Note payable to TD Banknorth, capital improvement note, interest at 3.22%. Annual principal payments of \$50,000 plus interest due August 15, 2008.	\$ 282,000	\$ -	\$ (50,000)	\$ 232,000	\$ 50,000
Note payable to TD Banknorth, capital improvement note, interest at 3.02%. Annual principal payments of \$47,250 plus interest due June 15, 2006.	47,250	-	(47,250)	-	-
Note payable to TD Banknorth, capital improvement note, interest at 4.34%, due November 7, 2007.	-	50,700	-	50,700	25,350
<u>Bonds Payable</u>					
Vermont Bond Bank, refunded July 1, 1992 with 1992 Series A Bonds, interest varies from 3.75% to 7.5%. Annual principal payments of \$35,000 payable to Deutsche Bank Trust Company America's, New York	105,000	-	(35,000)	70,000	35,000
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, 2006 and \$30,000 thereafter, due December 1, 2009	<u>160,000</u>	<u>-</u>	<u>(35,000)</u>	<u>125,000</u>	<u>35,000</u>
Total Governmental Activities	<u>\$ 594,250</u>	<u>\$ 50,700</u>	<u>\$ (167,250)</u>	<u>\$ 477,700</u>	<u>\$ 145,350</u>

Anticipated maturities are as follows for the long-term debt of Governmental Activities:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 145,350	\$ 19,215	\$ 164,565
2008	140,350	12,065	152,415
2009	162,000	7,288	169,288
2010	<u>30,000</u>	<u>1,013</u>	<u>31,013</u>
	<u>\$ 477,700</u>	<u>\$ 39,581</u>	<u>\$ 517,281</u>

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

NOTE 5      NOTES AND BONDS PAYABLE (continued)

<u>Business-Type Funds</u>	<u>Balance</u>	<u>Beginning Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Vermont Municipal Bond Bank, 2003 Series II Bonds, interest varies from 1.19% to 3.7%. Annual principal payments of \$25,000 plus interest, due December 1, 2015.	\$ 225,000	\$ -	\$ (25,000)	\$ 200,000	\$ 25,000
Vermont Municipal Bond Bank, 2001 Series I Bonds, interest varies from 2.8% to 4.47%. Annual principal charge to \$40,000 on December 1, 2006, due December 1, 2011	280,000	-	(40,000)	240,000	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	<u>115,000</u>	<u>-</u>	<u>(10,000)</u>	<u>105,000</u>	<u>10,000</u>
Total Business-Type Funds	<u>\$ 620,000</u>	<u>\$ -</u>	<u>\$ (75,000)</u>	<u>\$ 545,000</u>	<u>\$ 75,000</u>

Anticipated maturities are as follows for the long-term debt of Business-Type Funds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 75,000	\$ 20,437	\$ 95,437
2008	75,000	15,194	90,194
2009	75,000	15,073	90,073
2010	80,000	12,014	92,014
2011	80,000	8,692	88,692
2012-2016	<u>160,000</u>	<u>8,794</u>	<u>168,794</u>
	<u>\$ 545,000</u>	<u>\$ 80,204</u>	<u>\$ 625,204</u>

NOTE 6      CAPITAL LEASE

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

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

NOTE 6 CAPITAL LEASE (continued)

The assets acquired through the capital lease are as follows:

	Governmental Activities
ASSETS	
Grader	\$ 138,000
Less: Accumulated depreciation	(6,900)
	\$ 131,110

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2006, are as follows:

Year ending June 30,	Amount
2007	\$ 25,946
2008	25,946
2009	25,946
2010	25,946
Total minimum lease payments	103,784
Less: Amount representing interest	(10,025)
Present value of net minimum lease payment	\$ 93,759

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	\$ 124,218	\$ 124,005
Insured by Deposit Surety Bond	2,493,486	2,803,884
Uncollateralized	221,252	221,254
Petty Cash	3,095	-
Total Deposits	\$ 2,842,051	\$ 3,149,143

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

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 a Deposit Surety Bond by XL Capital Assurance, Inc. The coverage is in the amount of \$8,500,000 and is for the period June 23, 2006 to December 23, 2006.

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 \$131,245 for the year ended 2006.

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

All full-time employees of the Town hired after January 1, 2004 are covered under Plan C of the State of Vermont Municipal Employee's Retirement Plan. The Town contributes 8% and employees contribute 7% of employee's salaries. Benefit and contribution provisions are established by State Law (VSA, Title 25, Chapter 125). The Town contributed \$136,018 to the plan for the year ended June 30, 2006.

Of the Town's total compensation of \$3,907,528, \$1,640,565 was covered under the ICMA retirement plan and \$2,266,963 was covered under the State of Vermont Municipal Employees Retirement Plan for the year ended June 30, 2006.

NOTE 10     NET ASSETS – RESTATED

The beginning net assets of the governmental funds have been reduced by \$19,172. The net assets of the Cemetery Trust Fund were included in the governmental funds as of December 31, 2005 and are now shown only in the fiduciary fund.

Net assets, ending December 31, 2005	\$ 16,635,759
Reduction as explained above	<u>(19,172)</u>
Net assets, beginning January 1, 2006	<u>\$ 16,616,587</u>

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

NOTE 11      FUND EQUITY

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

Reservations and designations as of June 30, 2006 are as follows:

GENERAL FUND

Reserved for Reappraisal – Funds received from the State for the Town’s reappraisal	\$ <u>471,908</u>
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CAPITAL PROJECTS FUND

Reserved for:	
Future vehicle purchases	\$      26,504
Future parks and recreation projects	294,251
Future highway projects	206,772
Future buildings projects	939,939
Total Reserved Fund Balance	\$ <u>1,467,466</u>

FIDUCIARY FUND

Reserved for Cemetery - These funds are accumulated for the maintenance of the cemetery.	\$ <u>15,226</u>
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NOTE 12      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 fiscal 2006 was \$734,626.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2006

NOTE 13 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, 2006.

<u>Amount</u>	<u>Transfer From</u>	<u>Transfer To</u>
\$ <u>11,213</u>	Capital Projects	General Fund
\$ 74,660	General Fund	Capital Projects
64,395	General Fund	Capital Projects
100,000	General Fund	Capital Projects
20,000	General Fund	Capital Projects
29,500	General Fund	Capital Projects
1,199	General Fund	Capital Projects
3,500	General Fund	Capital Projects
<u>\$ 293,254</u>		

<u>Amount</u>	<u>Transfer To</u>	<u>Transfer From</u>
\$ <u>(11,213)</u>	General Fund	Capital Projects
\$ (74,660)	Capital Projects	General Fund
(64,395)	Capital Projects	General Fund
(100,000)	Capital Projects	General Fund
(20,000)	Capital Projects	General Fund
(29,500)	Capital Projects	General Fund
(1,199)	Capital Projects	General Fund
(3,500)	Capital Projects	General Fund
<u>\$ (293,254)</u>		

NOTE 14 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  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Property Taxes				
General tax	\$ 5,766,042	\$ 5,766,042	\$ 5,724,088	\$ (41,954)
Highway tax	<u>531,500</u>	<u>531,500</u>	<u>541,537</u>	<u>10,037</u>
Total Property Taxes	<u>6,297,542</u>	<u>6,297,542</u>	<u>6,265,625</u>	<u>(31,917)</u>
Licenses and Permits				
Alcoholic beverages	3,800	3,800	3,610	(190)
Building structures	30,000	30,000	24,213	(5,787)
Hunting and fishing	500	500	484	(16)
Marriage licenses	1,000	1,000	674	(326)
Animal licenses	6,500	6,500	7,516	1,016
Green Mountain passport	100	100	98	(2)
DMV registrations	<u>3,000</u>	<u>3,000</u>	<u>2,575</u>	<u>(425)</u>
Total Licenses and Permits	<u>44,900</u>	<u>44,900</u>	<u>39,170</u>	<u>(5,730)</u>
Intergovernmental Revenues				
State aid to highways	130,000	130,000	135,120	5,120
Railroad tax	1,500	1,500	1,526	26
State land PILOT	6,000	6,000	6,826	826
Current use/hold harmless	10,000	10,000	10,772	772
Storm water grant	-	-	50,574	50,574
State highway grants	-	-	3,266	3,266
Vermont Safe Kids grant	-	-	300	300
Interlibrary loan grant	-	-	672	672
Law enforcement grant	-	-	1,782	1,782
Tree planting grant	-	-	1,562	1,562
Recreation trails grant	-	-	835	835
Transportation grant	-	-	8,291	8,291
Act 60 revenue	7,200	7,200	7,499	299
Act 68 revenue	<u>17,000</u>	<u>17,000</u>	<u>18,910</u>	<u>1,910</u>
Total Intergovernmental Revenues	<u>171,700</u>	<u>171,700</u>	<u>247,935</u>	<u>76,235</u>
Charges for Services				
IBM payment - general	668,446	668,446	668,446	-
IBM payment - highway	39,618	39,618	39,618	-
Use of vault	5,000	5,000	3,613	(1,387)
Recording of legal documents	200,000	200,000	172,399	(27,601)
Zoning hearing fees	1,500	1,500	625	(875)

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
<b>Charges for Services (continued)</b>				
Subdivision filing fees	3,000	3,000	18,400	15,400
Zoning ordinance pamphlets	250	250	306	56
CO reinspections	3,500	3,500	3,938	438
Site plan amendments	500	500	450	(50)
Printing/duplication services	14,000	14,000	12,426	(1,574)
Sale of public works specs	600	600	1,270	670
Sale of maps	600	600	635	35
Sale of certified copy	6,000	6,000	6,042	42
Sale of checklists	50	50	6	(44)
Storm water management fees	-	-	3,470	3,470
Special police services	90,000	90,000	73,744	(16,256)
Health/inspection fees	2,000	2,000	1,221	(779)
Animal control/shelter	1,000	1,000	1,750	750
Swimming pool fees	27,000	27,000	25,974	(1,026)
Auditorium use fees	5,200	5,200	5,100	(100)
Indian Brook fees	24,000	24,000	24,275	275
Program registration fees	135,000	135,000	174,428	39,428
After school program	19,000	19,000	19,942	942
Total Charges for Services	<u>1,246,264</u>	<u>1,246,264</u>	<u>1,258,078</u>	<u>11,814</u>
<b>Fines and Forfeits</b>				
Penalty on delinquent taxes	40,000	40,000	50,626	10,626
Interest on delinquent taxes	36,000	36,000	34,367	(1,633)
Total Fines	<u>76,000</u>	<u>76,000</u>	<u>84,993</u>	<u>8,993</u>
<b>Miscellaneous</b>				
Interest on deposits	35,000	35,000	83,454	48,454
Rents and royalties	1,001	1,001	1,001	-
Records preservation	10,000	10,000	1,339	(8,661)
Sale of assets	10,000	10,000	20,000	10,000
Freeman grants	-	-	5,272	5,272
Unclassified	10,000	10,000	18,504	8,504
Total Miscellaneous	<u>66,001</u>	<u>66,001</u>	<u>129,570</u>	<u>63,569</u>
<b>TOTAL REVENUES</b>	<u>7,902,407</u>	<u>7,902,407</u>	<u>8,025,371</u>	<u>122,964</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGETARY BASIS - GENERAL FUND  
 For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
<b>EXPENDITURES</b>				
<b>GENERAL GOVERNMENT</b>				
Selectboard				
Regular salaries	5,414	5,414	6,080	(666)
Professional services	16,500	16,500	1,000	15,500
Secretary	4,300	4,300	6,172	(1,872)
Printing/binding ordinances	11,000	11,000	8,514	2,486
Dues/subscriptions/meetings	14,483	14,483	15,135	(652)
Total Selectboard	<u>51,697</u>	<u>51,697</u>	<u>36,901</u>	<u>14,796</u>
Town Manager				
Salaries	211,439	211,439	189,418	22,021
Benefits	101,489	101,489	95,639	5,850
Professional services	2,000	2,000	-	2,000
Repair and maintenance services	200	200	-	200
Advertising	4,000	4,000	20,952	(16,952)
Printing and binding	1,500	1,500	982	518
Dues/subscriptions/meetings	5,900	5,900	4,270	1,630
Other purchased services	1,300	1,300	787	513
Travel	1,800	1,800	1,795	5
Supplies	150	150	167	(17)
Furniture and fixtures	250	250	40	210
Education	3,800	3,800	-	3,800
Total Town Manager	<u>333,828</u>	<u>333,828</u>	<u>314,050</u>	<u>19,778</u>
Economic Development				
Advertising	5,000	5,000	3,122	1,878
Dues/subscriptions/meetings	500	500	144	356
Travel	475	475	-	475
G.B.I.C.	7,000	7,000	7,000	-
Chamber of commerce	3,275	3,275	755	2,520
Total Economic Development	<u>16,250</u>	<u>16,250</u>	<u>11,021</u>	<u>5,229</u>
Elections				
Voter registration	1,000	1,000	95	905
Elections/town meetings	7,300	7,300	4,964	2,336
Total Elections	<u>8,300</u>	<u>8,300</u>	<u>5,059</u>	<u>3,241</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
<b>Finance</b>				
Salaries	77,633	77,633	80,435	(2,802)
Benefits	36,112	36,112	35,204	908
Professional Services	3,000	3,000	758	2,242
Audit	10,000	10,000	21,000	(11,000)
Technical services	2,000	2,000	-	2,000
Repair and maintenance services	20,000	20,000	14,214	5,786
Insurance	150,000	150,000	182,730	(32,730)
Dues/subscriptions/meetings	1,500	1,500	876	624
Data processing	30,000	30,000	49,782	(19,782)
Travel	500	500	-	500
General supplies	350	350	386	(36)
Total Finance	<u>331,095</u>	<u>331,095</u>	<u>385,385</u>	<u>(54,290)</u>
<b>Tax Collection</b>				
Printing and binding	1,500	1,500	2,358	(858)
Postage	2,500	2,500	2,078	422
Total Tax Collection	<u>4,000</u>	<u>4,000</u>	<u>4,436</u>	<u>(436)</u>
<b>Legal Services</b>				
Professional services	20,000	20,000	52,097	(32,097)
<b>Town Clerk</b>				
Salaries	110,828	110,828	112,482	(1,654)
Benefits	49,519	49,519	46,934	2,585
Repair and maintenance services	100	100	150	(50)
Advertising	730	730	130	600
Dues/subscriptions/meetings	900	900	525	375
Other purchased services	15,450	15,450	5,558	9,892
Travel	450	450	-	450
General supplies	12,000	12,000	8,898	3,102
Total Town Clerk	<u>189,977</u>	<u>189,977</u>	<u>174,677</u>	<u>15,300</u>
<b>Buildings and Plant</b>				
Water/sewer	1,240	1,240	1,157	83
Repair and maintenance services	20,500	20,500	12,247	8,253
Repair and maintenance supplies	3,000	3,000	2,889	111
Telephone	20,750	20,750	22,192	(1,442)
Postage	17,000	17,000	16,251	749

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
<b>Buildings and Plant (continued)</b>				
Other purchased services	4,840	4,840	5,096	(256)
General supplies	24,800	24,800	33,073	(8,273)
Electricity	20,400	20,400	19,642	758
Heating	8,700	8,700	9,061	(361)
Gasoline	74,300	74,300	115,414	(41,114)
Machinery	8,500	8,500	8,356	144
Memorial Hall repairs	5,500	5,500	-	5,500
<b>Total Buildings and Plant</b>	<u>209,530</u>	<u>209,530</u>	<u>245,378</u>	<u>(35,848)</u>
<b>Real Estate Appraisal</b>				
Salaries	94,201	94,201	94,847	(646)
Benefits	55,857	55,857	51,409	4,448
Professional services	1,790	1,790	1,347	443
Repair and maintenance services	600	600	171	429
Advertising	100	100	60	40
Dues/subscriptions/meetings	1,125	1,125	1,174	(49)
Other purchased services	250	250	-	250
Travel	100	100	-	100
General supplies	200	200	35	165
<b>Total Real Estate Appraisal</b>	<u>154,223</u>	<u>154,223</u>	<u>149,043</u>	<u>5,180</u>
<b>Public Works</b>				
Salaries	58,650	58,650	64,215	(5,565)
Benefits	24,386	24,386	28,561	(4,175)
Professional services	100	100	-	100
Repair and maintenance services	1,700	1,700	1,572	128
Dues/subscriptions/meetings	800	800	545	255
Other purchased services	2,300	2,300	2,441	(141)
Travel	900	900	2,500	(1,600)
Office supplies	500	500	154	346
Machinery	5,300	5,300	5,629	(329)
Furniture and fixtures	350	350	461	(111)
Other objects	100	100	66	34
<b>Total Public Works</b>	<u>95,086</u>	<u>95,086</u>	<u>106,144</u>	<u>(11,058)</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGETARY BASIS - GENERAL FUND  
 For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
Community Development				
Salaries	186,181	186,181	181,430	4,751
Benefits	80,488	80,488	70,773	9,715
Professional services	15,000	15,000	25,176	(10,176)
Technical services	500	500	-	500
Repair and maintenance services	7,000	7,000	4,432	2,568
Advertising	5,000	5,000	4,603	397
Printing and binding	2,000	2,000	3,205	(1,205)
Dues/subscriptions/meetings	3,500	3,500	2,337	1,163
Other purchased services	9,600	9,600	350	9,250
Travel	2,500	2,500	1,429	1,071
General supplies	1,900	1,900	838	1,062
Machinery	11,192	11,192	7,346	3,846
Total Community Development	<u>324,861</u>	<u>324,861</u>	<u>301,919</u>	<u>22,942</u>
 TOTAL GENERAL GOVERNMENT	 <u>1,738,847</u>	 <u>1,738,847</u>	 <u>1,786,110</u>	 <u>(47,263)</u>
 PUBLIC SAFETY				
Police				
Salaries	1,800,000	1,800,000	1,818,477	(18,477)
Benefits	743,757	743,757	701,094	42,663
General supplies	9,731	9,731	11,438	(1,707)
Small tools and equipment	7,600	7,600	4,388	3,212
Advertising	1,500	1,500	763	737
Telephone	23,000	23,000	17,234	5,766
Dues/subscriptions/meetings	3,500	3,500	4,058	(558)
Printing and binding	1,500	1,500	1,812	(312)
Rentals	1,250	1,250	1,008	242
Data processing	18,000	18,000	16,215	1,785
Uniforms	31,100	31,100	31,812	(712)
Registration, fees and licenses	290	290	102	188
Travel	8,000	8,000	12,617	(4,617)
Crime Prevention	6,000	6,000	4,593	1,407
Police training	12,000	12,000	15,701	(3,701)
Police communications	18,950	18,950	13,348	5,602
Professional services	3,000	3,000	2,057	943
Repair and maintenance services	200	200	-	200
Repair and maintenance supplies	5,500	5,500	5,550	(50)

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
Police (continued)				
Utilities	5,000	5,000	4,614	386
Building and improvements	500	500	315	185
Vehicles and equipment:				
Repair and maintenance supplies	8,000	8,000	13,833	(5,833)
Repairs and maintenance services	14,000	14,000	17,253	(3,253)
Rent	30,106	30,106	33,600	(3,494)
Purchase and maintenance of vehicles	62,000	62,000	62,033	(33)
Total Police	<u>2,814,484</u>	<u>2,814,484</u>	<u>2,793,915</u>	<u>20,569</u>
Fire				
Salaries	63,000	63,000	66,554	(3,554)
Benefits	4,819	4,819	5,043	(224)
Printing and binding	250	250	144	106
Dues/subscriptions/meetings	1,900	1,900	1,285	615
Communications	3,200	3,200	3,403	(203)
Travel	125	125	34	91
General supplies	2,000	2,000	1,784	216
Small tools and equipment	4,685	4,685	5,500	(815)
Uniforms	12,925	12,925	13,179	(254)
Machinery	7,625	7,625	8,871	(1,246)
Fire prevention	900	900	904	(4)
Fire training	6,580	6,580	5,940	640
Training - medical	1,600	1,600	1,601	(1)
Fire communications	12,750	12,750	12,719	31
Repairs and maintenance services	16,200	16,200	16,340	(140)
Repair and maintenance supplies	500	500	565	(65)
Building				
Repairs and maintenance services	1,650	1,650	2,092	(442)
Repair and maintenance supplies	850	850	756	94
General supplies	500	500	665	(165)
Water and gas	8,550	8,550	7,358	1,192
Building improvements	4,000	4,000	-	4,000
Homeland Security grant	-	-	2,248	(2,248)
Assistance to Firefighters grant	-	-	4,666	(4,666)
Total Fire	<u>154,609</u>	<u>154,609</u>	<u>161,651</u>	<u>(7,042)</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGETARY BASIS - GENERAL FUND  
 For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
Emergency Management				
Salaries	21,632	21,632	22,125	(493)
Benefits	10,970	10,970	10,269	701
Professional services	150	150	-	150
Communications	300	300	267	33
General supplies	100	100	-	100
Total Emergency Management	<u>33,152</u>	<u>33,152</u>	<u>32,661</u>	<u>491</u>
TOTAL PUBLIC SAFETY	<u>3,002,245</u>	<u>3,002,245</u>	<u>2,988,227</u>	<u>14,018</u>
HIGHWAYS AND STREETS				
Highways and Streets				
Salaries	437,164	437,164	444,602	(7,438)
Benefits	231,650	231,650	199,292	32,358
Professional Services	3,500	3,500	4,290	(790)
Vehicles:				
Repair and maintenance services	15,500	15,500	45,112	(29,612)
Repair and maintenance supplies	52,000	52,000	62,256	(10,256)
Buildings:				
Repair and maintenance services	6,980	6,980	5,941	1,039
Repair and maintenance supplies	2,800	2,800	2,465	335
Rental of equipment	400	400	372	28
Communications	3,000	3,000	3,208	(208)
Advertising	1,000	1,000	1,759	(759)
Dues/subscriptions/meetings	1,900	1,900	2,146	(246)
Other purchased services	16,000	16,000	8,130	7,870
Travel	1,300	1,300	377	923
Taxes/licenses and registrations	340	340	110	230
Small tools and equipment	1,800	1,800	2,022	(222)
Uniforms	10,000	10,000	6,630	3,370
Operating supplies - buildings	5,000	5,000	6,576	(1,576)
Operating supplies - vehicles	3,200	3,200	5,375	(2,175)
Electricity	10,500	10,500	9,355	1,145
Natural gas	8,600	8,600	11,133	(2,533)
Machinery and equipment	4,000	4,000	19,681	(15,681)
Vehicles	100,000	100,000	100,000	-
Summer Construction:				
Rentals	1,900	1,900	2,362	(462)
Purchased services	160,000	160,000	185,290	(25,290)
Supplies	53,430	53,430	40,864	12,566

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Highways and Streets (continued)				
Traffic control				
Purchased services	7,100	7,100	1,725	5,375
Supplies	7,900	7,900	6,128	1,772
Sidewalks and crosswalks	31,900	31,900	29,597	2,303
Winter maintenance				
Purchased services	5,300	5,300	5,062	238
Supplies	155,000	155,000	134,019	20,981
Bridges and viaducts	1,000	1,000	-	1,000
Storm drains				
Purchased Services	21,600	21,600	35,204	(13,604)
Supplies	14,900	14,900	17,177	(2,277)
Electricity - street lights	99,000	99,000	93,343	5,657
Total Highways and Streets	<u>1,475,664</u>	<u>1,475,664</u>	<u>1,491,603</u>	<u>(15,939)</u>
Storm water				
Salaries	28,940	28,940	34,500	(5,560)
Benefits	18,069	18,069	15,495	2,574
Professional services	12,000	12,000	11,570	430
Repairs and maintenance	27,000	27,000	6,000	21,000
Construction of facilities	30,000	30,000	132,565	(102,565)
Advertising	6,000	6,000	5,462	538
Other purchased services	5,000	5,000	9,662	(4,662)
Taxes/licenses/registrations	8,000	8,000	2,940	5,060
Vehicles	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Total Storm water	<u>155,009</u>	<u>155,009</u>	<u>238,194</u>	<u>(83,185)</u>
Sanitation				
Landfill monitoring	<u>13,000</u>	<u>13,000</u>	<u>11,822</u>	<u>1,178</u>
TOTAL HIGHWAYS AND STREETS	<u>1,643,673</u>	<u>1,643,673</u>	<u>1,741,619</u>	<u>(97,946)</u>
HEALTH AND WELFARE				
Public health officer	7,564	7,564	7,565	(1)
Dues/subscriptions/meetings	125	125	-	125
Dog control	19,858	19,858	19,858	-
Animal control/shelter	1,225	1,225	1,510	(285)
Human service grants	79,874	79,874	79,874	-
Donations - Essex rescue	6,500	6,500	6,500	-

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
HEALTH AND WELFARE (continued)				
Cemeteries - purchased services	3,000	3,000	3,216	(216)
E.C. Historical Museum	1,500	1,500	1,555	(55)
TOTAL HEALTH AND WELFARE	<u>119,646</u>	<u>119,646</u>	<u>120,078</u>	<u>(432)</u>
CULTURE AND RECREATION				
Recreation				
Salaries	137,902	137,902	151,667	(13,765)
Benefits	62,613	62,613	55,037	7,576
Professional services	3,120	3,120	5,565	(2,445)
Communications	220	220	655	(435)
Advertising	200	200	991	(791)
Printing and binding	4,800	4,800	4,241	559
Dues/subscriptions/meetings	1,645	1,645	1,105	540
Other purchased services	70,000	70,000	98,020	(28,020)
Travel	1,075	1,075	1,444	(369)
General Supplies	3,700	3,700	7,397	(3,697)
Machinery	300	300	200	100
Youth soccer	1,000	1,000	1,000	-
Memorial Day celebration	1,000	1,000	1,000	-
Halloween celebration	600	600	274	326
Football - Essex league	500	500	-	500
Little league/softball	3,000	3,000	3,000	-
Lacrosse	750	750	11,887	(11,137)
Babe Ruth league	500	500	500	-
Martin Luther King committee	-	-	2,267	(2,267)
After school program	16,500	16,500	14,718	1,782
Transfer to recreation facilities	3,500	3,500	3,500	-
Total Recreation	<u>312,925</u>	<u>312,925</u>	<u>364,468</u>	<u>(51,543)</u>
Parks				
Salaries	67,388	67,388	68,391	(1,003)
Benefits	26,057	26,057	25,242	815
Repair and maintenance - services	4,000	4,000	4,620	(620)
Repair and maintenance - supplies	9,770	9,770	11,402	(1,632)
Communications	400	400	309	91
Advertising	100	100	83	17
Dues/subscriptions/meetings	400	400	280	120
Other purchased services	10,376	10,376	4,867	5,509

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
Parks (continued)				
Travel	400	400	161	239
General supplies	3,808	3,808	4,696	(888)
Small tools and equipment	500	500	452	48
Uniforms	1,452	1,452	705	747
Utilities	3,700	3,700	2,895	805
Trails grant	-	-	1,305	(1,305)
Total Parks	<u>128,351</u>	<u>128,351</u>	<u>125,408</u>	<u>2,943</u>
Swimming Pools				
Salaries	57,400	57,400	53,583	3,817
Benefits	4,391	4,391	4,099	292
Repair and maintenance - services	700	700	2,742	(2,042)
Repair and maintenance - supplies	500	500	1,101	(601)
Rental of equipment	225	225	336	(111)
Communications	850	850	545	305
Advertising	100	100	1,183	(1,083)
Dues/subscriptions/meetings	550	550	995	(445)
Other purchased services	3,285	3,285	2,407	878
General supplies	4,000	4,000	2,714	1,286
Small tools and equipment	1,150	1,150	871	279
Uniforms	700	700	880	(180)
Electricity	6,200	6,200	5,453	747
Machinery	-	-	1,767	1,767
Total Swimming Pools	<u>80,051</u>	<u>80,051</u>	<u>78,676</u>	<u>4,909</u>
Senior Citizen Bus				
Salaries	41,285	41,285	39,006	2,279
Benefits	3,158	3,158	2,984	174
Repair and maintenance - services	2,200	2,200	5,501	(3,301)
Communications	1,600	1,600	1,670	(70)
Advertising	125	125	-	125
Other purchased services	-	-	486	(486)
General supplies	150	150	190	(40)
Vehicle	10,000	10,000	8,891	1,109
Total Senior Citizen Bus	<u>58,518</u>	<u>58,518</u>	<u>58,728</u>	<u>(210)</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGETARY BASIS - GENERAL FUND  
 For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
<b>Essex Free Library</b>				
Salaries	148,704	148,704	141,079	7,625
Benefits	44,900	44,900	62,380	(17,480)
Repair and maintenance - services	17,412	17,412	20,398	(2,986)
Dues/subscriptions/meetings	860	860	905	(45)
Other purchased services	3,972	3,972	2,015	1,957
Travel	120	120	82	38
General supplies	6,000	6,000	5,425	575
Electricity	7,200	7,200	5,988	1,212
Natural gas	2,000	2,000	1,840	160
Books and periodicals	32,000	32,000	29,745	2,255
Improvements	3,500	3,500	1,863	1,637
Machinery	750	750	473	277
Special programs	800	800	800	-
Freeman Grant	-	-	5,272	(5,272)
Total Essex Free Library	<u>268,218</u>	<u>268,218</u>	<u>278,265</u>	<u>(10,047)</u>
<b>Brownell Library</b>				
Contributions	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>	<u>-</u>
Total Libraries	<u>298,218</u>	<u>298,218</u>	<u>308,265</u>	<u>(10,047)</u>
<b>Conservation</b>				
Tree care	18,000	18,000	8,343	9,657
Transfer to water/sewer - agriculture	400	400	-	(400)
Total Conservation	<u>18,400</u>	<u>18,400</u>	<u>8,343</u>	<u>9,257</u>
TOTAL CULTURE AND RECREATION	<u>896,463</u>	<u>896,463</u>	<u>943,888</u>	<u>(44,691)</u>
<b>DEBT SERVICE</b>				
<b>Principal</b>				
Library/Memorial Hall	35,000	35,000	35,000	-
Indian Brook	35,000	35,000	35,000	-
Fire Truck - Water Supply/Hose	48,500	48,500	47,250	1,250
Fire Station	50,000	50,000	50,000	-
<b>Interest</b>				
Library/Memorial Hall	9,619	9,619	7,665	1,954
Indian Brook	6,564	6,564	6,564	-
Short term debt	2,500	2,500	-	2,500

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
DEBT SERVICE (continued)				
Fire Truck - Water Supply/Hose	1,940	1,940	1,411	529
Fire Station	9,080	9,080	9,147	(67)
Transfer to capital reserve fund	54,797	54,797	64,395	(9,598)
TOTAL DEBT SERVICE	253,000	253,000	256,432	(3,432)
INTERGOVERNMENTAL				
County tax	95,000	95,000	107,320	(12,320)
CCTA	185,253	185,253	187,911	(2,658)
Winooski Valley Park District	48,100	48,100	48,100	-
CCRPC	14,151	14,151	14,151	-
MPO	6,029	6,029	5,945	84
TOTAL INTERGOVERNMENTAL	348,533	348,533	363,427	(14,894)
TOTAL EXPENDITURES	8,002,407	8,002,407	8,199,781	(194,640)
EXCESS/(DEFICIENCY) OF REVENUES OVER EXPENDITURES - BUDGETARY	\$ (100,000)	\$ (100,000)	\$ (174,410)	\$ (74,410)
RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS				
Excess (deficiency) of revenues over expenditures - budgetary basis			\$ (174,410)	
Adjustments for non-budget:				
Grant revenues			240,454	
Other revenues			65,076	
Grant expenditures			(240,354)	
Other expenditures			(1,545)	
Liquidation of prior year encumbrances			(7,000)	
Transfer to capital projects fund			(74,660)	
Excess (deficiency) of revenues over expenditures - GAAP basis			\$ (192,439)	

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont

ADDITIONAL REPORTS REQUIRED BY  
THE SINGLE AUDIT ACT

June 30, 2006

Town of Essex, Vermont  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2006

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY		
Passed through State of Vermont Department of Public Safety		
Critical Infrastructure Protection/Equipment	16.007	\$ 21,116
Part II Critical Infrastructure Homeland Security	16.007	31,977
Homeland Security Grant	16.007	7,316
Homeland Security Grant-Buffer Grant	97.004	1,000
Homeland Security Grant	97.004	18,000
Homeland Security Grant	97.004	5,073
Homeland Security Grant	97.073	15,657
Law Enforcement Terrorism Prevention Program	97.074	29,321
U.S. DEPARTMENT OF HOMELAND SECURITY		
Passed through Federal Emergency Management Agency		
Assistance to Firefighters Grant	97.044	17,661
U.S. DEPARTMENT OF JUSTICE AND U.S. DEPARTMENT OF THE TREASURY		
Equitable Sharing Fund	16.000	75,503
U.S DEPARTMENT OF JUSTICE, DRUG ENFORCEMENT ADMINISTRATION		
DEA Overtime	16.580	19,155
BUREAU OF JUSTICE ASSISTANCE, OFFICE OF JUSTICE		
Passed through State of Vermont Department of Public Safety		
Local Law Enforcement Block Grant (LLEBG)	16.592	1,790
U.S. DEPARTMENT OF JUSTICE		
Bullet Proof Vest Grant	16.607	3,199
STATE OF VERMONT, AGENCY OF TRANSPORTATION		
Essex - Butler	20.205	62,058
Essex - Jericho Road	20.205	199,157
Essex - Sunset	20.205	10,780
U.S DEPARTMENT OF TRANSPORTATION, FEDERAL HIGHWAY ADMINISTRATION & FEDERAL TRANSIT ADMINISTRATION		
Passed through Chittenden County Metropolitan Planning Organization		
TLC Grant for Susie Wilson Corridor TOD Plan	20.205	6,548

Town of Essex, Vermont  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2006

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION		
Passed through State of Vermont Department of Public Safety		
Governor's Highway Safety Program	20.600	3,829
Governor's Highway Safety Program	20.600	732
VT DEPARTMENT OF FORESTS, PARKS AND RECREATION		
Trees for Local Communities Mini Grant	10.664	1,562
Lang Farm Park - Phase II LWCF	15.916	5,431
Recreational Trails Program - Essex Community Trails Guide	20.219	835
INSTITUTE OF MUSEUM AND LIBRARY SERVICES (IMLS)		
Resource Sharing Supplemental Grant for Public Libraries	45.310	672
U.S. ENVIRONMENTAL PROTECTION AGENCY		
Passed through Champlain Water District		
Chittenden County Storm Water Runoff Water Quality	66.606	<u>48,649</u>
TOTAL FEDERAL AWARDS		<u>\$ 587,021</u>

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

**Kittell Branagan & Sargent**

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

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

We have audited the financial statements of the Town of Essex, Vermont as of and for the year ended June 30, 2006, and have issued our report thereon dated November 2, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

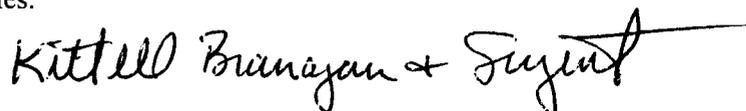
In planning and performing our audit, we considered the Town of Essex, Vermont's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial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

Compliance

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

However, we noted other matters involving the internal control over the financial reporting, which we have reported to management of the Town of Essex, Vermont in a separate letter dated November 2, 2006.

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



St. Albans, Vermont  
November 2, 2006

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

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

Compliance

We have audited the compliance of the Town of Essex, Vermont with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Town of Essex, Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and question costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Essex, Vermont's management. Our responsibility is to express an opinion on the Town of Essex, Vermont's compliance based on our audit.

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

In our opinion, the Town of Essex, Vermont complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

A handwritten signature in black ink, reading "Kittell Branagan & Szymanski". The signature is written in a cursive style with a long horizontal flourish extending to the right.

St. Albans, Vermont  
November 2, 2006

Town of Essex, Vermont  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2006

**A. SUMMARY OF AUDIT RESULTS**

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

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

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

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

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