

Town of Essex, Vermont  
BASIC FINANCIAL STATEMENTS  
June 30, 2012

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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, 2012, which collectively comprise the Town of Essex, Vermont's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Essex, Vermont's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Vermont, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2013, on our consideration of the Town of Essex, Vermont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis and budgetary comparison information on page 26 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 considered 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 State of America, which consisted of inquiries of management about the methods of preparing 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.

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

A handwritten signature in black ink that reads "Kattell Branagan & Sugrue". The signature is written in a cursive style with a long horizontal flourish extending to the right.

St. Albans, Vermont  
January 30, 2013

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Required Supplementary Information  
For the Year Ended June 30, 2012

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, 2012. 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 2012 and FY 2011.

## **FINANCIAL HIGHLIGHTS**

### **Government-wide Highlights**

The Town's assets exceeded its liabilities at June 30, 2012, by \$29,694,037 compared to \$28,496,968 at June 30, 2011. This represents an increase of \$1,197,069 or 4.2%. The change in net assets for fiscal year 2011 was \$923,775. The 2012 increase was \$273,294 more than the 2011 increase.

### **Fund Highlights**

At the end of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$4,794,233, an increase of \$44,371 when compared with \$4,749,862 for the prior year. Of the total fund balance, \$3,571,610 represents amounts committed or restricted for specific purposes, such as reappraisal, prepaid expenses, and various capital projects. The remaining \$1,222,623 represents unassigned fund balance, including \$739,646 in the General Fund and \$482,977 in the Capital Projects Fund.

In the General Fund, the unassigned total of \$739,646 is an increase of \$51,129 from the June 30, 2011 unreserved balance of \$688,517. Included in the total Fund Balance increase in the General Fund of \$208,167, are amounts that are restricted and committed for specific purposes. There were increases in the amount restricted for reappraisal of \$65,773, the amount committed for retirement of \$70,000, the amount committed for records preservation of \$37,880, and an increase of \$1,822 in the amount committed for prepaid expenses. There were also decreases of \$8,000 in the amount committed for Selectboard Professional Services, and a decrease in the amount committed for planning of \$10,437.

In the General Fund, the unassigned balance of \$739,646 represents 7.3% of the General Fund operating budget for FYE2012 or approximately three and one half 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 low end of the recommended range.

### **Long-term Debt**

The Town's total debt decreased during the fiscal year to \$1,543,132 a net decrease of \$196,584 or 11.3%. The main cause of the decrease was not adding any new debt while paying down balances on outstanding debt. Principal payments were made on outstanding debt for a fire truck and various sewer bonds. 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 \$447,418 as of June 30, 2012. 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)

Another component of the Town's long-term debt is accrued and compensated absences. The total balance of accrued and compensated balances was \$875,714, and \$910,460 as of June 30, 2012 and 2011 respectively. The total balance decreased by \$34,746 during the year. These amounts reflect accrued but unused vacation, comp, and sick time. During the year ended June 30, 2012, 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.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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For the Year Ended June 30, 2012

In November 2012, subsequent to year end, 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.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

### Government-wide Statements

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

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

### Fund Financial Statements

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

- **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.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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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 Assets and Changes in Fiduciary Net Assets 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.

- . 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 \$28,077,654 at the end of the fiscal year.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Net Assets as of June 30, 2012 & 2011**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Current & other assets	\$ 6,272,631	\$ 6,370,662	\$ 521,104	\$ 846,736	\$ 6,793,735	\$ 7,217,398
Capital assets	<u>17,567,494</u>	<u>18,478,659</u>	<u>6,741,421</u>	<u>6,445,691</u>	<u>24,308,915</u>	<u>24,924,350</u>
<b>Total Assets</b>	<b><u>\$ 23,840,125</u></b>	<b><u>\$ 24,849,321</u></b>	<b><u>\$ 7,262,525</u></b>	<b><u>\$ 7,292,427</u></b>	<b><u>\$ 31,102,650</u></b>	<b><u>\$ 32,141,748</u></b>
Long-term liabilities outstanding	\$ 1,178,792	\$ 1,074,944	\$ 560,924	\$ 468,188	\$ 1,739,716	\$ 1,543,132
Other Liabilities	<u>814,242</u>	<u>858,905</u>	<u>51,724</u>	<u>45,674</u>	<u>865,966</u>	<u>904,579</u>
<b>Total Liabilities</b>	<b><u>\$ 1,993,034</u></b>	<b><u>\$ 1,933,849</u></b>	<b><u>\$ 612,648</u></b>	<b><u>\$ 513,862</u></b>	<b><u>\$ 2,605,682</u></b>	<b><u>\$ 2,447,711</u></b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$ 17,185,865	\$ 18,167,030	\$ 6,293,794	\$ 6,089,902	\$ 23,479,659	\$ 24,256,932
Restricted	-	740,150	-	-	-	740,150
Unrestricted	<u>4,661,226</u>	<u>4,008,292</u>	<u>356,083</u>	<u>688,663</u>	<u>5,017,309</u>	<u>4,696,955</u>
<b>Total Net Assets</b>	<b><u>\$ 21,847,091</u></b>	<b><u>\$ 22,915,472</u></b>	<b><u>\$ 6,649,877</u></b>	<b><u>\$ 6,778,565</u></b>	<b><u>\$ 28,496,968</u></b>	<b><u>\$ 29,694,037</u></b>

The largest portion of the Town's net assets (82 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, construction in progress, and infrastructure); less any related outstanding debt used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (2.5 percent or \$740,150) represents restricted net assets. These resources are restricted for reappraisal and records preservation.

The remaining portion of the Town's net assets (15.5 percent or \$4.7 million) represents unrestricted net assets. These resources are neither restricted nor invested in capital assets.

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

Town of Essex, Vermont  
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**Changes in Net Assets for the Fiscal Year Ended June 30**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 894,616	\$ 554,028	\$ 1,817,055	\$ 2,375,499	\$ 2,711,671	\$ 2,929,527
Operating grants & contributions	997,218	1,434,580	175,520	205,592	1,172,738	1,640,172
Capital grants & contr.	131,888	255,216	-	-	131,888	255,216
Property taxes (including penalty and interest)	8,974,896	9,384,240	-	-	8,974,896	9,384,240
IBM Payment for Services	271,433	180,878	-	-	271,433	180,878
Unrestricted investment earnings	33,005	15,685	1,678	740	34,683	16,425
Gain on Disposal of Assets	1,275	2,125	-	-	1,275	2,125
Other revenues	79,272	39,946	-	-	79,272	39,946
<b>Total Revenues</b>	<u>11,383,603</u>	<u>11,866,698</u>	<u>1,994,253</u>	<u>2,581,831</u>	<u>13,377,856</u>	<u>14,448,529</u>
<b>Expenses</b>						
<b>Governmental activities</b>						
General Government	2,297,204	2,317,585	-	-	2,297,204	2,317,585
Public Safety	4,069,289	4,062,775	-	-	4,069,289	4,062,775
Highway and Streets	2,213,142	2,254,348	-	-	2,213,142	2,254,348
Health and Welfare	142,450	656,767	-	-	142,450	656,767
Culture and Recreation	1,353,996	1,102,413	-	-	1,353,996	1,102,413
Interest on long-term debt	8,833	9,069	-	-	8,833	9,069
Intergovernmental	360,888	395,360	-	-	360,888	395,360
<b>Business-type activities</b>						
Water and Sewer	-	-	2,008,279	2,085,019	2,008,279	2,085,019
Recreation Programs	-	-	-	368,124	-	368,124
<b>Total Expenses</b>	<u>10,445,802</u>	<u>10,798,317</u>	<u>2,008,279</u>	<u>2,453,143</u>	<u>12,454,081</u>	<u>13,251,460</u>
Change in net assets before transfers	937,801	1,068,381	(14,026)	128,688	923,775	1,197,069
Transfers	-	-	-	-	-	-
Change in net assets	937,801	1,068,381	(14,026)	128,688	923,775	1,197,069
Net assets - July 1,	<u>20,909,290</u>	<u>21,847,091</u>	<u>6,663,903</u>	<u>6,649,877</u>	<u>27,573,193</u>	<u>28,496,968</u>
Net assets - June 30,	<u>\$ 21,847,091</u>	<u>\$ 22,915,472</u>	<u>\$ 6,649,877</u>	<u>\$ 6,778,565</u>	<u>\$ 28,496,968</u>	<u>\$ 29,694,037</u>

Town of Essex, Vermont  
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Total Governmental activity expenses were \$10,798,317 and \$10,445,802 in fiscal years 2012 and 2011, 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 \$2,243,824 in 2012 and \$2,023,722 in 2011. Governmental program revenues come from charges for services, which include licenses and permits, planning fees, developer fees, forfeitures, and several other revenues. Program revenues in the capital grants and contributions category include federal, state and local grants that are restricted specifically for use in specific programs, capital projects or acquisitions.

General Revenues are all other revenue not categorized as program revenues, and include property taxes, as well as unrestricted grants contributions and investment earnings. Total general revenues from governmental activities were \$9,622,874 in fiscal 2012 and \$9,359,881 in fiscal 2011. In 2011 approximately 94 percent of the Town's total general revenue came from taxes, in 2012 it was 96%.

#### **Fund Financial Statements**

The combined fund balance of the Fund Financial Statements was \$4,794,233 at June 30, 2012 and \$4,749,862 at June 30, 2011. Of the FYE 2012 fund balance, \$739,646 constitutes unassigned funds in the General Fund and \$482,977 in the Capital Projects Fund, which are available for spending at the government's discretion. An amount of \$282,956 of the fund balance is restricted for reappraisal and \$3,288,654 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 \$1,613,045 in FYE 2011 to \$1,821,212 in FYE 2012. The total increase amounted to \$208,167 for the fiscal year ended June 30, 2012.

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

The fund balance of the Town's General Fund increased by \$208,167 during the current fiscal year. The restricted portion of fund balance increased by \$65,773 from \$217,183 to \$282,956. 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 \$91,265 from a combined balance of \$707,345 to \$798,610 as of June 30, 2012. The unassigned portion of the fund balance increased from \$688,517 to \$739,646, an increase of \$51,129. Key factors in this change are as follows:

On the revenue side:

- Property tax revenues were less than anticipated due to a rise in delinquencies.
- Intergovernmental revenue exceeded expectations due to storm water grants and the receipt of FEMA funds for flood and windstorm damage incurred during FYE 2011 as well as increases in other Governmental revenues such as increases in State revenues from PILOT and Current Use programs.
- Charges for services were greater than expected in the area of recording of legal documents. Recreation Program revenues were moved to a separate Recreation Program fund where revenues are used to pay for the expenses of the programs.
- Interest and penalties on delinquent taxes were slightly higher than expected.
- Miscellaneous revenue was less than expected in the area of interest revenue, due to historically low interest rates, and from proceeds from sale of assets bringing in less revenue than anticipated. Conversely, records preservation revenues were greater than expected as they were drawn to fund the purchase of an Electronic Document Management system (EDMS) that will be used to store and preserve municipal records.

Town of Essex, Vermont  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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On the expenditure side:

- Expenditures for General Governmental operations were within 1% of budget. Favorable variances in the Town Clerk and Community Development Departments, due to vacancies, were offset by over expenditures in the Finance Department, due to the purchase of the above mentioned EDMS, and over expenditures in repairs and maintenance on buildings and gasoline.
- 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 a number of departments.
- In the Highway department savings from salaries and benefits, due to less than anticipated overtime, and winter salt costs being less than anticipated, allowed for greater expenditures in other areas that were over budget. Other expenditures that were unanticipated included those for damages incurred during the year from flooding and windstorms and increased costs for street lights and repairs and maintenance on buildings and vehicles.
- Recreation program expenditures were moved to a separate Recreation Program fund where revenues are used to pay for the expenses of the programs.
- Storm water expenditures exceeded budget due to a large drainage project in the Kellogg Road area that was funded mainly through Federal and State grants.
- A trails grant was obtained to perform trail upgrades at Indian Brook that were not anticipated. Expenditures for pool chemicals were greater than anticipated.
- Other expenditures were over budget in some areas including: Tree care for damage sustained in a windstorm and salaries in the Library due to the payout of accumulated vacation time for long standing employees.
- Other expenditures that were under budget included: General Supplies in the Buildings and general liability and worker's compensation insurance in the Finance Department. Utility costs were less than anticipated due in part to energy efficiency efforts in various buildings paying off.

**Capital Assets**

The following is a schedule of capital assets as of June 30, 2012 and 2011.

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2011	2012	2011	2012	2011	2012
Land	\$ 2,763,909	\$ 2,950,608	\$ -	\$ -	\$ 2,763,909	\$ 2,950,608
Buildings & Impr.	2,484,293	2,568,247	-	-	2,484,293	2,568,247
Equip. & Vehicles	5,160,782	5,534,752	347,614	347,614	5,508,396	5,882,366
Book Collection	459,726	459,726	-	-	459,726	459,726
Infrastructure	20,974,391	22,068,398	12,755,698	12,755,698	33,730,089	34,824,096
Constr. in progress	48,585	106,133	22,782	22,782	71,367	128,915
<b>Total Assets</b>	<b>31,891,686</b>	<b>33,687,864</b>	<b>13,126,094</b>	<b>13,126,094</b>	<b>45,017,780</b>	<b>46,813,958</b>
Less: Accum. Depr.	14,324,192	15,209,205	6,384,673	6,680,403	20,708,865	21,889,608
Net Assets	<u>\$ 17,567,494</u>	<u>\$ 18,478,659</u>	<u>\$ 6,741,421</u>	<u>\$ 6,445,691</u>	<u>\$ 24,308,915</u>	<u>\$ 24,924,350</u>

The Town had \$24,924,350 and \$24,308,915 invested in capital assets, net of depreciation, on June 30, 2012 and June 30, 2011, respectively. The net decrease (including additions and deductions) between the two periods amounted to \$615,435.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Major capital asset events during the current fiscal year included the following:

- The purchase of an Electronic Document Management System (EDMS) with the use of Equitable Sharing and Records Preservation funds.
- Various streets and sidewalks were resurfaced or reconstructed at a cost of over \$650,000. These improvements included resurfacing / reconstruction of Sand Hill Road, Valleyview Drive, Susie Wilson Bypass, Rustic Drive, Skyline Drive, and the North Williston Road Bridge.
- The Park-N-Ride lot on Route 2A at the end of the Circumferential highway was completed at a final cost of \$104,000.
- Other infrastructure improvements included the installation of guardrail on Brigham Hill Road, pedestrian crossing improvements at the Town Center, and a new box culvert along the bike path.
- Storm water projects were completed in the Kellogg Road area and as part of the Sand Hill Road reconstruction project. The total cost of these improvements was in excess of \$250,000.
- The 100 acre State Tree Farm on Old Colchester Road was purchased during the year at a cost of \$186,700.
- New vehicles purchased during the year included, two sedans and an SUV for use as Police cruisers, an SUV for use in the Fire Department, a dump truck for the Highway department, and a four wheeler and winch for the Park Department. The total cost for these vehicles was \$262,000.
- The radio system upgrade, for use by the emergency services that was initiated with the use of federal grant funds in FYE2011 was completed in FYE2012 at a cost of \$84,000.
- Other improvements include a new evidence system for the Police Department.
- Trail construction was undertaken at Indian Brook reservoir with a combination of grant and local funds and new playground equipment was installed at Sand Hill Park. The total cost of these improvements was \$83,000.
- Building improvements include roof snow guards and new entryway flooring at the Library, along with new staging and seating for Memorial Hall. The total cost of these improvements was \$84,000.

**Debt**

At the end of the fiscal year, the Town had \$667,418 in long-term debt outstanding compared to \$829,256 in the prior year, an approximate 20% decrease. The reason for the decrease was the continued pay down of sewer and storm water bonds and a note payable on a fire truck while not incurring any new debt. A summary of outstanding long-term debt follows:

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2011	2012	2011	2012	2011	2012
Notes Payable	\$ 381,629	\$ 311,629	\$ 287,627	\$ 275,789	\$ 669,256	\$ 587,418
Bonds Payable	-	-	160,000	80,000	160,000	80,000
<b>TOTAL</b>	<b><u>\$ 381,629</u></b>	<b><u>\$ 311,629</u></b>	<b><u>\$ 447,627</u></b>	<b><u>\$ 355,789</u></b>	<b><u>\$ 829,256</u></b>	<b><u>\$ 667,418</u></b>

Subsequent to year end, the voters approved the issuance of up to \$6.9 million in 20 year bonds for the purchase and construction of a new Police facility.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Required Supplementary Information  
For the Year Ended June 30, 2012

**Economic Factors and Fiscal Year 2012 Budget**

- The results of operations for the year were an increase in Fund Balance in the amount of \$208,167. Of that total \$65,773 was an increase in amount restricted for reappraisal. The amounts committed for other specific purposes such as, Prepaid Expenses, Economic Development, Planning, Retirement, and Professional Services increased by \$91,265, mainly due to an increase in the designation for Retirement in the amount of \$70,000. The increase in unassigned (formerly unreserved) Fund Balance amounted to \$51,129.
- The excess of revenues over expenditures was accomplished through a combination of increased non-tax revenues and holding expenditures to less than budget when possible.
- The Town continues to lose revenue every year as a result of the agreement with IBM when Machinery and Equipment taxes were phased out for all Town taxpayers. The annual loss of revenue is \$87,000 per year through FY 2014 when the subsidy from IBM will be zero.
- Delinquent taxes continue to rise in this down economy and while the Town remains sympathetic to the economic issues faced by taxpayers, it must continue and in some cases increase tax collection efforts.

All of these factors were considered in preparing the Town of Essex's budget for the 2012 fiscal year. At the 2012 Town meeting the voters increased the Selectboard recommended FYE 2013 budget, in the amount of \$10,164,784, by \$60,000 for the purpose of increasing the Town's contribution to the Memorial Day parade by \$10,000, and the Town's contribution to the Village of Essex Junction for the joint purchase of a ladder truck for the Fire Departments. The total approved budget for FYE2013 was \$10,224,784, an increase of \$373,237 over the previous year. The approved budget resulted in a tax rate for FYE2013 of \$.3633, an increase of \$0.0115 over FYE2012.

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 (\$319,162 budgeted in FYE 2012) and the related revenues (\$318,000 budgeted in FYE 2012) have been reported separately from the General fund in FYE 2012. For the year ended June 30, 2012 this fund realized net income from operations in the amount of \$30,760. 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 2012 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 is being addressed in the preparation of operating budgets and rates for future periods and was again reduced significantly in FYE 2012. 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.

**Requests for Information**

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

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

Town of Essex, Vermont  
GOVERNMENT-WIDE FINANCIAL STATEMENTS  
STATEMENT OF NET ASSETS  
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
CURRENT ASSETS			
Cash	\$ 5,333,568	\$ 283,338	\$ 5,616,906
Taxes receivable, net of allowance	758,514	-	758,514
Accounts receivables - other	72,727	520,475	593,202
Prepaid expenses	205,853	14,579	220,432
TOTAL CURRENT ASSETS	6,370,662	818,392	7,189,054
NOTES RECEIVABLE	-	28,344	28,344
CAPITAL ASSETS, net	18,478,659	6,445,691	24,924,350
TOTAL ASSETS	\$ 24,849,321	\$ 7,292,427	\$ 32,141,748
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 505,516	\$ -	\$ 505,516
Accrued payroll	212,332	18,124	230,456
Deferred revenue	116,977	12,280	129,257
Exchange	16,979	10,840	27,819
Other accrued expenses	7,101	4,430	11,531
Current portion notes and bonds payable	102,980	52,075	155,055
Current portion of compensated absences	17,044	1,371	18,415
TOTAL CURRENT LIABILITIES	978,929	99,120	1,078,049
LONG-TERM LIABILITIES			
Accrued compensated absences	746,271	111,028	857,299
Notes and bonds payable	208,649	303,714	512,363
TOTAL LONG-TERM LIABILITIES	954,920	414,742	1,369,662
TOTAL LIABILITIES	1,933,849	513,862	2,447,711
NET ASSETS			
Invested in capital assets, net of related debt	18,167,030	6,089,902	24,256,932
Restricted	740,150	-	740,150
Unrestricted	4,008,292	688,663	4,696,955
NET ASSETS	22,915,472	6,778,565	29,694,037
TOTAL LIABILITIES AND NET ASSETS	\$ 24,849,321	\$ 7,292,427	\$ 32,141,748

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 GOVERNMENT-WIDE FINANCIAL STATEMENTS  
 STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Revenues	Capital Grants and Revenues	Governmental Activities	Business-Type Activities	
Governmental activities							
General government	\$ 2,317,585	\$ 360,729	\$ 189,380	\$ -	\$ (1,767,476)	\$ -	\$ (1,767,476)
Public safety	4,062,775	74,875	357,809	-	(3,630,091)	-	(3,630,091)
Highways and Stre	2,254,348	22,922	313,576	212,229	(1,705,621)	-	(1,705,621)
Health and Welfare	656,767	1,595	505,500	-	(149,672)	-	(149,672)
Culture and Recreation	1,102,413	93,907	68,315	42,987	(897,204)	-	(897,204)
Intergovernmental	395,360	-	-	-	(395,360)	-	(395,360)
Interest on long-term debt	9,069	-	-	-	(9,069)	-	(9,069)
Total governmental activities	<u>10,798,317</u>	<u>554,028</u>	<u>1,434,580</u>	<u>255,216</u>	<u>(8,554,493)</u>	<u>-</u>	<u>(8,554,493)</u>
Business-type activities:							
Water and Sewer	2,085,019	1,976,615	205,592	-	-	97,188	97,188
Recreation	368,124	398,884	-	-	-	30,760	30,760
Total business-type activities	<u>2,453,143</u>	<u>2,375,499</u>	<u>205,592</u>	<u>-</u>	<u>-</u>	<u>127,948</u>	<u>127,948</u>
General Revenues:							
Property taxes, levied for general purposes					9,258,751	-	9,258,751
Penalties and interest on delinquent taxes					125,489	-	125,489
IBM payment for services					180,878	-	180,878
Unrestricted investment earnings					15,685	740	16,425
Transfers					1,500	-	1,500
Gain/loss on sale of fixed assets					2,125	-	2,125
Miscellaneous					38,446	-	38,446
Total general revenues and transfers					<u>9,622,874</u>	<u>740</u>	<u>9,623,614</u>
Change in Net Assets					1,068,381	128,688	1,197,069
Net assets, beginning					<u>21,847,091</u>	<u>6,649,877</u>	<u>28,496,968</u>
Net assets, ending					<u>\$ 22,915,472</u>	<u>\$ 6,778,565</u>	<u>\$ 29,694,037</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 June 30, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash	\$ 2,387,855	\$ 2,945,713	\$ 5,333,568
Taxes receivable, net of allowance	33,889	-	33,889
Other receivables	45,419	27,308	72,727
Prepaid expenses	205,853	-	205,853
 TOTAL ASSETS	 \$ 2,673,016	 \$ 2,973,021	 \$ 5,646,037
 <u>LIABILITIES AND FUND BALANCE</u>			
 LIABILITIES			
Accounts payable	\$ 505,516	\$ -	\$ 505,516
Accrued payroll	212,332	-	212,332
Exchange	16,979	-	16,979
Deferred revenue	116,977	-	116,977
 TOTAL LIABILITIES	 851,804	 -	 851,804
 FUND BALANCE			
Committed	798,610	2,490,044	3,288,654
Restricted	282,956	-	282,956
Unassigned	739,646	482,977	1,222,623
 TOTAL FUND BALANCE	 1,821,212	 2,973,021	 4,794,233
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 2,673,016	 \$ 2,973,021	 \$ 5,646,037

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS  
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
 June 30, 2012

**Total fund balances - governmental funds** \$ 4,794,233

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. 18,478,659

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 724,625

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds:

Accrued compensated absences (763,315)

Accrued interest on long-term debt (7,101)

Notes payable (311,629)

**Total net assets - governmental activities** \$ 22,915,472

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, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Property tax	\$ 8,722,253	\$ 468,371	\$ 9,190,624
Licenses and permits	48,108	-	48,108
Intergovernmental revenues	296,319	297,349	593,668
Charges for services	576,153	68,801	644,954
Fines and forfeits	126,689	-	126,689
Interest income	9,877	5,809	15,686
Miscellaneous income	118,778	-	118,778
Grant income	1,080,110	-	1,080,110
	<u>10,978,287</u>	<u>840,330</u>	<u>11,818,617</u>
<b>TOTAL REVENUES</b>			
<b>EXPENDITURES</b>			
General government	2,218,353	70,625	2,288,978
Public safety	4,030,296	350	4,030,646
Highways and Streets	1,554,094	949,529	2,503,623
Stormwater	346,589	-	346,589
Sanitation	20,228	-	20,228
Health and Welfare	655,718	-	655,718
Culture and Recreation	1,046,338	412,454	1,458,792
Intergovernmental	395,360	-	395,360
Debt service	70,000	-	70,000
Interest expense	7,937	-	7,937
	<u>10,344,913</u>	<u>1,432,958</u>	<u>11,777,871</u>
<b>TOTAL EXPENDITURES</b>			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>			
	<u>633,374</u>	<u>(592,628)</u>	<u>40,746</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of fixed assets	2,125	-	2,125
Operating transfers In	-	428,832	428,832
Operating transfers Out	(427,332)	-	(427,332)
	<u>(425,207)</u>	<u>428,832</u>	<u>3,625</u>
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>			
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>			
	208,167	(163,796)	44,371
<b>FUND BALANCE - July 1, 2011</b>			
	<u>1,613,045</u>	<u>3,136,817</u>	<u>4,749,862</u>
<b>FUND BALANCE - June 30, 2012</b>			
	<u>\$ 1,821,212</u>	<u>\$ 2,973,021</u>	<u>\$ 4,794,233</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, 2012

**Net change in fund balances - governmental funds** \$ 44,371

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	(1,009,429)
Capital Outlay	1,920,594
Proceeds from Sale of Asset	(2,125)
Gain/Loss on Sale of Asset	2,125

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

Increase in the reserve for non-current taxes	10,128
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Repayment of long-term debt is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the  
statement of net assets.

Long-term debt	70,000
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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.

Accrued interest on long-term debt	(1,131)
Accrued compensated absences	<u>33,848</u>

**Change in net assets of governmental activities** \$ 1,068,381

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
 June 30, 2012

	<u>Water &amp; Sewer Fund</u>	<u>Recreation Fund</u>	<u>Total</u>
<u>ASSETS</u>			
<b>CURRENT ASSETS</b>			
Cash	\$ 221,860	61,478	\$ 283,338
Accounts receivable - net	520,475	-	520,475
Prepaid expenses	<u>14,579</u>	<u>-</u>	<u>14,579</u>
<b>TOTAL CURRENT ASSETS</b>	<u>756,914</u>	<u>61,478</u>	<u>818,392</u>
NOTE RECEIVABLE	<u>28,344</u>	<u>-</u>	<u>28,344</u>
CAPITAL ASSETS, net	<u>6,445,691</u>	<u>-</u>	<u>6,445,691</u>
<b>TOTAL ASSETS</b>	<u>\$ 7,230,949</u>	<u>\$ 61,478</u>	<u>\$7,292,427</u>
 <u>LIABILITIES AND NET ASSETS</u>			
<b>CURRENT LIABILITIES</b>			
Current portion compensated absences	\$ 1,371	-	\$ 1,371
Current portion long-term debt	52,075	-	52,075
Accrued payroll	10,526	7,598	18,124
Exchange	-	10,840	10,840
Deferred revenue	-	12,280	12,280
Other accrued expenses	<u>4,430</u>	<u>-</u>	<u>4,430</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>68,402</u>	<u>30,718</u>	<u>99,120</u>
 <b>LONG-TERM LIABILITIES</b>			
Accrued compensated absences	111,028	-	111,028
Notes and bonds payable	<u>303,714</u>	<u>-</u>	<u>303,714</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>414,742</u>	<u>-</u>	<u>414,742</u>
<b>TOTAL LIABILITIES</b>	<u>483,144</u>	<u>30,718</u>	<u>513,862</u>
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,089,902	-	6,089,902
Unrestricted - designated	319,587	-	319,587
Unrestricted	<u>338,316</u>	<u>30,760</u>	<u>369,076</u>
<b>TOTAL NET ASSETS</b>	<u>6,747,805</u>	<u>30,760</u>	<u>6,778,565</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 7,230,949</u>	<u>\$ 61,478</u>	<u>\$7,292,427</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN NET ASSETS - PROPRIETARY FUNDS  
 For the Year Ended June 30, 2012

	<u>Water &amp; Sewer Fund</u>	<u>Recreation Fund</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,976,615	\$ 395,303	\$ 2,371,918
Hookup fees	179,073	-	179,073
Interest and penalties on delinquents	21,637	-	21,637
Assessments	2,080	-	2,080
Miscellaneous	<u>2,802</u>	<u>3,581</u>	<u>6,383</u>
TOTAL OPERATING REVENUES	<u>2,182,207</u>	<u>398,884</u>	<u>2,581,091</u>
<b>OPERATING EXPENSES</b>			
Regular salaries	348,923	67,700	416,623
Overtime salaries	37,508	2,483	39,991
Group health insurance	121,478	-	121,478
Social security	29,276	5,368	34,644
Employee retirement	29,688	-	29,688
Other employee benefits	1,751	-	1,751
Professional services	24,771	20,014	44,785
Repair and maintenance	99,946	-	99,946
Telephone/communications	1,691	787	2,478
Printing and postage	-	15,496	15,496
Purchased Services	-	240,487	240,487
Advertising	2,008	-	2,008
Travel	-	1,566	1,566
Small tools and equipment	1,271	3,006	4,277
Supplies	-	7,249	7,249
Utilities	50,924	-	50,924
Uniforms	3,117	-	3,117
Natural gas	778	-	778
CWD water purchases	492,409	-	492,409
Insurance	12,427	-	12,427
Dues and fees	1,408	-	1,408
Machinery	98,782	-	98,782
Depreciation expense	295,730	-	295,730
Recreation activities	-	3,968	3,968
Sewage treatment	<u>419,398</u>	<u>-</u>	<u>419,398</u>
TOTAL OPERATING EXPENDITURES	<u>2,073,284</u>	<u>368,124</u>	<u>2,441,408</u>
<b>INCOME FROM OPERATIONS</b>	<u>108,923</u>	<u>30,760</u>	<u>139,683</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN NET ASSETS - PROPRIETARY FUNDS  
 For the Year Ended June 30, 2012

	Water & Sewer Fund	Recreation Fund	Total
NON-OPERATING REVENUE (EXPENSE)			
Interest Income	740	-	740
Interest Expense	(11,735)	-	(11,735)
 TOTAL NON-OPERATING REVENUE (EXPENSE)	 (10,995)	 -	 (10,995)
 INCREASE IN NET ASSETS	 97,928	 30,760	 128,688
 NET ASSETS BEGINNING OF YEAR	 6,649,877	 -	 6,649,877
 NET ASSETS AT END OF YEAR	 \$ 6,747,805	 \$ 30,760	 \$ 6,778,565

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, 2012

	<u>Water &amp; Sewer Fund</u>	<u>Recreation Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 2,122,189	\$ 411,164	\$ 2,533,353
Payments to suppliers	(1,213,395)	(281,733)	(1,495,128)
Payments for employees and benefits	<u>(568,624)</u>	<u>(67,953)</u>	<u>(636,577)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>340,170</u>	 <u>61,478</u>	 <u>401,648</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Net loans from general fund	(32,894)	-	(32,894)
Interest payments on debt	(11,735)	-	(11,735)
Principal payments on debt	<u>(91,838)</u>	<u>-</u>	<u>(91,838)</u>
 NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(136,467)</u>	 <u>-</u>	 <u>(136,467)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments received on notes receivable	17,396	-	17,396
Interest income	<u>740</u>	<u>-</u>	<u>740</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 <u>18,136</u>	 <u>-</u>	 <u>18,136</u>
 NET INCREASE IN CASH	 221,839	 61,478	 283,317
 CASH - BEGINNING OF YEAR	 <u>21</u>	 <u>-</u>	 <u>21</u>
 CASH - END OF YEAR	 <u>\$ 221,860</u>	 <u>\$ 61,478</u>	 <u>\$ 283,338</u>
 <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ 108,923	\$ 30,760	\$ 139,683
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	295,730	-	295,730
Change in net assets and liabilities:			
Receivables, net	(60,018)	-	(60,018)
Prepaid expenses	307	-	307
Deferred revenue	-	12,280	12,280
Exchange	-	10,840	10,840
Accrued payroll and compensated absences	<u>(4,772)</u>	<u>7,598</u>	<u>2,826</u>
 Net cash provided (used) by operating activities	 <u>\$ 340,170</u>	 <u>\$ 61,478</u>	 <u>\$ 401,648</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF NET ASSETS - FIDUCIARY FUND  
 June 30, 2012

	<u>Cemetery Trust Fund</u>	<u>Agency Fund</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 26,896	\$ 176,504
TOTAL ASSETS	<u>\$ 26,896</u>	<u>\$ 176,504</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Deferred revenue	\$ -	\$ 176,504
TOTAL LIABILITIES	<u>-</u>	<u>176,504</u>
 NET ASSETS		
Restricted	<u>26,896</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 26,896</u>	<u>\$ 176,504</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUND  
 For the Year Ended June 30, 2012

	Cemetery Trust Fund
ADDITIONS	
Sales of plots	\$ 6,550
Interest on deposits	47
TOTAL ADDITIONS	6,597
DEDUCTIONS	
Repairs and maintenance	(3,059)
OTHER ADDITIONS/DEDUCTIONS	
Other Income	525
Operating Transfers Out	(1,500)
TOTAL OTHER ADDITIONS/DEDUCTIONS	(975)
CHANGES IN NET ASSETS	2,563
NET ASSETS AT BEGINNING OF YEAR	24,333
NET ASSETS AT END OF YEAR	\$ 26,896

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

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

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

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

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

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

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

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

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, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes.

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

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

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 assets.

Fund Equity

Effective July 1, 2010, the Town adopted the provisions of GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

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

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, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unassigned – All amounts not included in other classifications.

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

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	\$ 617,158
Penalties on taxes receivable	41,034
Interest on taxes receivable	<u>168,322</u>
	826,514
Allowance for uncollectible delinquent taxes	<u>(68,000)</u>
	<u>\$ 758,514</u>

Property taxes attach as an enforceable lien on property as of September 16<sup>th</sup> and March 16<sup>th</sup>. Taxes are levied in August and payable on September 15<sup>th</sup> and March 15<sup>th</sup>. The Town bills and collects its own taxes. Town property tax revenues are recognized when levied to the extent they result in current receivables. Current receivables are defined as receivables which are due or past due, and receivable within the current period and collected no later than 60 days after the close of the current period. Taxes receivable that remain uncollected as of August 31, 2012 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 \$724,625 at June 30, 2012.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 3 CAPITAL ASSETS

<u>Governmental Activities</u>	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,763,909	\$ 186,699	\$ -	\$ 2,950,608
Construction in progress	48,585	468,386	(410,838)	106,133
Total capital assets not being depreciated	2,812,494	655,085	(410,838)	3,056,741
	Beginning Balance	Increase	Decrease	Ending Balance
Other capital assets:				
Book Collection	459,726	-	-	459,726
Building and improvements	2,484,293	83,954	-	2,568,247
Equipment	5,160,782	498,386	(124,416)	5,534,752
Infrastructure	20,974,391	1,094,007	-	22,068,398
Total other capital assets	29,079,192	1,676,347	(124,416)	30,631,123
Less accumulated depreciation for:				
Book collection	(441,919)	(5,917)	-	(447,836)
Building and improvements	(1,445,089)	(53,103)	-	(1,498,192)
Equipment	(3,180,347)	(400,492)	124,416	(3,456,423)
Infrastructure	(9,256,837)	(549,917)	-	(9,806,754)
Total accumulated depreciation	(14,324,192)	(1,009,429)	124,416	(15,209,205)
Total capital assets being depreciated, net	14,755,000	666,918	-	15,421,918
Governmental Activities - Capital Assets, Net	\$ 17,567,494	\$ 1,322,003	\$ (410,838)	\$ 18,478,659

Depreciation expense was charged to functions as follows:

General Government	\$ 31,702
Public Safety	289,007
Highways and Streets	594,286
Storm Water	8,325
Culture and Recreation	86,109
TOTAL	\$ 1,009,429

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 3 CAPITAL ASSETS (continued)

<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	\$ 22,782	\$ -	\$ -	\$ 22,782
Capital assets being depreciated:				
Water/sewer plant	12,755,698	-	-	12,755,698
Machinery and equipment	245,154	-	-	245,154
Vehicles	<u>102,460</u>	<u>-</u>	<u>-</u>	<u>102,460</u>
Total Capital assets being depreciated	<u>13,103,312</u>	<u>-</u>	<u>-</u>	<u>13,103,312</u>
Less accumulated depreciation for:				
Water/sewer plant	(6,111,110)	(279,474)	-	(6,390,584)
Machinery and equipment	(189,081)	(9,064)	-	(198,145)
Vehicles	<u>(84,482)</u>	<u>(7,192)</u>	<u>-</u>	<u>(91,674)</u>
Total accumulated depreciation	<u>(6,384,673)</u>	<u>(295,730)</u>	<u>-</u>	<u>(6,680,403)</u>
Total capital assets being depreciated, net	<u>6,718,639</u>	<u>(295,730)</u>	<u>-</u>	<u>6,422,909</u>
Business-Type Activities - Capital Assets, Net	<u>\$ 6,741,421</u>	<u>\$ (295,730)</u>	<u>\$ -</u>	<u>\$ 6,445,691</u>

Depreciation expense for the Business-type Activities was \$295,730 for the fiscal year ended June 30, 2012.

NOTE 4 ACCRUED COMPENSATION

At June 30, 2012, the Town had the following vested benefits earned by their employees:

	General Fund	Water/Sewer Fund
Vested Compensation	\$ 763,315	\$ 112,399
Less: Current Portion	<u>(17,044)</u>	<u>(1,371)</u>
TOTAL LONG-TERM PORTION	<u>\$ 746,271</u>	<u>\$ 111,028</u>

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 5      NOTES AND BONDS PAYABLE

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
<u>Notes Payable</u>					
Note payable to TD Banknorth, fire truck note, interest at 3.79%, due October 7, 2013.	\$ 210,000	\$ -	\$ (70,000)	\$ 140,000	\$ 70,000
Note payable to State of Vermont, ARRA note, 2% administrative fee, due September 1, 2016	<u>171,629</u>	<u>-</u>	<u>-</u>	<u>171,629</u>	<u>32,980</u>
	<u>\$ 381,629</u>	<u>\$ -</u>	<u>\$ (70,000)</u>	<u>\$ 311,629</u>	<u>\$ 102,980</u>

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Governmental Activities as of June 30, 2012, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 102,980	\$ 8,739	\$ 111,719
2014	103,640	5,426	109,066
2015	34,312	2,100	36,412
2016	34,999	1,414	36,413
2017	<u>35,698</u>	<u>714</u>	<u>36,412</u>
TOTAL	<u>\$ 311,629</u>	<u>\$ 18,393</u>	<u>\$ 330,022</u>

<u>Business-Type Funds</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Vermont Municipal Bond Bank, 2003 Series II Bonds, interest varies from 1.19% to 3.73%. Annual principal payments of \$25,000 plus interest, due December 1, 2013	\$ 75,000	\$ -	\$ (25,000)	\$ 50,000	\$ 25,000

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 5      NOTES AND BONDS PAYABLE (continued)

<u>Business-Type Funds</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Vermont Municipal Bond Bank, 2001 Series I Bonds, interest varies from 2.28% to 4.47%. Annual principal charge \$40,000 on December 1, 2007, due December 1, 2011	40,000	-	(40,000)	-	-
Vermont Municipal Bond Bank, 1993 Series I Bonds, refunded March 27, 2003 with 2003 Series I Bonds, interest varies from 2.99% to 5.66%. Annual principal payments of \$10,000 through December 1, 2009 and \$15,000 thereafter, due December 1, 2013	45,000	-	(15,000)	30,000	15,000
Note payable to State of Vermont, ARRA note, 2% administrative fee, due October 1, 2032.	<u>287,627</u>	<u>-</u>	<u>(11,838)</u>	<u>275,789</u>	<u>12,075</u>
	<u>\$ 447,627</u>	<u>\$ -</u>	<u>\$ (91,838)</u>	<u>\$ 355,789</u>	<u>\$ 52,075</u>

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Business-Type Funds as of June 30, 2012, are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 52,075	\$ 8,162	\$ 60,237
2014	52,316	6,161	58,477
2015	12,562	5,028	17,590
2016	12,814	4,777	17,591
2017	13,070	4,520	17,590
2018-2022	69,377	18,574	87,951
2023-2027	76,597	11,355	87,952
2028-2032	<u>66,978</u>	<u>3,383</u>	<u>70,361</u>
	<u>\$ 355,789</u>	<u>\$ 58,577</u>	<u>\$ 347,388</u>

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

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

	Book Balance	Bank Balance
Insured by the FDIC	\$ 983,521	\$ 1,111,429
Insured by Deposit Surety Bond	4,833,640	4,833,585
Petty Cash	3,145	-
Total Deposits	\$ 5,820,306	\$ 5,945,014

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

The Town's cash management account is insured under two Irrevocable Standby Letters of Credit. The coverage with TD Bank is in the amount of \$4,000,000 and is for the period May 25, 2012 to February 20, 2013. The coverage with Merchants bank is in the amount of \$1,900,000 and is for the period of May 22, 2012 to May 21, 2013.

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 PENSION PLAN

Prior to January 1, 2004 all full-time employees were covered under the ICMA 401(A) Defined Contribution Plan. Under this plan the town contributes 8% and the employee contributes 3% of employee's salaries. Town contributions to the plan were \$87,134 and the employee contributions were \$32,676 for the year ended June 30, 2012.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 8 PENSION PLAN (continued)

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

All full-time employees of the Town hired after January 1, 2004 are covered under Plan C, a defined benefit plan, of the State of Vermont Municipal Employee's Retirement Plan. The Town contributes 8% and employees contribute 7% of employee's salaries. Benefit and contribution provisions are established by State Law (VSA, Title 25, Chapter 125). The Town contributed \$263,087 and the employee contributions were \$188,336 to the plan for the year ended June 30, 2012. The State of Vermont issues an audited financial report that includes financial statements and required disclosures. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

Of the Town's total compensation of \$4,816,941, \$1,089,170 was covered under the ICMA retirement plan, \$3,233,626 was covered under the State of Vermont Municipal Employees Retirement Plan and \$494,145 was not covered for the year ended June 30, 2012.

NOTE 9 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, 2012 are as follows:

GENERAL FUND

Restricted for:

Reappraisal	\$ <u>282,956</u>
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Committed for:

Prepaid expenses	\$ 205,853
Economic development	6,000
Planning	29,563
Retirement	100,000
Records preservation	<u>457,194</u>

Total Committed Fund Balance	\$ <u>798,610</u>
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Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 9 FUND EQUITY (continued)

CAPITAL PROJECTS FUND

Committed for:

Future vehicle purchases	\$ 183,676
Future parks and recreation projects	377,623
Future highway projects	403,215
Future stormwater projects	99,676
Future water projects	30,000
Future building projects	<u>1,395,854</u>

Total Committed Fund Balance \$ 2,490,044

WATER & SEWER FUND

Designated for:

Future capital expenses	\$ 303,352
Prepaid expenses	14,579
Future bond payments	<u>1,656</u>

Total Designated Fund Balance \$ 319,587

FIDUCIARY FUND

Restricted for Cemetery - These funds are accumulated for the maintenance of the cemetery. \$ 26,896

NOTE 10 RESTRICTED NET ASSETS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

GENERAL FUND

Restricted for:

Reappraisal	\$ 282,956
Records Preservation	<u>457,194</u>

Total Restricted Net Assets \$ 740,150

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 11 ECONOMIC DEPENDENCIES

On December 3, 2001, the Town entered into a 12 year agreement with IBM. The agreement calls for the Town to cease taxing IBM on machinery and equipment which is consistent with the Town's policy of not taxing machinery and equipment in the Town. In return, IBM agreed to pay to the Town an annual declining subsidy for the term of the agreement. The amount received under this agreement in the year ended June 30, 2012 was \$180,878.

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, 2012.

<u>Amount</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Purpose</u>
\$ 10,000	General Fund	Capital Projects	Stormwater Equipment
10,000	General Fund	Capital Projects	Fire Department
21,000	General Fund	Capital Projects	Parks Equipment
140,000	General Fund	Capital Projects	Highway Equipment
4,000	General Fund	Capital Projects	Senior Citizen Bus
242,332	General Fund	Capital Projects	Future Projects
<u>1,500</u>	Cemetery Trust	Capital Projects	Cemetery Equipment
<u>\$ 428,832</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.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

NOTE 14 DEFERRED LOAN RECEIVABLE (continued)

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.

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 \$20,228 for the year ended June 30, 2012.

NOTE 16 DISCLOSURE OF SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Town has evaluated subsequent events through January 30, 2013, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2012, have been incorporated into the financial statements herein.

In November 2012 The Town of Essex, Vermont entered into a purchase and sales contract with International Business Machines (IBM) in which the Town agreed to purchase 5.58 acres of property for \$647,280. This parcel has been chosen as the site for a new facility for the Town Police Department.

In November 2012 the voters of the Town approved an article authorizing the issuance of general obligation bonds in the amount of \$6.9 million for the purchase and construction of a new police facility.

On December 6, 2012 a deposit in the amount of \$67,000 was paid to IBM for this purchase.

**SUPPLEMENTARY INFORMATION**

Town of Essex, Vermont  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2012

	Original Budget	Budget	Actual	Variance
<b>REVENUES</b>				
Property tax	\$ 8,778,371	\$ 8,778,371	\$ 8,722,253	\$ (56,118)
Licenses and permits	46,400	46,400	48,108	1,708
Intergovernmental revenues	296,400	296,400	460,887	164,487
Charges for services	875,537	875,537	576,153	(299,384)
Fines and forfeits	115,000	115,000	126,689	11,689
Interest income	25,000	25,000	9,877	(15,123)
Miscellaneous income	24,001	24,001	80,600	56,599
Proceeds from sale of fixed assets	10,000	10,000	2,125	(7,875)
<b>TOTAL REVENUES</b>	<u>10,170,709</u>	<u>10,170,709</u>	<u>10,026,692</u>	<u>(144,017)</u>
<b>EXPENDITURES</b>				
General government	2,237,609	2,237,609	2,218,351	19,258
Public safety	3,766,430	3,766,430	3,680,054	86,376
Highways and Streets	1,767,517	1,767,517	1,694,093	73,424
Stormwater	218,723	218,723	356,589	(137,866)
Sanitation	12,500	12,500	20,228	(7,728)
Health and Welfare	146,795	146,795	149,168	(2,373)
Culture and Recreation	1,320,942	1,320,942	1,071,338	249,604
Debt service	320,715	320,715	320,269	446
Intergovernmental	379,478	379,478	395,360	(15,882)
<b>TOTAL EXPENDITURES</b>	<u>10,170,709</u>	<u>10,170,709</u>	<u>9,905,450</u>	<u>265,259</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,242</u>	<u>\$ 121,242</u>
<b>RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS</b>				
Excess (Deficiency) of Revenues over Expenditures - Budgetary Basis			\$ 121,242	
Adjustments for non-budget:				
Grant revenues			849,769	
Other revenues			103,946	
Grant expenditures			<u>(866,790)</u>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES - GAAP BASIS</b>			<u>\$ 208,167</u>	

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont

ADDITIONAL REPORTS REQUIRED BY  
THE SINGLE AUDIT ACT

June 30, 2012

Town of Essex, Vermont  
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
 For the Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Pass Through Grantor Number	Federal CFDA Number	Expended
U. S. Department of Justice			
DEA Overtime		16.580	\$ 17,202
Cops Hiring Recovery Program		16.710	13,540
Bullet Proof Vest		16.607	1,198
2011 Byrne Grant		16.803	11,807
U.S. Department of Commerce			
Passed through State of Vermont Department of Public Safety Public Safety Interoperable Communications Grant Program	02140-71115-244	11.555	67,486
U. S. Department of Justice and U.S. Department of the Treasury			
Equitable Sharing Fund		16.000	163,602
U.S. Department of Homeland Security			
Disaster Grant - Public Assistance		97.036	16,048
U.S. Department of Transportation			
Passed through VTRANS			
Kellogg Road Stormwater Mitigation Grant - Construction	08126-SW0058	20.205	134,928
Passed through State of Vermont - Agency of Transportation			
Essex Town STP Sidewalk - CCMPO Sidewalk Grant	08126-CA0291	20.205	42,987
Passed through Chittenden County Metropolitan Planning Organization			
Gentes Road Bridge - Consulting	2011-18	20.205	6,130
Passed through Vermont Department of Parks and Recreation			
Vt Recreation Trails Program - Indian Brook Trails	06130-NRTF11-22	20.219	16,289
U.S. Department of Housing and Urban Development			
Passed through Vermont Housing and Community Affairs			
Community Development Block Grants - Cedar's Edge Apartments	IG-11-2009-Essex-00020	14.228	419,565
National Highway Traffic Safety Administration			
2011 Equipment Incentives - Governor's Highway Safety Program		20.600	3,000
2012 Highway Safety Any Time - Governor's Highway Safety Program		20.600	1,526
2011 Highway Safety Any Time - Governor's Highway Safety Program		20.600	771
			<u>5,297</u>
Institute of Museum and Library Services (IMLS)			
Resource Sharing Supplemental Grant for Public Libraries		45.310	1,670
U.S. Department of Defense			
Passed through Vermont Department of Environmental Conservation			
Aquatic Plant Control Grant	W1GROE61319776	12.100	<u>1,950</u>
			<u>\$ 919,699</u>

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



**Kittell Branagan & Sargent**

*Certified Public Accountants*

Vermont License # 167

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

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

We have audited the 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, 2012, which collectively comprise the Town of Essex, Vermont's basic financial statements and have issued our report thereon dated January 30, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Kathell Bramayan + Sargent

St. Albans, Vermont  
January 30, 2013



**Kittell Branagan & Sargent**

*Certified Public Accountants*

Vermont License # 167

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

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

Compliance

We have audited the compliance of the Town of Essex, Vermont with the types of compliance requirements described in OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Town of Essex, Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Essex, Vermont's management. Our responsibility is to express an opinion on the Town of Essex, Vermont's compliance based on our audit.

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

In our opinion, the Town of Essex, Vermont complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the Town of Essex, Vermont is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Essex, Vermont's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Essex, Vermont's internal control over compliance.

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in an internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

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

St. Albans, Vermont  
January 30, 2013

Town of Essex, Vermont  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Town of Essex, Vermont.
2. There were no significant deficiencies disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Town of Essex, Vermont were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Town of Essex, Vermont expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Town of Essex, Vermont.
7. The program tested as a major programs was:  

CFDA # 14.228 U.S. Department of Housing and Urban Development – Cedar Edge Apartments
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Essex, Vermont was determined to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

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

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

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