

Town of Essex, Vermont
BASIC FINANCIAL STATEMENTS
June 30, 2015

Town of Essex, Vermont
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Kittell Branagan & Sargent

Certified Public Accountants

Vermont License # 167

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Essex, Vermont, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Vermont, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note 16 to the financial statements, effective July 1, 2014, Town of Essex, Vermont adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information on page 33 and the schedule of proportionate share of the net pension liability on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Essex, Vermont's basic financial statements. The introductory section and the cemetery trust and agency fiduciary fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Kittell Branagan & Sargent

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplementary Information
For the Year Ended June 30, 2015

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, 2015. 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 2015 and FY 2014.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

The Town's assets exceeded its liabilities and deferred inflows at June 30, 2015, by \$32,836,070 compared to \$31,839,291 at June 30, 2014. This represents an increase of \$996,779 or 3.1%. The change in net position for fiscal year 2014 was \$973,595. The 2015 increase was \$23,184 more than the 2014 increase.

Fund Highlights

At the end of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$6,919,938, a decrease of \$1,481,934 when compared with \$8,401,872 for the prior year. Of the total fund balance, \$4,965,781 represents amounts committed or restricted for specific purposes, such as reappraisal, prepaid expenses, and various capital projects. The remaining \$1,954,157 represents unassigned fund balance in the General Fund.

In the General Fund, the unassigned total of \$1,954,157 is an increase of \$53,463 from the June 30, 2014 unreserved balance of \$1,900,694. Included in the total Fund Balance increase in the General Fund of \$153,482, are amounts that are restricted and committed for specific purposes. There were increases in the amount restricted for reappraisal of \$66,300, a decrease of \$10,500 in the amount committed for Economic Development, and increases of \$6,491 in the amount committed for prepaid expenses, and \$37,728 in the amount committed for records preservation.

In the General Fund, the unassigned balance of \$1,954,157 represents 17% of the General Fund operating budget for FYE2015 or approximately nine weeks of operating expenses. Various organizations recommend from 5% to 15% or two months of operating expenses as an appropriate fund balance. The Town's Unassigned Fund Balance sits at the high end of the recommended range and a portion was recommended for use in FYE 2016. When compared to the proposed FYE 2017 budget it represents 14.8% or approximately 7 1/2 weeks of operating expenses.

Long-term Debt

The Town's total debt decreased during the fiscal year to \$8,010,615 a net decrease of \$153,849. The cause of the decrease was the combination of the reduction of debt on the new police facility of \$355,000 which was offset by an increase in the amount for accrued and compensated absences and the inclusion of \$132,318 in Net Pension Liabilities which represents the Town's share of net pension liability in the VMERS retirement plan. It is important to note that the Town has made all required contributions to the plan and this liability is a reflection on the overall funding levels of the plan.

Principal payments were also made on the outstanding ARRA loans. In FYE2011 there was the addition of 2 ARRA loans that were received to help fund a major upgrade to one of the Town sewer pump stations and the construction of two stormwater projects. The ARRA projects provided project funding in the form of grants equal to 50% of the project costs and loans for the remaining 50%. The combined total of the two loans was \$309,534 as of June 30, 2015. These loans carry no interest rate but are subject to a 2% administrative fee each year on the outstanding balance. In the case of the stormwater projects, the debt service costs will be shared between the Town and the private landowners whose properties benefited from the projects. More detailed information regarding this debt begins on page 19. (See Note 5)

Town of Essex, Vermont
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Another component of the Town's long-term debt is accrued and compensated absences. The total balance of accrued and compensated balances was \$1,013,764, and \$908,046 as of June 30, 2015 and 2014 respectively. The total balance increased by \$105,720 during the year. These amounts reflect accrued but unused vacation, comp, and sick time. During the year ended June 30, 2013, the Selectboard designated an additional \$70,000 of Fund Balance in recognition of the need to pay out this liability for retirement in the future. This designation increased to \$100,000 the amount designated for Retirement. The Town makes every attempt to fund these commitments with operating funds in the year of payout through the use of existing funds or delaying new hires when possible.

In November 2012 the voters approved (by a 2 to 1 margin) the issuance of bonds, for a period of 20 years, in an amount not to exceed \$6.9 million for the purchase and construction of a new Police facility. The bonds were issued on July 30, 2013 in the amount of \$6.9 million with a weighted average interest rate of 3.955% over the life of the bonds. As of June 30, 2015, \$5,920,720 of these funds had been expended on the project and the remaining \$979,280 was held in a trust account. Due to funds remaining on this project, the voters approved the re-purposing of up to \$800,000 of the bond proceeds to be used for the rehabilitation of 81 Main St.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Statements

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

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

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplementary Information
For the Year Ended June 30, 2015

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

- Proprietary funds – The Proprietary funds provide water and sewer service and recreation programs for which the Town charges customers a fee and operates like a commercial business. The Proprietary funds provide 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 activities and the proprietary fund financial statements.
- Fiduciary funds - These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statement because the resources of these funds are restricted and cannot be used to finance the Town's operations. The Town's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position beginning on page 11. The Town's fiduciary funds are the Agency / Escheat / 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.

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

FINANCIAL ANALYSIS

Financial Analysis of Government-wide Financial Statements

The Town's combined assets exceeded its liabilities by \$32,386,070 at the end of the fiscal year.

Net Position as of June 30, 2015 & 2014

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2015	2014	2015	2014	2015
Current & other assets	\$ 10,321,873	\$ 8,970,454	\$ 1,767,669	\$ 2,169,780	\$ 12,089,542	\$ 11,140,234
Capital assets	<u>23,647,415</u>	<u>25,251,566</u>	<u>5,911,798</u>	<u>5,664,685</u>	<u>29,559,213</u>	<u>30,916,251</u>
Total Assets	<u>\$ 33,969,288</u>	<u>\$ 34,222,020</u>	<u>\$ 7,679,467</u>	<u>\$ 7,834,465</u>	<u>\$ 41,648,755</u>	<u>\$ 42,056,485</u>
Deferred Outflows	<u>\$ -</u>	<u>\$ 341,845</u>	<u>\$ -</u>	<u>\$ 37,983</u>	<u>\$ -</u>	<u>\$ 379,828</u>
Long-term liabilities						
outstanding	\$ 7,345,458	\$ 7,191,789	\$ 357,456	\$ 391,842	\$ 7,702,914	\$ 7,583,631
Other Liabilities	<u>1,689,024</u>	<u>1,426,926</u>	<u>60,891</u>	<u>60,175</u>	<u>1,749,915</u>	<u>1,487,101</u>
Total Liabilities	<u>\$ 9,034,482</u>	<u>\$ 8,618,715</u>	<u>\$ 418,347</u>	<u>\$ 452,017</u>	<u>\$ 9,452,829</u>	<u>\$ 9,070,732</u>
Deferred Inflows	<u>\$ 350,953</u>	<u>\$ 921,079</u>	<u>\$ 5,682</u>	<u>\$ 58,432</u>	<u>\$ 356,635</u>	<u>\$ 979,511</u>
Net Position						
Invested in capital assets, net of related debt	\$ 16,642,406	\$ 19,605,149	\$ 5,660,399	\$ 5,425,848	\$ 22,302,805	\$ 25,030,997
Restricted	934,701	1,038,729	-	-	934,701	1,038,729
Unrestricted	<u>7,006,746</u>	<u>4,380,193</u>	<u>1,595,039</u>	<u>1,936,151</u>	<u>8,601,785</u>	<u>6,316,344</u>
Total Net Position	<u>\$ 24,583,853</u>	<u>\$ 25,024,071</u>	<u>\$ 7,255,438</u>	<u>\$ 7,361,999</u>	<u>\$ 31,839,291</u>	<u>\$ 32,386,070</u>

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The largest portion of the Town's net position (77.3 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 position (3.2 percent or \$1,038,729) represents restricted net position. These resources are restricted for reappraisal and records preservation.

The remaining portion of the Town's net position (19.5 percent or \$6,316,344) represents unrestricted net position. These resources are neither restricted nor invested in capital assets. Included in these funds is \$979,280 that is committed for the police facility and renovations at 81 Main St.

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

Changes in Net Position for the Fiscal Year Ended June 30,

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2015	2014	2015	2014	2015
Revenues						
Program revenues						
Charges for services	\$ 597,286	\$ 615,238	\$ 2,519,119	\$ 2,720,118	\$ 3,116,405	\$ 3,335,356
Operating grants & contributions	901,705	692,724	247,536	218,854	1,149,241	911,578
Capital grants & contr.	32,212	133,773	-	-	32,212	133,773
Property taxes (including penalty and interest)	10,352,938	11,072,072	-	-	10,352,938	11,072,072
IBM Payment for Services	-	-	-	-	-	-
Unrestricted investment earnings	10,640	13,572	921	1,457	11,561	15,029
Transfers	3,900	3,600	1,481	1,192	5,381	4,792
Gain on Disposal of Assets	4,434	-	-	-	4,434	-
Other revenues	42,344	35,758	-	-	42,344	35,758
Total Revenues	<u>11,945,459</u>	<u>12,566,737</u>	<u>2,769,057</u>	<u>2,941,621</u>	<u>14,714,516</u>	<u>15,508,358</u>

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
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For the Year Ended June 30, 2015

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2015	2014	2015	2014	2015
Expenses						
Governmental activities						
General Government	2,421,085	2,626,527	-	-	2,421,085	2,626,527
Public Safety	4,390,140	4,597,325	-	-	4,390,140	4,597,325
Highway and Streets	2,714,228	2,635,453	-	-	2,714,228	2,635,453
Health and Welfare	158,609	166,245	-	-	158,609	166,245
Culture and Recreation	1,018,522	1,113,779	-	-	1,018,522	1,113,779
Interest on long-term debt	2,775	196,378	-	-	2,775	196,378
Intergovernmental	432,922	423,617	-	-	432,922	423,617
Business-type activities						
Water and Sewer	-	-	2,243,879	2,422,179	2,243,879	2,422,179
Recreation Programs	-	-	358,761	372,082	358,761	372,082
Total Expenses	<u>11,138,281</u>	<u>11,759,324</u>	<u>2,602,640</u>	<u>2,794,261</u>	<u>13,740,921</u>	<u>14,553,585</u>
Change in net position						
before transfers	807,178	807,413	166,417	147,360	973,595	954,773
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	807,178	807,413	166,417	147,360	973,595	954,773
Net position - July 1,	23,776,675	24,583,853	7,089,021	7,255,438	30,865,696	31,839,291
GASB 68 Adjustment	<u>-</u>	<u>(367,195)</u>	<u>-</u>	<u>(40,799)</u>	<u>-</u>	<u>(407,994)</u>
Net position - June 30,	<u>\$ 24,583,853</u>	<u>\$ 25,024,071</u>	<u>\$ 7,255,438</u>	<u>\$ 7,361,999</u>	<u>\$ 31,839,291</u>	<u>\$ 32,386,070</u>

Total Governmental activity expenses were \$11,759,324 and \$11,138,281 in fiscal years 2015 and 2014, respectively. The largest expenses were incurred for general government, public safety, and highways and streets. The expenses do not include capital outlays, which are now reflected in Town capital assets.

Per GASB 34, program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry. They reduce the net cost of the function to be financed from the government's general revenues. Total program revenue from governmental activities was \$1,441,735 in 2015 and \$1,531,203 in 2014. 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 \$11,125,002 in fiscal 2015 and 10,414,256 in fiscal 2014. In 2015 approximately 99 percent of the Town's total general revenue came from taxes, in 2014 it was 98%.

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Fund Financial Statements

The combined fund balance of the Fund Financial Statements was \$6,919,938 at June 30, 2015 and \$8,401,872 at June 30, 2014. Of the FYE 2015 fund balance, \$1,954,157 constitutes unassigned funds in the General Fund, which are available for spending at the government's discretion. An amount of \$480,709 of the fund balance is restricted for reappraisal and \$4,485,072 is committed for specific purposes. (See note 9 on pages 22 and 23 for a description of the restricted, committed, and designated funds.

The fund balance for the General Fund increased from \$3,080,466 in FYE 2014 to \$3,233,948 in FYE 2015. The total increase amounted to \$153,482 for the fiscal year ended June 30, 2015.

General Fund Budgetary Highlights

The fund balance of the Town's General Fund increased by \$153,482 during the current fiscal year. The restricted portion of fund balance increased by \$66,300 from \$414,409 to \$480,709. This restricted portion represents the amount restricted specifically for reappraisal. The amount of fund balance committed for specific purposes such as prepaid expenses, Economic Development, Planning, Retirement, and Selectboard professional services increased by \$33,719 from a combined balance of \$765,363 to \$799,082 as of June 30, 2015. The unassigned portion of the fund balance increased from \$1,900,694 to \$1,954,157, an increase of \$53,463. Key factors in this change are as follows:

On the revenue side:

- Property tax revenues were over \$300,000 less than anticipated due to increased delinquent taxes. The increase was caused in part by the increased delinquency of a few large taxpayers and the assumption of the delinquent taxes for the Village and Village School District. These delinquent taxes were assumed when the tax billing and collection process was consolidated into one bill beginning in FYE2015. Licenses and permits were slightly higher than expected, mainly due to increased building permits.
- Intergovernmental revenue exceeded expectations due to the receipt of Addition State Act60 revenue as a result of the Town billing for the Village School District as mentioned above.
- Charges for services in total were significantly less than budget. Recording of legal documents was significantly less than budget due to fewer refinancings, and Special Police Services revenue was less than anticipated.
- Interest and penalties on delinquent taxes were greater than expected due to the additional tax billing for the Village and Village School District as mentioned.
- Miscellaneous revenue was again less than expected in the area of interest revenue, due to historically low interest rates and records preservation revenue was less than projected which is a direct reflection of records preservation expenditures.

On the expenditure side:

- Total expenditures were \$399,000 less than expected.
- Expenditures for General Governmental operations were .5% under budget. Costs for liability and workers comp insurance were over budget. This overage was offset by savings in various departments due to unfilled positions and lower than expected costs for fuel, postage, and electricity.
- Changes to the Town's health care programs resulted in lower than anticipated increases in health insurance costs, thereby keeping benefits expenses under budget in most number of departments.
- Legal costs were less than budget.
- Police Department costs were significantly under budget due to unfilled positions and the aforementioned health care costs being less than anticipated. Vehicle costs were less than budget while utilities associated with the new police facility were greater than expected. In the Fire Department repairs to vehicles and equipment were significantly over budget which was offset by communications costs well under budget.

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- In the Highway department savings from salaries and benefits, due to less than anticipated overtime and summer construction allowed for greater expenditures in other areas that were over budget, including winter salt costs, Repairs and Maintenance, and Storm Drains.
- . Stormwater costs were less than anticipated in repairs and construction of facilities, in part due to delays while waiting for final State regulations that will dictate necessary measures.
- Other expenditures were over budget in some areas including: Repairs and Maintenance to the senior buses and in the parks and utilities at the pool. Other expenditures that were under budget were: tree care and repairs and maintenance at the Library,

Capital Assets

The following is a schedule of capital assets as of June 30, 2015 and 2014.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2015	2014	2015	2014	2015
Land	\$ 3,531,844	\$ 3,531,844	\$ -	\$ -	\$ 3,531,844	\$ 3,531,844
Buildings & Impr.	2,657,874	9,081,258	-	-	2,657,874	9,081,258
Equip. & Vehicles	6,172,314	6,166,560	353,414	436,798	6,525,728	6,603,358
Book Collection	459,726	459,726	-	-	459,726	459,726
Infrastructure	23,311,105	23,538,654	12,766,648	12,766,648	36,077,753	36,305,302
Constr. in progress	4,538,056	422,551	59,740	22,785	4,597,796	445,336
Total Assets	40,670,919	43,200,593	13,179,802	13,226,231	53,850,721	56,426,824
Less: Accum. Depr.	<u>17,023,504</u>	<u>17,949,027</u>	<u>7,268,004</u>	<u>7,561,546</u>	<u>24,291,508</u>	<u>25,510,573</u>
Net Assets	<u>\$ 23,647,415</u>	<u>\$ 25,251,566</u>	<u>\$ 5,911,798</u>	<u>\$ 5,664,685</u>	<u>\$ 29,559,213</u>	<u>\$ 30,916,251</u>

The Town had \$30,916,251 and \$29,599,213 invested in capital assets, net of depreciation, on June 30, 2015 and June 30, 2014, respectively. The net increase (including additions and deductions) between the two periods amounted to \$1,317,038.

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

- Various streets and sidewalks were resurfaced or reconstructed at a cost of \$228,000. These improvements included resurfacing / reconstruction of portions of Lida Dr., Sydney Dr., Willoughby, Clover, Fern Hollow, and Towers Rd.
- The new Police facility was finished and occupied. The total capitalized cost was \$6.43 million, which includes over \$300,000 for computer and radio equipment.
- New vehicles purchased during the year included; 2 Police cruisers and 1 unmarked sedan, a new bucket loader and dump / plow truck for the Highway department. The total cost for these vehicles was \$252,603.
- Other improvements include a new phone system for the administrative offices.
- A new dump truck was purchased for the Water/Sewer Department along with a clean out system and upgrades to the pump station at Alder Brook. The total cost of these improvements was \$83,000.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplementary Information
For the Year Ended June 30, 2015

Debt

At the end of the fiscal year, the Town had \$6,864,534 in long-term debt outstanding compared to \$7,256,408 in the prior year, a decrease of \$391,874. The main reason for the decrease was a \$345,000 principal payment on the police facility bond. A summary of outstanding long-term debt follows:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2015	2014	2015	2014	2015
Notes Payable	\$ 105,009	\$ 70,697	\$ 251,399	\$ 238,837	\$ 356,408	\$ 309,534
Bonds Payable	<u>6,900,000</u>	<u>6,555,000</u>	<u>-</u>	<u>-</u>	<u>6,900,000</u>	<u>6,555,000</u>
TOTAL	<u>\$ 7,005,009</u>	<u>\$ 6,625,697</u>	<u>\$ 251,399</u>	<u>\$ 238,837</u>	<u>\$ 7,256,408</u>	<u>\$ 6,864,534</u>

In November 2012 voters approved the issuance of up to \$6.9 million in 20 year bonds for the purchase and construction of a new Police facility. On July 30, 2013, bonds were issued for \$6.9 million at a weighted average interest rate of 3.95% over the 20 year life of the bonds. In March 2015 the voters approved the re-purposing of up to \$800,000 of the bond issue for the renovation project at 81 Main St.

Economic Factors and Fiscal Year 2014 Budget

- The results of operations for the year were an increase in Fund Balance in the amount of \$153,482. Of that total \$66,300 was an increase in amount restricted for reappraisal. The amounts committed for other specific purposes such as, Prepaid Expenses (increased \$8,459), Economic Development (increased \$14,213), Planning, Retirement, Records Preservation (increase \$26,087), and Professional Services increased in total \$48,759. The increase in unassigned (formerly unreserved) Fund Balance amounted to \$412,107.

Economic Factors and Fiscal Year 2015 Budget

- The excess of revenues over expenditures was accomplished mainly due to the fact that salaries and benefits were significantly under budget, helped in large part by health insurance costs being under budget. Increases in delinquent taxes put a strain on revenues and served to dampen the savings noted above. Other areas that benefited the bottom line were; lower than expected fuel prices and, and holding expenditures to less than budget when possible.
- FYE2013 was the last year of the agreement with IBM from when Machinery and Equipment taxes were phased out for all Town taxpayers. The annual loss of revenue had been \$87,000 per year through FY 2014 when the subsidy declines to zero. Fye2015 was the first year that the Town did not have to deal with lost revenue from this agreement as it had ended the previous year.
- Delinquent taxes collections were a factor in the operating surplus for FYE2015. Starting in FYE2015 the Town entered into an agreement with the Village of Essex Junction and the Essex Junction School District to bill and collect their property taxes. This action was an effort to reduce the duplication of services that existed. As part of the agreement the Town assumed the delinquent taxes of the Village and Village School district. These delinquent taxes of approximately \$130,000 caused an increased in the Town's reserve for uncollected taxes which negatively affected Tax revenue for the year. Increases in the delinquencies of some large taxpayers also had a negative effect on tax revenue for the year. The Town will continue it collection efforts while remaining sympathetic to the economic issues faced by taxpayers.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplementary Information
For the Year Ended June 30, 2015

- In FYE2014 the Town and Village entered into an agreement to share the services of the Town Manager as the Municipal Manager for both entities. This arrangement led to the Village sharing the salary costs of the Manager with the Town, thereby reducing the cost to all taxpayers. In FYE2015 it was determined that this cost sharing was beneficial and efforts should continue to find more areas to cooperate in the delivery of services to be more efficient.

All of these factors were considered in preparing the Town of Essex's budget for the 2016 fiscal year. At the 2015 Town meeting the voters approved the Selectboard recommended FYE 2016 budget, in the amount of \$12,587,464, an increase of \$1,198,345 over the previous year. The main reason for the large increase was the inclusion, in the Town budget, of \$877,000 of Village Highway and Stormwater expenses. In a continued effort to find efficiencies, the Town and Village agreed to combine the highway and stormwater services provided in the community. The inclusion of Village expenses in the Town budget served to spread the total cost for Town and Village highway services over the whole community effectively creating a single common tax rate for all taxpayers for these services. The approved budget resulted in a tax rate for FYE2016 of \$.4662, an increase of \$0.0628 over FYE2015. The increase in the General tax rate was offset by a decrease in the Town Highway Tax of \$0.0582 and a decrease in the Village General tax rate of \$0.0717. The net effect of these changes was (not including other budgetary factors in the Village) was that the average taxpayer in the Town outside the Village paid approximately \$45 more per year and the Village taxpayer paid approximately \$12 more than they would have had these changes not been made.

During FYE 2011 the Selectboard authorized the creation of an enterprise fund for Recreation programs beginning July 1, 2011. This proprietary fund operates like a business and expenses are covered by user fees charged for the programs. As a result of this change, these program expenses and the related revenues are reported separately from the General fund. For the year ended June 30, 2015 this fund realized net income from operations in the amount of \$32,513. This surplus will remain in the Fund and will be used to support future growth of the programs.

Rates for water and wastewater operations were increased in fiscal year 2015 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 contributed to a deficit cash position in the Water / Sewer Fund in prior years. This deficit position has been addressed in the preparation of operating budgets and rates for recent periods and was all but eliminated in FYE 2015. The new rates along with better metering of individual users as well as better metering of wastewater flows to the Village treatment plant helped reduce the fund's cash deficit at certain times during the year thereby reducing interest expense on borrowed funds. All of these factors will continue to be considered and monitored in the operation of the fund.

Consolidation of Service Delivery Systems

In FYE2014 the town and Village of Essex Junction entered into a shared manager agreement whereby the Town Manager would act as the Village Municipal Manager and the Town and Village would share the salary costs of the position. That effort has been deemed a success and management has been encouraged to find more areas where cooperation and coordination of effort can help to reduce costs for the community or achieve efficiencies in the delivery of services to residents.

These efforts have resulted in agreements between the Town and Village and the Town and Village School district whereby the Town will bill and collect all property taxes and thus eliminate the duplication of effort that went into the process.

Town of Essex, Vermont
MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplementary Information
For the Year Ended June 30, 2015

Other areas of cooperation include a joint stormwater committee that recommended a combined effort in the Town and Village approach to stormwater permit compliance and management. The Town and Village have also agreed to combine the efforts of the Highway Departments again to find efficiencies in service delivery and any potential cost savings. These combined efforts were programmed into the Town's FYE 2016 budget. The FYE2017 budget continues this combination effort by including all Village and Town operational paving costs into the operating budgets of the Departments. This combination of costs results in an increase in the proposed Village Highway budget of \$200,000 and the movement of \$165,000 in town paving costs from the Town Highway tax to the Town General Tax. The net effect of these changes is expected to increase the Town General rate by approximately \$0.015 while reducing the Town Highway tax by approximately \$0.012 and the Village General rate by \$0.018.

Requests for Information

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

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

Town of Essex, Vermont
 GOVERNMENT-WIDE FINANCIAL STATEMENTS
 STATEMENT OF NET POSITION
 June 30, 2015

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS AND DEFERRED OUTFLOWS</u>			
CURRENT ASSETS			
Cash	\$ 7,024,268	\$ 1,590,086	\$ 8,614,354
Restricted cash	979,280	-	979,280
Taxes receivable, net of allowance	720,141	-	720,141
Accounts receivables - other	150,519	572,120	722,639
Prepaid expenses	96,246	7,574	103,820
TOTAL CURRENT ASSETS	8,970,454	2,169,780	11,140,234
CAPITAL ASSETS, net	25,251,566	5,664,685	30,916,251
DEFERRED OUTFLOWS	341,845	37,983	379,828
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 34,563,865	\$ 7,872,448	\$ 42,436,313
<u>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 673,244	\$ -	\$ 673,244
Accrued payroll	273,559	26,681	300,240
Exchange	10,050	17,174	27,224
Accrued interest	57,695	1,714	59,409
Current portion notes and bonds payable	379,999	12,814	392,813
Current portion of compensated absences	32,379	1,792	34,171
TOTAL CURRENT LIABILITIES	1,426,926	60,175	1,487,101
LONG-TERM LIABILITIES			
Accrued compensated absences	827,005	152,587	979,592
Net pension liabilities	119,086	13,232	132,318
Notes and bonds payable	6,245,698	226,023	6,471,721
TOTAL LONG-TERM LIABILITIES	7,191,789	391,842	7,583,631
TOTAL LIABILITIES	8,618,715	452,017	9,070,732
DEFERRED INFLOWS			
Deferred inflows	474,168	52,685	526,853
Deferred revenue	446,911	5,747	452,658
TOTAL DEFERRED INFLOWS	921,079	58,432	979,511
NET POSITION			
Invested in capital assets, net of related debt	19,605,149	5,425,848	25,030,997
Restricted	1,038,729	-	1,038,729
Unrestricted	4,380,193	1,936,151	6,316,344
TOTAL NET POSITION	25,024,071	7,361,999	32,386,070
TOTAL LIABILITIES DEFERRED INFLOWS AND NET POSITION	\$ 34,563,865	\$ 7,872,448	\$ 42,436,313

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Revenues	Capital Grants and Revenues	Governmental Activities	Business-Type Activities	
Governmental activities							
General government	\$ 2,626,527	\$ 373,541	\$ 197,127	\$ -	\$ (2,055,859)	\$ -	\$ (2,055,859)
Public safety	4,597,325	44,655	338,319	-	(4,214,351)	-	(4,214,351)
Highways and Streets	2,635,453	105,377	142,818	42,402	(2,344,856)	-	(2,344,856)
Health and Welfare	166,245	1,215	-	-	(165,030)	-	(165,030)
Culture and Recreation	1,113,779	90,450	14,460	91,371	(917,498)	-	(917,498)
Intergovernmental	423,617	-	-	-	(423,617)	-	(423,617)
Interest on long-term debt	196,378	-	-	-	(196,378)	-	(196,378)
Total governmental activities	<u>11,759,324</u>	<u>615,238</u>	<u>692,724</u>	<u>133,773</u>	<u>(10,317,589)</u>	<u>-</u>	<u>(10,317,589)</u>
Business-type activities:							
Water and Sewer	2,422,179	2,312,951	218,854	-	-	109,626	109,626
Recreation	372,082	407,167	-	-	-	35,085	35,085
Total business-type activities	<u>\$ 2,794,261</u>	<u>\$ 2,720,118</u>	<u>\$ 218,854</u>	<u>\$ -</u>	<u>-</u>	<u>144,711</u>	<u>144,711</u>
General Revenues:							
Property taxes, levied for general purposes					10,902,767	-	10,902,767
Penalties and interest on delinquent taxes					169,305	-	169,305
Unrestricted investment earnings					13,572	1,457	15,029
Transfers					3,600	1,192	4,792
Miscellaneous					35,758	-	35,758
Total general revenues and transfers					<u>11,125,002</u>	<u>2,649</u>	<u>11,127,651</u>
Change in Net Position					807,413	147,360	954,773
Net position, beginning					<u>24,216,658</u>	<u>7,214,639</u>	<u>31,431,297</u>
Net position, ending					<u>\$ 25,024,071</u>	<u>\$ 7,361,999</u>	<u>\$ 32,386,070</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2015

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 4,401,002	\$ 2,623,266	\$ 7,024,268
Restricted cash	-	979,280	979,280
Taxes receivable, net of allowance	73,389	-	73,389
Other receivables	67,075	83,444	150,519
Prepaid expenses	<u>96,246</u>	<u>-</u>	<u>96,246</u>
 TOTAL ASSETS	 <u>\$ 4,637,712</u>	 <u>\$ 3,685,990</u>	 <u>\$ 8,323,702</u>
<u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Accounts payable	\$ 673,244	\$ -	\$ 673,244
Accrued payroll	273,559	-	273,559
Exchange	10,050	-	10,050
Deferred revenue	<u>446,911</u>	<u>-</u>	<u>446,911</u>
 TOTAL LIABILITIES	 <u>1,403,764</u>	 <u>-</u>	 <u>1,403,764</u>
FUND BALANCE			
Restricted	480,709	-	480,709
Committed	799,082	3,685,990	4,485,072
Unassigned	<u>1,954,157</u>	<u>-</u>	<u>1,954,157</u>
 TOTAL FUND BALANCE	 <u>3,233,948</u>	 <u>3,685,990</u>	 <u>6,919,938</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 4,637,712</u>	 <u>\$ 3,685,990</u>	 <u>\$ 8,323,702</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 BALANCE SHEET TO THE STATEMENT OF NET POSITION
 June 30, 2015

Total fund balances - governmental funds	\$ 6,919,938
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	25,251,566
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	646,752
<p>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:</p>	
Accrued compensated absences	(859,384)
Net pension liabilities	(119,086)
Accrued interest on long-term debt	(57,695)
Notes payable	(6,625,697)
Deferred outflows of resources represent the consumption of net position that is applicable to a future reporting period and therefore not reported as assets in the funds.	341,845
Deferred inflows of resources represent the acquisition of net position applicable to a future reporting period and therefore are not reported as liabilities in funds.	<u>(474,168)</u>
Total net position - governmental activities	<u>\$ 25,024,071</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Property tax	\$ 10,108,514	\$ 488,152	\$ 10,596,666
Licenses and permits	69,327	-	69,327
Intergovernmental revenues	339,365	91,406	430,771
Charges for services	410,466	95,374	505,840
Fines and forfeits	172,756	-	172,756
Interest income	9,953	3,620	13,573
Miscellaneous income	86,802	-	86,802
Grant income	338,899	42,402	381,301
TOTAL REVENUES	<u>11,536,082</u>	<u>720,954</u>	<u>12,257,036</u>
EXPENDITURES			
General government	2,537,593	2,097,705	4,635,298
Public safety	4,303,482	-	4,303,482
Highways and Streets	1,850,944	404,107	2,255,051
Stormwater	211,122	-	211,122
Sanitation	13,449	-	13,449
Health and Welfare	165,052	-	165,052
Culture and Recreation	990,643	129,165	1,119,808
Intergovernmental	423,617	-	423,617
Debt service	608,799	-	608,799
Interest expense	2,100	-	2,100
TOTAL EXPENDITURES	<u>11,106,801</u>	<u>2,630,977</u>	<u>13,737,778</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>429,281</u>	<u>(1,910,023)</u>	<u>(1,480,742)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers In	-	274,607	274,607
Operating transfers Out	(275,799)	-	(275,799)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(275,799)</u>	<u>274,607</u>	<u>(1,192)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	153,482	(1,635,416)	(1,481,934)
FUND BALANCE - July 1, 2014	<u>3,080,466</u>	<u>5,321,406</u>	<u>8,401,872</u>
FUND BALANCE - June 30, 2015	<u>\$ 3,233,948</u>	<u>\$ 3,685,990</u>	<u>\$ 6,919,938</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, 2015

Net change in fund balances - governmental funds \$ (1,481,934)

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

Governmental funds report capital outlays as expenditures. However,
 in the statement of activities, the cost of those assets is allocated
 over their estimated useful lives and reported as depreciation expense.

Depreciation Expense	(1,207,253)
Capital Outlay	2,811,403

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

Decrease in the reserve for non-current taxes	306,100
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Issuance and repayment of long-term debt are revenue and expenditures in the governmental
 funds, but the Issuance and repayment increase and decrease long-term liabilities in the
 statement of net assets.

Repayment of long-term debt	379,312
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Some expenses reported in the statement of activities do not require the use of
 current financial resources and therefore are not reported as expenditures in
 governmental funds.

Pension expense	115,789
Accrued interest on long-term debt	(41,749)
Accrued compensated absences	<u>(74,255)</u>

Change in net position of governmental activities \$ 807,413

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 STATEMENT OF NET POSITION - PROPRIETARY FUNDS
 June 30, 2015

	<u>Water & Sewer Fund</u>	<u>Recreation Fund</u>	<u>Total</u>
<u>ASSETS AND DEFERRED OUTFLOWS</u>			
CURRENT ASSETS			
Cash	\$ 1,442,054	\$ 148,032	\$ 1,590,086
Accounts receivable - net	572,120	-	572,120
Prepaid expenses	<u>7,574</u>	<u>-</u>	<u>7,574</u>
TOTAL CURRENT ASSETS	<u>2,021,748</u>	<u>148,032</u>	<u>2,169,780</u>
 CAPITAL ASSETS, net	 <u>5,664,685</u>	 <u>-</u>	 <u>5,664,685</u>
 DEFERRED OUTFLOWS	 <u>30,386</u>	 <u>7,597</u>	 <u>37,983</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS	 <u><u>\$ 7,716,819</u></u>	 <u><u>\$ 155,629</u></u>	 <u><u>\$ 7,872,448</u></u>
 <u>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</u>			
CURRENT LIABILITIES			
Current portion compensated absences	\$ 1,792	\$ -	\$ 1,792
Current portion long-term debt	12,814	-	12,814
Accrued payroll	14,327	12,354	26,681
Exchange	-	17,174	17,174
Other accrued expenses	<u>1,714</u>	<u>-</u>	<u>1,714</u>
TOTAL CURRENT LIABILITIES	<u>30,647</u>	<u>29,528</u>	<u>60,175</u>
 LONG-TERM LIABILITIES			
Accrued compensated absences	152,587	-	152,587
Net pension liabilities	10,585	2,647	13,232
Notes and bonds payable	<u>226,023</u>	<u>-</u>	<u>226,023</u>
TOTAL LONG-TERM LIABILITIES	<u>389,195</u>	<u>2,647</u>	<u>391,842</u>
 TOTAL LIABILITIES	 <u>419,842</u>	 <u>32,175</u>	 <u>452,017</u>
 DEFERRED INFLOWS			
Deferred inflows	42,148	10,537	52,685
Deferred revenue	<u>-</u>	<u>5,747</u>	<u>5,747</u>
 TOTAL DEFERRED INFLOWS	 <u>42,148</u>	 <u>16,284</u>	 <u>58,432</u>
 NET POSITION			
Invested in capital assets, net of related debt	5,425,848	-	5,425,848
Unrestricted - designated	312,303	-	312,303
Unrestricted	<u>1,516,678</u>	<u>107,170</u>	<u>1,623,848</u>
TOTAL NET POSITION	<u>7,254,829</u>	<u>107,170</u>	<u>7,361,999</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	 <u><u>\$ 7,716,819</u></u>	 <u><u>\$ 155,629</u></u>	 <u><u>\$ 7,872,448</u></u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION - PROPRIETARY FUNDS
 For the Year Ended June 30, 2015

	Water & Sewer Fund	Recreation Fund	Total
	<u> </u>	<u> </u>	<u> </u>
OPERATING REVENUES			
Charges for services	\$ 2,312,951	\$ 406,049	\$ 2,719,000
Hookup fees	184,467	-	184,467
Interest and penalties on delinquents	30,322	-	30,322
Miscellaneous	4,065	1,118	5,183
	<u> </u>	<u> </u>	<u> </u>
TOTAL OPERATING REVENUES	<u>2,531,805</u>	<u>407,167</u>	<u>2,938,972</u>
OPERATING EXPENSES			
Regular salaries	371,051	85,480	456,531
Overtime salaries	29,940	2,542	32,482
Group health insurance	118,846	-	118,846
Social security	30,113	6,769	36,882
Employee retirement	22,863	(1,472)	21,391
Other employee benefits	32,766	-	32,766
Professional services	28,868	30,561	59,429
Repair and maintenance	160,068	-	160,068
Rental of equipment	70	-	70
Telephone/communications	3,217	396	3,613
Printing and postage	-	16,852	16,852
Purchased Services	-	185,005	185,005
Advertising	476	-	476
Travel	1,722	4,365	6,087
Small tools and equipment	1,644	-	1,644
Supplies	51	5,037	5,088
Utilities	53,806	-	53,806
Uniforms	1,520	-	1,520
Natural gas	1,208	-	1,208
CWD water purchases	553,693	-	553,693
Insurance	24,697	-	24,697
Dues and fees	2,673	-	2,673
Machinery	178,900	-	178,900
Depreciation expense	293,542	-	293,542
Recreation activities	-	36,547	36,547
Sewage treatment	509,560	-	509,560
	<u> </u>	<u> </u>	<u> </u>
TOTAL OPERATING EXPENDITURES	<u>2,421,294</u>	<u>372,082</u>	<u>2,793,376</u>
INCOME FROM OPERATIONS	<u>110,511</u>	<u>35,085</u>	<u>145,596</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION - PROPRIETARY FUNDS
 For the Year Ended June 30, 2015

	<u>Water & Sewer Fund</u>	<u>Recreation Fund</u>	<u>Total</u>
NON-OPERATING REVENUE (EXPENSE)			
Transfers	1,192	-	1,192
Interest Income	1,457	-	1,457
Interest Expense	<u>(885)</u>	<u>-</u>	<u>(885)</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>1,764</u>	<u>-</u>	<u>1,764</u>
INCREASE IN NET POSITION	112,275	35,085	147,360
NET POSITION BEGINNING OF YEAR	<u>7,142,554</u>	<u>72,085</u>	<u>7,214,639</u>
NET POSITION AT END OF YEAR	<u>\$ 7,254,829</u>	<u>\$ 107,170</u>	<u>\$ 7,361,999</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, 2015

	Water & Sewer Fund	Recreation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,524,766	\$ 407,232	\$ 2,931,998
Payments to suppliers	(1,524,230)	(279,556)	(1,803,786)
Payments for employees and benefits	(582,008)	(93,905)	(675,913)
	<u>418,528</u>	<u>33,771</u>	<u>452,299</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of property, plant and equipment	(46,429)	-	(46,429)
Interest payments on debt	(885)	-	(885)
Principal payments on debt	(12,562)	-	(12,562)
	<u>(59,876)</u>	<u>-</u>	<u>(59,876)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Operating transfers in	1,192	-	1,192
Interest income	1,457	-	1,457
	<u>2,649</u>	<u>-</u>	<u>2,649</u>
NET INCREASE IN CASH	361,301	33,771	395,072
CASH - BEGINNING OF YEAR	<u>1,080,753</u>	<u>114,261</u>	<u>1,195,014</u>
CASH - END OF YEAR	<u>\$ 1,442,054</u>	<u>\$ 148,032</u>	<u>\$ 1,590,086</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 110,511	\$ 35,085	\$ 145,596
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	293,542	-	293,542
Change in net assets and liabilities:			
Receivables, net	(6,264)	-	(6,264)
Prepaid expenses	(775)	-	(775)
Deferred outflows	(11,067)	(2,767)	(13,834)
Other accrued expenses	(2,057)	-	(2,057)
Net pension liability	(41,373)	(10,343)	(51,716)
Deferred inflows	42,148	10,537	52,685
Deferred revenue	-	65	65
Exchange	-	(793)	(793)
Accrued payroll and compensated absences	33,863	1,987	35,850
	<u>\$ 418,528</u>	<u>\$ 33,771</u>	<u>\$ 452,299</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 STATEMENT OF NET POSITION - FIDUCIARY FUND
 June 30, 2015

	<u>Cemetery Trust Fund</u>	<u>Agency Fund</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 37,067	\$ 163,247
TOTAL ASSETS	<u>\$ 37,067</u>	<u>\$ 163,247</u>
<u>LIABILITIES AND NET POSITION</u>		
LIABILITIES		
Unearned revenue	\$ -	\$ 163,247
TOTAL LIABILITIES	<u>-</u>	<u>163,247</u>
NET POSITION		
Restricted	<u>37,067</u>	<u>-</u>
TOTAL NET POSITION	<u>\$ 37,067</u>	<u>\$ 163,247</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 FUND FINANCIAL STATEMENTS
 STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND
 For the Year Ended June 30, 2015

	Cemetery Trust Fund <hr/>
ADDITIONS	
Sales of plots	\$ 3,900
Interest on deposits	<hr/> 34
TOTAL ADDITIONS	<hr/> 3,934
DEDUCTIONS	
Repairs and maintenance	<hr/> (200)
CHANGES IN NET POSITION	3,734
NET POSITION AT BEGINNING OF YEAR	<hr/> 33,333
NET POSITION AT END OF YEAR	<hr/> <hr/> \$ 37,067

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

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.

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.

Government-wide and Fund Financial Statements

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

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

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

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

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis is to be financed or recovered primarily through user charges.

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

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, sewer usage fees and water usage fees are recognized under the susceptible to accrual concept in accordance with Governmental Accounting Standards Board ("GASB") pronouncements. Revenues received from the State of Vermont are also recognized when susceptible to accrual. Miscellaneous revenues and fees are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

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

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

The Town reports the following major governmental funds:

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

Amounts reported as program revenues include:

- 1) charges to individuals and business for fees, rental, material, supplies, or services, provided
- 2) operating grants and contributions
- 3) capital grants and contributions

Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes.

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

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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).

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.

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 position.

Fund Equity

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent because they are not spendable in form or are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of laws, regulations or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by a formal action by the Town.

Assigned – Amounts that are designated by management for a particular purpose

Town of Essex, Vermont
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unassigned – All amounts not included in other classifications.

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.

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.

Operating Transfers

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

NOTE 2 DELINQUENT TAXES RECEIVABLE

Delinquent taxes receivable consist of:

	<u>General Fund</u>
Delinquent property taxes	\$ 650,519
Penalties on taxes receivable	47,573
Interest on taxes receivable	<u> 133,049</u>
	831,141
Allowance for uncollectible delinquent taxes	<u> (111,000)</u>
	<u><u> \$ 720,141</u></u>

Property taxes attach as an enforceable lien on property as of September 16th and March 16th. Taxes are levied in August and payable on September 15th and March 15th. The Town bills and collects its own taxes. Town property tax revenues are recognized when levied to the extent they result in current receivables. Current receivables are defined as receivables which are due or past due, and receivable within the current period and collected no later than 60 days after the close of the current period. Taxes receivable that remain uncollected as of August 31, 2015 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 \$646,752 at June 30, 2015.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 DELINQUENT TAXES RECEIVABLE (continued)

In July 2014 the Town entered agreements with the Village of Essex Junction and the Essex Junction School District to bill and collect property taxes for each entity. Under the terms of the agreements, the Town purchased the outstanding delinquent taxes, penalty and interest receivables as of July 1, 2014, and assumes liability for the collection of those balances due. The Town will turn over to each entity, one half of the total amounts billed within 20 days of each due date. All penalties and interest that accrues on delinquent balances shall belong to the Town. Included in the Reserve for non-current taxes, is a provision for the delinquent balances associated with the taxes billed for the Village of Essex Junction and The Essex Junction School District.

NOTE 3 CAPITAL ASSETS

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 3,531,844	\$ -	\$ -	\$ 3,531,844
Construction in progress	<u>4,538,056</u>	<u>2,307,878</u>	<u>(6,423,384)</u>	<u>422,551</u>
Total capital assets not being depreciated	<u>8,069,900</u>	<u>2,307,878</u>	<u>(6,423,384)</u>	<u>3,954,395</u>
Other capital assets:				
Book Collection	459,726	-	-	459,726
Building and improvements	2,657,874	6,423,384	-	9,081,258
Equipment	6,172,314	275,976	(281,730)	6,166,560
Infrastructure	<u>23,311,105</u>	<u>227,549</u>	<u>-</u>	<u>23,538,654</u>
Total other capital assets	<u>32,601,019</u>	<u>6,926,909</u>	<u>(281,730)</u>	<u>39,246,198</u>
Less accumulated depreciation for:				
Book collection	(458,219)	(1,507)	-	(459,726)
Building and improvements	(1,607,475)	(136,505)	-	(1,743,980)
Equipment	(3,970,383)	(455,582)	281,730	(4,144,235)
Infrastructure	<u>(10,987,427)</u>	<u>(613,659)</u>	<u>-</u>	<u>(11,601,086)</u>
Total accumulated depreciation	<u>(17,023,504)</u>	<u>(1,207,253)</u>	<u>281,730</u>	<u>(17,949,027)</u>
Total capital assets being depreciated, net	<u>15,577,515</u>	<u>5,719,656</u>	<u>-</u>	<u>21,297,171</u>
Governmental Activities - Capital Assets, Net	<u>\$ 23,647,415</u>	<u>\$ 8,027,534</u>	<u>\$ (6,423,384)</u>	<u>\$ 25,251,566</u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 3 CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

General Government	\$ 37,012
Public Safety	360,985
Highways and Streets	701,316
Storm Water	10,369
Culture and Recreation	<u>97,571</u>
TOTAL	<u><u>\$ 1,207,253</u></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	\$ 59,740	\$ 17,090	\$ (54,045)	\$ 22,785
Capital assets being depreciated:				
Water/sewer plant	12,766,648	-	-	12,766,648
Machinery and equipment	250,954	29,339	-	280,293
Vehicles	<u>102,460</u>	<u>54,045</u>	<u>-</u>	<u>156,505</u>
Total Capital assets being depreciated	<u>13,120,062</u>	<u>83,384</u>	<u>-</u>	<u>13,203,446</u>
Less accumulated depreciation for:				
Water/sewer plant	(6,949,827)	(278,721)	-	(7,228,548)
Machinery and equipment	(215,717)	(9,416)	-	(225,133)
Vehicles	<u>(102,460)</u>	<u>(5,405)</u>	<u>-</u>	<u>(107,865)</u>
Total accumulated depreciation	<u>(7,268,004)</u>	<u>(293,542)</u>	<u>-</u>	<u>(7,561,546)</u>
Total capital assets being depreciated, net	<u>5,852,058</u>	<u>(210,158)</u>	<u>-</u>	<u>5,641,900</u>
Business-Type Activities - Capital Assets, Net	<u>\$ 5,911,798</u>	<u>\$ (193,068)</u>	<u>\$ (54,045)</u>	<u>\$ 5,664,685</u>

Depreciation expense for the Business-type Activities was \$293,542 for the fiscal year ended June 30, 2015.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 4 ACCRUED COMPENSATION

At June 30, 2015, the Town had the following vested benefits earned by their employees:

	General Fund	Water/Sewer Fund
Vested Compensation	\$ 859,384	\$ 154,379
Less: Current Portion	(32,379)	(1,792)
TOTAL LONG-TERM PORTION	\$ 827,005	\$ 152,587

NOTE 5 NOTES AND BONDS PAYABLE

<u>Governmental Activities</u>	Beginning Balance	Additions	Principal Reduction	Ending Balance	Current Portion
<u>Notes Payable</u>					
Vermont Municipal Bond Bank, 2013 Series I Bonds, interest varies from .444% to 4.644%. Annual principal payments of \$345,000 plus interest, due November 15, 2033	\$ 6,900,000	\$ -	\$ (345,000)	\$ 6,555,000	\$ 345,000
Note payable to State of Vermont, ARRA note, 2% administrative fee, due September 1, 2016	105,009	-	(34,312)	70,697	34,999
	\$ 7,005,009	\$ -	\$ (379,312)	\$ 6,625,697	\$ 379,999

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 5 NOTES AND BONDS PAYABLE (continued)

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Governmental Activities as of June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 379,999	\$ 227,489	\$ 607,488
2017	380,698	222,066	602,764
2018	345,000	215,318	560,318
2019	345,000	207,973	552,973
2020	345,000	199,386	544,386
2021-2025	1,725,000	384,389	2,109,389
2026-2030	1,725,000	502,251	2,227,251
2031-2034	1,380,000	127,398	1,507,398
TOTAL	<u>\$ 6,625,697</u>	<u>\$ 2,086,270</u>	<u>\$ 8,711,967</u>

Of the \$6,900,000 bond proceeds received during 2014 for the police facility construction \$979,280 remained unspent at June 30, 2015. This amount is recognized as restricted cash on the fund and government wide balance sheets. In March 2015, the voters approved repurposing \$800,000 of the \$6.9 million bond issue for renovations to the administration building at 81 Main St.

<u>Business-Type Funds</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Note payable to State of Vermont, ARRA note, 2% administrative fee, due October 1, 2032.	\$ 251,399	\$ -	\$ (12,562)	\$ 238,837	\$ 12,814
	<u>\$ 251,399</u>	<u>\$ -</u>	<u>\$ (12,562)</u>	<u>\$ 238,837</u>	<u>\$ 12,814</u>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 5 NOTES AND BONDS PAYABLE (continued)

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Business-Type Funds as of June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 12,814	\$ 4,777	\$ 17,591
2017	13,070	4,520	17,590
2018	13,331	4,259	17,590
2019	13,598	3,992	17,590
2020	13,897	3,720	17,617
2021-2025	73,624	14,329	87,953
2026-2030	81,258	6,667	87,925
2031-2033	17,245	345	17,590
	<u>\$ 238,837</u>	<u>\$ 42,609</u>	<u>\$ 281,446</u>

Total interest expense for the year ended June 30, 2015 was \$276,307, of which \$76,958 was capitalized as part of police facility bond interest only payments which are included in construction in progress at June 30, 2015.

NOTE 6 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

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 6 CASH (continued)

	Book Balance	Bank Balance
Insured by the FDIC	\$ 554,325	\$ 557,331
Insured by Deposit Surety Bond	8,507,097	8,695,240
Offset by debt with institution	729,280	729,280
Petty Cash	3,246	-
Total Deposits	\$ 9,793,948	\$ 9,981,851

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 an Irrevocable Standby Letter of Credit. The coverage with TD Bank is in the amount of \$10,000,000 and is for the period June 22, 2015 – August 26, 2015.

NOTE 7 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 8 DEFINED CONTRIBUTION PLAN

Prior to January 1, 2004 all full-time employees were covered under the ICMA 401(A) Defined Contribution Plan. Under this plan the town contributes 8% and the employee contributes 3% of employee's salaries. Town contributions to the plan were \$75,443 and the employee contributions were \$25,292 for the year ended June 30, 2015.

NOTE 9 PENSION PLAN

Information Required Under GASB Statement No. 68

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions requires employers participating in a cost-sharing, multiple-employer defined benefit pension plan to recognize their proportional share of total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The schedules below have been prepared to provide Town of Essex, Vermont's proportional share of the overall amounts of the VMERS plan. Town of Essex, Vermont's portion has been allocated based on Town of Essex, Vermont's proportional share of employer contributions to the total contributions to VMERS during the fiscal year.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 PENSION PLAN (continued)

Reporting Date, Measurement Date, and Valuation Date

Net pension liabilities, deferred pension outflows of resources, deferred pension inflows of resources, and pension expense are all presented as of the Town of Essex, Vermont's reporting date June 30, 2015 and for the Town of Essex, Vermont's reporting period (the year ended June 30, 2015). These amounts are measured as of the measurement date and for the measurement period (the period between the prior and current measurement dates). GASB Statement No. 68 requires that the current measurement date be no earlier than the end of the employer's prior fiscal year. For the reporting date of Town of Essex, Vermont, the State has chosen to use the end of the prior fiscal year (June 30, 2014) as the measurement date, and the year ended June 30, 2014 as the measurement period.

The total pension liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. The State has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of June 30, 2013, to the measurement date of June 30, 2014.

Schedule A – Employer Allocations as of June 30, 2013 and June 30, 2014

Fiscal Year Ended June 30, 2013		
Reported Contributions	Employer Proportion	Net Pension Liability
\$ 214,135	1.7839%	\$ 649,480

Fiscal Year Ended June 30, 2014					
Reported Contributions	Employer Proportion	Proportionate Share of Total Contributions	Net Pension Liability	Net Pension Liability 1% Decrease	Net Pension Liability 1% Increase
\$ 241,486	1.8721%	\$ 241,485	\$ 170,857	\$ 1,439,369	\$ (893,386)

Schedule B – Allocations of Pension Amounts as of June 30, 2014

		Deferred Outflows of Resources				
Employer Proportion	Net Pension Liability	Difference Between Expected and Actual Experience	Changes in Assumptions	Changes in Benefits	Difference Between Projected and Actual Investment Earnings	Changes in Proportional Share of Contributions
1.8721%	\$ 170,857	\$ -	\$ -	\$ -	\$ -	\$ 25,692

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 PENSION PLAN (continued)

Deferred Inflows of Resources					
Difference Between Expected and Actual Experience	Changes in Assumptions	Changes in Benefits	Difference Between Projected and Actual Investment Earnings	Changes in Proportional Share of Contributions	Difference Between Employer Contributions and Proportionate Share of Total Contributions
\$ -	\$ -	\$ -	\$ (526,853)	\$ -	\$ -

Pension Expense Recognized		
Proportionate Share of Pension Plan Expense	Change in Proportional Share of Contributions	Total
\$ 257,600	\$ 6,423	\$ 264,023

Schedule C – Employers’ Proportionate Share of June 30, 2014 Deferred Outflows/Inflows

Fiscal Year Ending					Total
June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	Thereafter	
\$ (119,084)	\$ (119,084)	\$ (119,084)	\$ -	\$ -	\$ (357,252)

The schedule of employer allocations and schedule of pension amounts by employer are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The schedules present amounts that are elements of the financial statements of the Vermont Municipal Employees’ Retirement System (VMERS) or its participating employers. VMERS does not issue stand-alone financial reports, but instead are included as part of the State of Vermont’s Comprehensive Annual Financial Report (CAFR). The CAFR can be viewed on the State’s Department of Finance & Management website at:

<http://finance.vermont.gov/reports and publications/cafr>

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 PENSION PLAN (continued)

Plan Description

The Vermont Municipal Employees' Retirement System is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirements is required to join the system. During the year ended June 30, 2015, the retirement system consisted of 437 participating employers.

The plan was established effective July 1, 1975, and is governed by Title 24, V.S.A. Chapter 125.

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

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

Summary of System Provisions

Membership	Full time employees of participating municipalities. Municipality elects coverage under Groups A, B, C or D provisions.
Creditable service	Service as a member plus purchased service.
Average Final Compensation (AFC)	Group A – average annual compensation during highest 5 consecutive years. Groups B and C – average annual compensation during highest 3 consecutive years. Group D – average annual compensation during highest 2 consecutive years.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 PENSION PLAN (continued)

Service Retirement Allowance

Eligibility Group A – The earlier of age 65 with 5 years of service or age 55 with 35 years of service.

Group B – The earlier of age 62 with 5 years of service or age 55 with 30 years of service.

Groups C and D – Age 55 with 5 years of service.

Amount Group A – 1.4% of AFC x service

Group B – 1.7% of AFC x service as Group B member plus percentage earned as Group A member x AFC

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

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

Maximum benefit is 60% of AFC for Groups A and B and 50% of AFC for Groups C and D. The above amounts include the portion of the allowance provided by member contributions.

Early Retirement Allowance

Eligibility Age 55 with 5 years of service for Groups A and B; age 50 with 20 years of service for Group D.

Amount Normal allowance based on service and AFC at early retirement, reduced by 6% for each year commencement precedes Normal Retirement Age for Group A and B member, and payable without reduction to Group D members.

Vested Retirement Allowance

Eligibility 5 years of service.

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

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 PENSION PLAN (continued)

Disability Retirement Allowance

Eligibility 5 years of service and disability as determined by Retirement Board.

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

Death Benefit

Eligibility Death after 5 years of service.

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

Optional Benefit and Death after Retirement

For Groups A, B and C, lifetime allowance or actuarially equivalent 50% or 100% joint or survivor allowance with refund of contribution guarantee. For Group D, lifetime allowance or 70% contingent annuitant option with no reduction.

Refund of Contribution

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

Post-Retirement Adjustments

Allowance in payment for at least one year increased on each January 1 by one-half of the percentage increase in consumer price index but not more than 2% for Group A and 3% for Groups B, C and D.

Member Contributions

Group A – 2.5% effective July 1, 2000 (reduced from 3.0%).

Group B – 4.75% effective July 1, 2014 (increased from 4.625%).

Group C – 9.625% effective July 1, 2014 and 9.75% effective January 1, 2015 (increased from 9.5%).

Group D – 11.25% effective July 1, 2014 (increased from 11.25%).

Town of Essex, Vermont
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 9 PENSION PLAN (continued)

Cost-of-Living Adjustments to Benefits of Terminated Vested and Retired Participants: Assumed to occur at the rate of 1.5% per annum for Group A members and 1.8% per annum for members of Groups B, C and D.

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

Inflation: The separately stated assumptions for investment return, salary increases and cost of living adjustments are consistent with an expected annual inflation rate of 3.00% to 3.25% per year.

Long-term expected rate of return: The long-term expected rate of return on System investments was determined using best- estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variable and the asset classes. These best estimate ranges were combined to produce forecasts of the short, intermediate, and longer term horizons by weighting the expected future nominal rates of return by the target asset allocation percentage. The various time horizons in the forecast are intended to capture more recent economic and capital market conditions as well as other plausible environments that could develop in the future over economic cycles. To reflect this in the rate-of-return assumption, a Select and Ultimate assumption setting approach, which is cited in Section 3.8.4 of Actuarial Standard of Practice No. 27 as an alternative to a single assumed rate of return, is employed.

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Equity	31.50%	6.70%
Fixed Income	33.00%	2.94%
Alternatives	15.50%	6.26%
Multi-strategy	20.00%	5.98%

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 3.0%

Discount rate

The discount rate used to measure the total pension liability was 8.23%. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB 68.

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 PENSION PLAN (continued)

The following presents the entity's proportionate share of the net pension liability calculated using the discount rate of 8.23 percent, as well as what the proportionate share would be if it were calculated using a discount rate that is one percent lower (7.23%) or one percent higher (9.23%):

1% Decrease (7.23%)	Discount Rate (8.23%)	1% Increase (9.23%)
\$ 1,439,369	\$ 170,857	\$ (893,386)

NOTE 10 FUND EQUITY

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

Reservations and designations as of June 30, 2015 are as follows:

GENERAL FUND

Restricted for:

Reappraisal \$ 480,709

Committed for:

Prepaid expenses	\$ 96,246
Economic development	9,713
Planning	28,703
Retirement	100,000
Records preservation	558,020
BOS Professional services	<u>6,400</u>

Total Committed Fund Balance \$ 799,082

Town of Essex, Vermont
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 10 FUND EQUITY (continued)

CAPITAL PROJECTS FUND

Committed for:

Future vehicle purchases	\$ 269,489
Future parks and recreation projects	632,362
Future highway projects	461,942
Future stormwater projects	260,450
Future water projects	66,364
Future building projects	1,618,525
Future capital projects	<u>376,858</u>

Total Committed Fund Balance \$ 3,685,990

WATER & SEWER FUND

Designated for:

Future capital expenses	\$ 304,729
Prepaid expenses	<u>7,574</u>

Total Designated Fund Balance \$ 312,303

FIDUCIARY FUND

Restricted for Cemetery - These funds are accumulated for the maintenance of the cemetery.	<u>\$ 37,067</u>
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NOTE 11 RESTRICTED NET POSITION – GOVERNMENT-WIDE FINANCIAL STATEMENTS

GENERAL FUND

Restricted for:

Reappraisal	\$ 480,709
Records Preservation	<u>558,020</u>

Total Restricted Net Position \$ 1,038,729

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 12 INTERFUND TRANSFERS

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The following table summarizes operating transfers for the year ended June 30, 2015.

<u>Amount</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Purpose</u>
\$ 9,700	General Fund	Capital Projects	Stormwater Equipment
3,600	General Fund	Capital Projects	Community Development
66,307	General Fund	Capital Projects	Fire Department
31,000	General Fund	Capital Projects	Parks Equipment
160,000	General Fund	Capital Projects	Highway Equipment
4,000	General Fund	Capital Projects	Senior Citizen Bus
<u>1,192</u>	General Fund	Water/Sewer Fund	Conservation
<u>\$ 275,799</u>			

NOTE 13 RISK MANAGEMENT

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

NOTE 14 DEFERRED LOAN RECEIVABLE

The Town received a \$490,000 Vermont Community Development Program Grant award during the fiscal year 2008. This grant was loaned to the Essex Senior Housing Limited Partnership to assist in the acquisition of land and construction of 48 new senior housing units. The loan is deferred for 30 years and bears no interest. As such, the Town has recorded an allowance for the entire amount.

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

Town of Essex, Vermont
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 15 LANDFILL POST CLOSURE COSTS

Landfill post closure costs are necessitated by the closure of the Town landfill in 1992 and the continuing site maintenance and testing requirements of the State of Vermont as ordered in the Closure Order. Sufficient funds were not set aside in the tipping fee during the landfill's years of operation to cover these continuing expenses. The Town must budget on an annual basis for site maintenance and testing as set forth in the legal closure order. The Town's cost of the site maintenance and testing were \$13,449 for the year ended June 30, 2015.

NOTE 16 CHANGE IN ACCOUNTING PRINCIPLE – RETROSPECTIVE APPLICATION

On July 1, 2014, the Town of Essex, Vermont changes its method of accounting for pension plans to conform with Government Accounting Standards that became effective for fiscal years beginning after June 15, 2014. The change was adopted retroactively. Under the new accounting method, the municipality must now report their prorated portion of the net pension liability and related deferred inflows and deferred outflows from their participation in the VMERS plan. As a result, the cumulative effect of applying the new method, the following amounts increased/(decreased):

General Fund:

Net Position	\$ (367,195)
Deferred Outflows	<u>(217,337)</u>
Net Pension Liability	<u>\$ 584,532</u>

Water and Sewer Fund:

Net Position	\$ (32,640)
Deferred Outflows	<u>(19,318)</u>
Net Pension Liability	<u>\$ 51,958</u>

Recreation Fund:

Net Position	\$ (8,160)
Deferred Outflows	<u>(4,830)</u>
Net Pension Liability	<u>\$ 12,990</u>

NOTE 17 DISCLOSURE OF SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Town has evaluated subsequent events through January 30, 2016, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2015, have been incorporated into the financial statements herein.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Essex, Vermont
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGETARY BASIS - GENERAL FUND
For the Year Ended June 30, 2015

	Original Budget	Budget	Actual	Variance
REVENUES				
Property tax	\$ 10,405,368	\$ 10,405,368	\$ 10,065,514	\$ (339,854)
Licenses and permits	56,200	56,200	69,327	13,127
Intergovernmental revenues	249,200	249,200	273,645	24,445
Charges for services	491,350	491,350	407,290	(84,060)
Fines and forfeits	115,000	115,000	172,757	57,757
Interest income	17,000	17,000	9,953	(7,047)
Miscellaneous income	50,001	50,001	49,902	(99)
Proceeds from sale of fixed assets	5,000	5,000	-	(5,000)
TOTAL REVENUES	<u>11,389,119</u>	<u>11,389,119</u>	<u>11,048,388</u>	<u>(340,731)</u>
EXPENDITURES				
General government	2,500,870	2,500,870	2,487,691	13,179
Public safety	4,335,590	4,335,590	4,030,712	304,878
Highways and Streets	1,953,569	1,953,569	2,010,944	(57,375)
Stormwater	264,407	264,407	220,822	43,585
Sanitation	12,500	12,500	13,449	(949)
Health and Welfare	166,126	166,126	165,052	1,074
Culture and Recreation	1,121,532	1,121,532	1,026,835	94,697
Debt service	610,900	610,900	610,899	1
Intergovernmental	423,625	423,625	423,617	8
TOTAL EXPENDITURES	<u>11,389,119</u>	<u>11,389,119</u>	<u>10,990,021</u>	<u>399,098</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,367</u>	<u>\$ 58,367</u>

**RECONCILIATION OF BUDGETARY
BASIS TO GAAP BASIS**

Excess of Revenues		
over Expenditures - Budgetary Basis		\$ 58,367
Adjustments for non-budget:		
Grant revenues		338,319
Other revenues		106,372
Grant expenditures		(338,226)
Other expenditures		<u>(11,350)</u>
EXCESS OF REVENUES OVER EXPENDITURES - GAAP BASIS		<u>\$ 153,482</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2015

	<u>2013</u>	<u>2014</u>
Town's proportion of the net pension liability (asset)	1.7839%	1.8721%
Town's proportionate share of the net pension liability (asset)	<u>\$ 214,135</u>	<u>\$ 241,485</u>
Town's covered-employee payroll	<u>\$ 3,294,379</u>	<u>\$ 3,610,210</u>
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	6.50%	6.69%
Plan fiduciary net position as a percentage of the total pension liability	92.71%	98.32%

Significant Actuarial Assumptions and methods are described in Note 9 to the financial statements. There were no changes in methods or assumptions during the year ended June 30, 2015.

See Accompanying Notes to Basic Financial Statements.