

Town of Essex, Vermont

**BASIC FINANCIAL STATEMENTS**

June 30, 2011

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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, each major fund, and the aggregate remaining fund information of Town of Essex, Vermont, as of and for the year ended June 30, 2011, which collectively comprise the Town of Essex, Vermont's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Essex, Vermont's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Vermont, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2012, on our consideration of the Town of Essex, Vermont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Kittell Bramayan & Sargent*

St. Albans, Vermont  
January 25, 2012

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2011

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, 2011. 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 2011 and FY 2010.

## **FINANCIAL HIGHLIGHTS**

### **Government-wide Highlights**

The Town's assets exceeded its liabilities at June 30, 2011, by \$28,496,968 compared to \$27,226,525 at June 30, 2010. This represents an increase of \$923,775 or 3.4%. The change in net assets for fiscal year 2010 was \$1,231,953. The 2011 increase was \$308,178 less than the 2010 increase.

### **Fund Highlights**

At the end of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$4,749,862 an increase of \$826,738 when compared with \$3,923,124 for the prior year. Of the total fund balance, \$3,537,934 represents amounts committed or restricted for specific purposes, such as reappraisal, prepaid expenses, and various capital projects. The remaining \$1,211,928 represents unassigned fund balance, including \$688,517 in the General Fund and \$523,411 in the Capital Projects Fund.

In the General Fund, the unassigned total of \$688,517 is an increase of \$80,524 from the June 30, 2010 unreserved balance of \$607,993. Included in the total Fund Balance increase in the General Fund of \$196,128, are amounts that are restricted and committed for specific purposes. There was an increase in the amount restricted for reappraisal of \$65,671, an increase in the amount committed for records preservation of \$72,646, along with a decrease of \$7,000 in the amount restricted for encumbrances and decreases of \$3,000 in the amount committed for Selectboard professional services and \$12,713 committed for prepaid expenses.

In the General Fund, the unassigned balance of \$688,517 represents 7% of the General Fund operating budget for FYE2011 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 increased during the fiscal year to \$1,739,716 a net increase of \$71,359 or 4.2%. The main cause of the increase was the addition of 2 ARRA loans that were received to help fund a major upgrade to one the Town sewer pump stations and the construction of two stormwater projects. The ARRA projects provided project funding in the form of grants equal to 50% of the project costs and loans for the remaining 50%. The combined total of the two loans was \$459,256 as of June 30, 2011. These loans carry no interest rate but are subject to a 2% administrative fee each year on the outstanding balance. In the case of the stormwater projects the debt service costs will be shared between the Town and the private landowners whose property benefited from the projects. More detailed information regarding these activities begins on page 19. (See Note 5)

Another component of the Town's long-term debt is accrued and compensated absences. The total balance of accrued and compensated balances was \$910,460 and \$749,948 as of June 30, 2011 and 2010 respectively. These amount reflect accrued but unused vacation, comp, and sick time.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2011

## 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  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2011

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

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

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

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

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

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.
- 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 \$28,496,968 at the end of the fiscal year.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2011

**Net Assets as of June 30, 2011 & 2010**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Current & other assets	\$ 5,643,129	\$ 6,272,631	\$ 608,589	\$ 521,104	\$ 6,251,718	\$ 6,793,735
Capital assets	<u>17,439,104</u>	<u>17,567,494</u>	<u>6,999,380</u>	<u>6,741,421</u>	<u>24,438,484</u>	<u>24,308,915</u>
<b>Total Assets</b>	<b><u>\$ 23,082,233</u></b>	<b><u>\$ 23,840,125</u></b>	<b><u>\$ 7,607,969</u></b>	<b><u>\$ 7,262,525</u></b>	<b><u>\$ 30,690,202</u></b>	<b><u>\$ 31,102,650</u></b>
Long-term liabilities outstanding	\$ 1,068,082	\$ 1,178,792	\$ 600,275	\$ 560,924	\$ 1,668,357	\$ 1,739,716
Other Liabilities	<u>1,451,529</u>	<u>814,242</u>	<u>343,791</u>	<u>51,724</u>	<u>1,795,320</u>	<u>865,966</u>
<b>Total Liabilities</b>	<b><u>\$ 2,519,611</u></b>	<b><u>\$ 1,993,034</u></b>	<b><u>\$ 944,066</u></b>	<b><u>\$ 612,648</u></b>	<b><u>\$ 3,463,677</u></b>	<b><u>\$ 2,605,682</u></b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$ 17,048,322	\$ 17,185,865	\$ 6,471,753	\$ 6,293,794	\$ 23,520,075	\$ 23,479,659
Restricted	-	-	-	-	-	-
Unrestricted	<u>3,514,300</u>	<u>4,661,226</u>	<u>192,150</u>	<u>356,083</u>	<u>3,706,450</u>	<u>5,017,309</u>
<b>Total Net Assets</b>	<b><u>\$ 20,562,622</u></b>	<b><u>\$ 21,847,091</u></b>	<b><u>\$ 6,663,903</u></b>	<b><u>\$ 6,649,877</u></b>	<b><u>\$ 27,226,525</u></b>	<b><u>\$ 28,496,968</u></b>

The largest portion of the Town's net assets (83 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 (17 percent) represents unrestricted net assets. These resources are neither restricted nor invested in capital assets.

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

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2011

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 789,562	\$ 894,616	\$ 1,682,913	\$ 1,817,055	\$ 2,472,475	\$ 2,711,671
Operating grants & contributions	840,181	997,218	382,538	175,520	1,222,719	1,172,738
Capital grants & contr.	267,502	131,888	-	-	267,502	131,888
Property taxes (including penalty and interest)	8,671,389	8,974,896	-	-	8,671,389	8,974,896
IBM Payment for Services	361,989	271,433	-	-	361,989	271,433
Unrestricted investment earnings	39,013	33,005	1,510	1,678	40,523	34,683
Gain on Disposal of Assets	(2,760)	1,275	-	-	(2,760)	1,275
Other revenues	223,409	79,272	-	-	223,409	79,272
<b>Total Revenues</b>	<u>11,190,285</u>	<u>11,383,603</u>	<u>2,066,961</u>	<u>1,994,253</u>	<u>13,257,246</u>	<u>13,377,856</u>
<b>Expenses</b>						
Governmental activities						
General Government	2,201,048	2,297,204	-	-	2,201,048	2,297,204
Public Safety	3,950,825	4,069,289	-	-	3,950,825	4,069,289
Highway and Streets	2,154,370	2,213,142	-	-	2,154,370	2,213,142
Health and Welfare	137,696	142,450	-	-	137,696	142,450
Culture and Recreation	1,329,135	1,353,996	-	-	1,329,135	1,353,996
Interest on long-term debt	10,022	8,833	-	-	10,022	8,833
Intergovernmental	398,070	360,888	-	-	398,070	360,888
Business-type activities						
Water and Sewer	-	-	1,844,127	2,008,279	1,844,127	2,008,279
<b>Total Expenses</b>	<u>10,181,166</u>	<u>10,445,802</u>	<u>1,844,127</u>	<u>2,008,279</u>	<u>12,025,293</u>	<u>12,454,081</u>
Change in net assets before transfers	1,009,119	937,801	222,834	(14,026)	1,231,953	923,775
Transfers	(45,500)	-	45,500	-	-	-
Change in net assets	963,619	937,801	268,334	(14,026)	1,231,953	923,775
Net assets - July 1,	<u>19,599,003</u>	<u>20,909,290</u>	<u>6,395,569</u>	<u>6,663,903</u>	<u>25,994,572</u>	<u>27,573,193</u>
Net assets - June 30,	<u>\$ 20,562,622</u>	<u>\$ 21,847,091</u>	<u>\$ 6,663,903</u>	<u>\$ 6,649,877</u>	<u>\$ 27,226,525</u>	<u>\$ 28,496,968</u>

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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For the Year Ended June 30, 2011

Beginning net assets (June 30, 2010) have been restated in the amount of \$346,668 to reflect funds committed for records preservation. These funds were previously classified as deferred revenue and revenue was recognized in the year that specific records preservation expenditures were made. Revenues for records are now recorded when received and included in committed net assets as their expenditure is restricted to records preservation. This restatement increased the balance of net assets as of June 30, 2010 from \$20,562,622 to \$20,909,290.

The comparative statement of net assets and statement of changes in net assets for June 30, 2010 have not been changed to reflect the restatement. Accordingly, comparisons between the two years should include consideration of the change. Had these statements been changed to reflect the restatement, beginning net assets as of June 30, 2009 would have increased by \$288,141, and program revenues for the year ended June 30, 2010 would have been increased by \$58,527 for a total increase in net assets at June 30, 2010 of \$346,668.

Total Governmental activity expenses were \$10,445,802 and \$10,181,166 in fiscal years 2011 and 2010, 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 \$2,023,722 in 2011 and \$1,897,245 in 2010. 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 \$9,359,881 in fiscal 2011 and \$9,247,540 in fiscal 2010. In 2010 approximately 92 percent of the Town's total general revenue came from taxes, in 2011 it was 94%.

### **Fund Financial Statements**

The combined fund balance of the Fund Financial Statements was \$4,749,862 at June 30, 2011 and \$3,923,124 at June 30, 2010. Of the FY 2011 fund balance, \$688,517 constitutes unassigned funds in the General Fund and \$523,411 in the Capital Projects Fund, which are available for spending at the government's discretion. An amount of \$217,183 of the fund balance is restricted for reappraisal and \$3,320,751 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 \$1,416,917 in FY 2010 to \$1,613,045 in FY 2011. The total increase amounted to \$196,128 for the fiscal year ended June 30, 2011.

### **General Fund Budgetary Highlights**

The fund balance of the Town's General Fund increased by \$196,128 during the current fiscal year. The restricted portion fund balance increased by \$65,671 from \$151,512 to \$217,183. This restricted portion represents the amount restricted specifically for reappraisal. The amount restricted for encumbrances decreased from \$7,000 to zero at June 30, 2011. The amount of fund balance committed for specific purposes such as prepaid expenses, Economic Development, Planning, Retirement, Records Preservation and Selectboard professional services increased by \$56,933 from a combined balance of \$650,412 to \$707,345 as of June 30, 2011. The unassigned portion of the fund balance increased from \$607,993 to \$688,517, an increase of \$80,524. Key factors in this change are as follows:

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2011

On the revenue side:

- Property tax revenues were less than anticipated due to a rise in delinquencies.
- License and Permit revenues were less than anticipated mainly in the area of animal licenses.
- Intergovernmental revenue exceeded expectations due to stormwater grants and the receipt of FEMA funds for flood and windstorm damage incurred during the year 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, and recreation program revenues including after school programs which helped offset a decline in police revenues.
- Interest on delinquent taxes exceeded expectations while penalties on delinquent taxes were less than anticipated.
- Miscellaneous revenue was less than expected due mainly to proceeds from sale of assets bringing in less revenue than anticipated. Furthermore, records preservation revenues were less than anticipated due to lower related expenditures than expected.

On the expenditure side:

- Expenditures for General Governmental operations were less than expected in most departments. These favorable variances were more than offset by over expenditures in general liability insurance and gasoline.
- Lower than anticipated increases in health insurance costs kept benefits expenses under budget in a number of departments.
- Salaries in the Public Works department were overspent due to the need for unbudgeted overtime. The additional salary expense was partially offset by grant revenues.
- 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 storm drain expenditures. Other expenditures that were unanticipated included those for damages incurred during the year from flooding and windstorms.
- Recreation program expenditures exceeded budget especially in the other purchased services line item which exceeded budget by more than \$100,000 due to the great success and high participation in programs. These program expenses were covered by program related revenues which also exceeded budget.
- Debt Service expenditures exceeded budget due to the increase in grand list over the prior year. The total amount expended for Debt service is a function of the grand list times the tax rate of 1 and 1/3 cents as authorized at the 1994 Town Meeting.
- Other expenditures were over budget in some areas including: repairs and maintenance services for the senior bus department and legal services.
- Conversely, other expenditures that were under budget included: Community Development professional services, Communications, and repairs to Memorial Hall. 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, 2011 and 2010.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2011

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Land	\$ 2,763,909	\$ 2,763,909	\$ -	\$ -	\$ 2,763,909	\$ 2,763,909
Buildings & Impr.	2,484,293	2,484,293	-	-	2,484,293	2,484,293
Equip. & Vehicles	4,709,999	5,160,782	340,614	347,614	5,021,460	5,508,396
Book Collection	459,726	459,726	-	-	459,726	459,726
Infrastructure	19,893,882	20,974,391	12,091,929	12,755,698	32,014,964	33,730,089
Constr. in progress	514,671	48,585	672,557	22,782	1,187,228	71,367
Total Assets	<u>30,826,480</u>	<u>31,891,686</u>	<u>13,105,100</u>	<u>13,126,094</u>	<u>43,931,580</u>	<u>45,017,780</u>
Less: Accum. Depr.	<u>13,387,376</u>	<u>14,324,192</u>	<u>6,105,720</u>	<u>6,384,673</u>	<u>19,493,096</u>	<u>20,708,865</u>
Net Assets	<u>\$ 17,439,104</u>	<u>\$ 17,567,494</u>	<u>\$ 6,999,380</u>	<u>\$ 6,741,421</u>	<u>\$ 24,438,484</u>	<u>\$ 24,308,915</u>

The Town had \$24,312,377 and \$24,438,484 invested in capital assets, net of depreciation, on June 30, 2011 and June 30, 2010, respectively. The net decrease (including additions and deductions) between the two periods amounted to \$126,107.

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

- The continuation of work on sidewalks and paths along route 15 in Essex Center. A portion of these costs were funded through Federal and State grants as well as contributions from developers along the way.
- Various streets and sidewalks were resurfaced or reconstructed at a cost of \$108,000. These improvements included resurfacing / reconstruction of Prescott St, Margaret St., Londonderry, Brigham Hill Lane, and Billie Butler and Ethen Allen Dr. Crosswalks, sidewalks, curbing and drainage were also installed and improved at various locations throughout the Town at a cost of \$142,000.
- Bus shelters along Rt 15 at Fort Ethen Allen were constructed.
- Stormwater projects were completed during the year to improve retention and treatment of stormwater in the Lang Center and Perkins Bend areas. The cost of these improvements is being funded through ARRA grants and loans. The ARRA funding provides 50% of the funding as a grant with the remaining 50% funded through a loan with the Vermont Bond Bank that carries no interest rate but a 2% administrative fee. A large portion of the cost of the Lang Center project will be paid by the commercial land owners in the effected area. Total costs on these two projects amounted to \$328,882.
- New vehicles purchased during the year included, two police cruiser, one used unmarked cruiser, a dump truck for the Highway department, a four wheel drive brush truck for the Fire Department, and a 60" mower for the Park Department. The total cost for these vehicles was \$275,902.
- Flow metering devices were acquired for use in sewer and stormwater services.
- A radio system upgrade for use by the emergency services was initiated with the use of federal grant funds.
- The sprayground at the Sand Hill pool complex was completed during the year. Total cost of the project was \$158,785.
- A grant funded park-n-ride lot at the end of the Circ highway on Rt 2A was continued. Progress on this project was slowed by environmental concerns.
- Other improvements include new computer servers and file storage systems.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2011

- The upgrade to the Alder Brook sewer pump station was completed during the year. Total costs for the upgrade were \$651,084 and are funded through an ARRA grant for 50% of the allowable cost along with a long term loan for the remainder. The loan carries no interest but rather a 2% administrative charge each year on the outstanding balance.

**Debt**

At the end of the fiscal year, the Town had \$829,256 in long-term debt outstanding compared to \$918,409 in the prior year, an approximate 10% decrease. The reason for the decrease was the continued paydown of sewer bonds and a note payable on a firetruck. A summary of outstanding long-term debt follows

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Notes Payable	\$ 390,782	\$ 381,629	\$ 287,627	\$ 287,627	\$ 678,409	\$ 669,256
Bonds Payable	-	-	240,000	160,000	240,000	160,000
<b>TOTAL</b>	<b>\$ 390,782</b>	<b>\$ 381,629</b>	<b>\$ 527,627</b>	<b>\$ 447,627</b>	<b>\$ 918,409</b>	<b>\$ 829,256</b>

**Economic Factors and Fiscal Year 2011 Budget**

- The results of operations for the year were an increase in Fund Balance in the amount of \$196,128. Of that total \$65,671 was an increase in amount restricted for reappraisal. The amount committed for other specific purposes such as encumbrances, prepaid expenses, Economic development, Planning, retirement, Records preservation and Professional Services increased by \$49,933. The increase in unassigned (formerly unreserved) Fund Balance amounted to \$80,524.
- 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. The annual loss of revenue will be \$87,000 per year from FY 2011 through FY 2014 when the subsidy from IBM will be zero.
- At Town meeting in March 2009 the voters authorized the borrowing of up to \$600,000 for the purchase and installation of new pumps at a major sewer pump station. These new pumps will be more energy efficient and prolong the life of the station as well as provide better flow monitoring capabilities. The Town also acquired Federal Stimulus funds to pay for one half of the total cost of the project. This project was completed in FYE2011 with total ARRA funding of \$575,254. One half of this funding (\$287,627) is eligible for forgiveness pending final determination of eligible costs.
- In November 2009 the Town received voter approval for borrowing up to \$450,000 to finance the construction of two stormwater projects that will enable the Town to comply with new stormwater requirements. As the projects progressed it became evident that the total project costs would be less than anticipated and the borrowing was reduced to a maximum of \$410,000. The Town again acquired Federal Stimulus funding to pay up to one half of these projects. A portion of the remaining costs for one of the projects will be paid for by the commercial property owners in the affected area. These projects were completed at a final cost of \$328,882.

Town of Essex, Vermont  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2011

All of these factors were considered in preparing the Town of Essex's budget for the 2011 fiscal year. At the 2011 Town meeting the voters increased the Selectboard recommended FYE 2012 budget in the amount of \$10,154,467 by \$16,242 for the purpose of increasing Selectboard salaries. The total approved budget for FYE2012 was \$10,170,709, an increase of \$358,164 over the previous year. The approved budget resulted in a tax rate for FYE2012 of \$.3318, an increase of \$0.0139 over FYE2011.

During the year (FYE 2011) the Selectboard authorized the creation of an enterprise fund for Recreation programs beginning July 1, 2011. This proprietary fund will operate like a business and expenses will be 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) will be reported separately from the General fund in FYE 2012 to promote comparability with future budgets.

Rates for water and wastewater operations were increased in fiscal year 2011 in response to increased costs for water purchases and wastewater treatment. Other factors, such as fewer new connections than anticipated and reduced usage by large commercial customers have contributed to a deficit cash position in the Water / Sewer Fund in recent years. This deficit position is being addressed in the preparation of operating budgets and rates for future periods and was reduced significantly in FYE 2011. 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 overdraft thereby reducing interest expense on borrowed funds. However, the results of operations still resulted in a minor operating loss for FY2011 when factoring in depreciation even though the cash deficit was reduced. 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, 2011

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
CURRENT ASSETS			
Cash	\$ 5,100,001	\$ 21	\$ 5,100,022
Taxes receivable, net of allowance	755,448	-	755,448
Accounts receivables - other	181,914	460,457	642,371
Due from other funds	31,237	-	31,237
Prepaid expenses	204,031	14,886	218,917
TOTAL CURRENT ASSETS	6,272,631	475,364	6,747,995
NOTES RECEIVABLE	-	45,740	45,740
CAPITAL ASSETS, net	17,567,494	6,741,421	24,308,915
TOTAL ASSETS	\$ 23,840,125	\$ 7,262,525	\$ 31,102,650
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 358,035	\$ -	\$ 358,035
Due to other funds	-	32,894	32,894
Accrued payroll	235,260	14,063	249,323
Deferred revenue	187,804	-	187,804
Exchange	27,173	-	27,173
Other accrued expenses	5,970	4,767	10,737
Current portion notes and bonds payable	102,980	91,838	194,818
Current portion of compensated absences	58,634	3,519	62,153
TOTAL CURRENT LIABILITIES	975,856	147,081	1,122,937
LONG-TERM LIABILITIES			
Accrued compensated absences	738,529	109,778	848,307
Notes and bonds payable	278,649	355,789	634,438
TOTAL LONG-TERM LIABILITIES	1,017,178	465,567	1,482,745
TOTAL LIABILITIES	1,993,034	612,648	2,605,682
NET ASSETS			
Invested in capital assets, net of related debt	17,185,865	6,293,794	23,479,659
Unrestricted	4,661,226	356,083	5,017,309
NET ASSETS	21,847,091	6,649,877	28,496,968
TOTAL LIABILITIES AND NET ASSETS	\$ 23,840,125	\$ 7,262,525	\$ 31,102,650

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Revenues	Capital Grants and Revenues	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities</b>							
General government	\$ 2,297,204	\$ 339,606	\$ 273,798	\$ -	\$ (1,683,800)	\$ -	\$ (1,683,800)
Public safety	4,069,289	88,518	500,436	-	(3,480,335)	-	(3,480,335)
Highways and Street	2,213,142	39,025	175,733	2,372	(1,996,012)	-	(1,996,012)
Health and Welfare	142,450	1,485	-	-	(140,965)	-	(140,965)
Culture and Recreation	1,353,996	425,982	47,251	129,516	(751,247)	-	(751,247)
Intergovernmental	360,888	-	-	-	(360,888)	-	(360,888)
Interest on long-term debt	8,833	-	-	-	(8,833)	-	(8,833)
Total governmental activities	10,445,802	894,616	997,218	131,888	(8,422,080)	-	(8,422,080)
<b>Business-type activities:</b>							
Water and Sewer	2,008,279	1,817,055	175,520	-	-	(15,704)	(15,704)
Total business-type activities	2,008,279	1,817,055	175,520	-	-	(15,704)	(15,704)
<b>General Revenues:</b>							
Property taxes, levied for general purposes				8,853,907			8,853,907
Penalties and interest on delinquent taxes				120,989			120,989
IBM payment for services				271,433			271,433
Unrestricted investment earnings				33,005		1,678	34,683
Transfers				-		-	-
Gain/loss on sale of fixed assets				1,275		-	1,275
Miscellaneous				79,272		-	79,272
Total general revenues and transfers				9,359,881		1,678	9,361,559
Change in Net Assets				937,801		(14,026)	923,775
Net assets, beginning, restated				20,909,290		6,663,903	27,573,193
Net assets, ending				\$ 21,847,091		\$ 6,649,877	\$ 28,496,968

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 1,963,184	\$ 3,136,817	\$ 5,100,001
Taxes receivable, net of allowance	40,951	-	40,951
Other receivables	181,914	-	181,914
Due from other funds	31,237	-	31,237
Prepaid expenses	<u>204,031</u>	<u>-</u>	<u>204,031</u>
 TOTAL ASSETS	 <u>\$ 2,421,317</u>	 <u>\$ 3,136,817</u>	 <u>\$ 5,558,134</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts payable	\$ 358,035	\$ -	\$ 358,035
Accrued payroll	235,260	-	235,260
Exchange	27,173	-	27,173
Deferred revenue	<u>187,804</u>	<u>-</u>	<u>187,804</u>
 TOTAL LIABILITIES	 <u>808,272</u>	 <u>-</u>	 <u>808,272</u>
 <u>FUND BALANCE</u>			
Committed	707,345	2,613,406	3,320,751
Restricted	217,183	-	217,183
Unassigned	<u>688,517</u>	<u>523,411</u>	<u>1,211,928</u>
 TOTAL FUND BALANCE	 <u>1,613,045</u>	 <u>3,136,817</u>	 <u>4,749,862</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 2,421,317</u>	 <u>\$ 3,136,817</u>	 <u>\$ 5,558,134</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2011

**Total fund balances - governmental funds** **\$ 4,749,862**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. 17,567,494

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds 714,497  
Reserve for non-current tax

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 (797,163)

Accrued interest on long-term debt (5,970)

Notes payable (381,629)

**Total net assets - governmental activities** **\$ 21,847,091**

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, 2011

	General Fund	Capital Projects Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES			
Property tax	\$ 8,297,735	\$ 464,553	\$ 8,762,288
Licenses and permits	47,628	-	47,628
Intergovernmental revenues	292,968	129,516	422,484
Charges for services	991,599	94,073	1,085,672
Fines and forfeits	120,989	-	120,989
Interest income	26,365	6,640	33,005
Miscellaneous income	96,409	-	96,409
Grant income	661,388	60,846	722,234
TOTAL REVENUES	<u>10,535,081</u>	<u>755,628</u>	<u>11,290,709</u>
EXPENDITURES			
General government	2,250,619	34,621	2,285,240
Public safety	3,977,045	-	3,977,045
Highways and Streets	1,595,096	238,041	1,833,137
Stormwater	263,675	116,251	379,926
Sanitation	5,350	-	5,350
Health and Welfare	142,450	-	142,450
Culture and Recreation	1,249,125	212,335	1,461,460
Intergovernmental	360,888	-	360,888
Debt service	70,000	-	70,000
Interest expense	10,597	-	10,597
TOTAL EXPENDITURES	<u>9,924,845</u>	<u>601,248</u>	<u>10,526,093</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>610,236</u>	<u>154,380</u>	<u>764,616</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of long-term debt	-	60,847	60,847
Proceeds from sale of fixed assets	1,275	-	1,275
Operating transfers In	-	415,383	415,383
Operating transfers Out	(415,383)	-	(415,383)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(414,108)</u>	<u>476,230</u>	<u>62,122</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	196,128	630,610	826,738
FUND BALANCE - July 1, 2010, restated	<u>1,416,917</u>	<u>2,506,207</u>	<u>3,923,124</u>
FUND BALANCE - June 30, 2011	<u>\$ 1,613,045</u>	<u>\$ 3,136,817</u>	<u>\$ 4,749,862</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, 2011

**Net change in fund balances - governmental funds** **\$ 826,738**

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	(1,027,634)
Capital Outlay	1,156,024
Proceeds from Sale of Asset	(1,275)
Gain/Loss on Sale of Asset	1,275

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	91,619
Proceeds from issuance of debt	(60,847)

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	1,764
Accrued compensated absences	<u>(119,863)</u>

**Change in net assets of governmental activities** **\$ 937,801**

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
 June 30, 2011

	<u>Water &amp; Sewer Fund</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash	\$ 21
Accounts receivable - net	460,457
Prepaid expenses	<u>14,886</u>
TOTAL CURRENT ASSETS	<u>475,364</u>
NOTE RECEIVABLE	<u>45,740</u>
CAPITAL ASSETS, net	<u>6,741,421</u>
TOTAL ASSETS	<u>\$ 7,262,525</u>
 <u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
Due to other funds	\$ 32,894
Current portion compensated absences	3,519
Current portion long-term debt	91,838
Accrued payroll	14,063
Other accrued expenses	<u>4,767</u>
TOTAL CURRENT LIABILITIES	<u>147,081</u>
LONG-TERM LIABILITIES	
Accrued compensated absences	109,778
Notes and bonds payable	<u>355,789</u>
TOTAL LONG-TERM LIABILITIES	<u>465,567</u>
TOTAL LIABILITIES	<u>612,648</u>
NET ASSETS	
Invested in capital assets, net of related debt	6,293,794
Unrestricted - designated	319,982
Unrestricted	<u>36,101</u>
TOTAL NET ASSETS	<u>6,649,877</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,262,525</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, 2011

	Water & Sewer Fund
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,817,055
Hookup fees	148,077
Interest and penalties on delinquents	22,709
Assessments	3,025
Miscellaneous	1,709
<b>TOTAL OPERATING REVENUES</b>	<b>1,992,575</b>
<b>OPERATING EXPENSES</b>	
Regular salaries	331,237
Overtime salaries	31,534
Group health insurance	111,929
Social security	27,797
Employee retirement	28,910
Other employee benefits	42,825
Professional services	29,082
Repair and maintenance	48,597
Telephone/communications	1,336
Advertising	3,480
Travel	2,515
Small tools and equipment	2,399
Supplies	48
Utilities	56,689
Uniforms	2,948
Natural gas	1,126
CWD water purchases	506,891
Insurance	13,200
Dues and fees	3,630
Machinery	79,228
Depreciation expense	278,953
Sewage treatment	390,291
<b>TOTAL OPERATING EXPENDITURES</b>	<b>1,994,645</b>
<b>LOSS FROM OPERATIONS</b>	<b>(2,070)</b>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN NET ASSETS - PROPRIETARY FUNDS  
 For the Year Ended June 30, 2011

	Water & Sewer Fund
NON-OPERATING REVENUE (EXPENSE)	
Interest Income	1,678
Interest Expense	(13,634)
TOTAL NON-OPERATING REVENUE (EXPENSE)	(11,956)
DECREASE IN NET ASSETS	(14,026)
NET ASSETS BEGINNING OF YEAR	6,663,903
NET ASSETS AT END OF YEAR	\$ 6,649,877

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, 2011

	Water & Sewer Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 2,070,723
Payments to suppliers	(1,104,435)
Payments for employees and benefits	(574,232)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>392,056</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Net loans from general fund	(296,501)
Purchases of property, plant and equipment	(20,993)
Interest payments on debt	(13,636)
Principal payments on debt	(80,000)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(411,130)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Payments received on notes receivable	17,396
Interest income	1,678
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>19,074</b>
<b>NET INCREASE IN CASH</b>	<b>-</b>
<b>CASH - BEGINNING OF YEAR</b>	<b>21</b>
<b>CASH - END OF YEAR</b>	<b>\$ 21</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ (2,070)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	278,953
Change in net assets and liabilities:	
Receivables, net	78,148
Prepaid expenses	(8,058)
Accrued payroll and compensated absences	45,083
<b>Net cash provided (used) by operating activities</b>	<b>\$ 392,056</b>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF NET ASSETS - FIDUCIARY FUND  
 June 30, 2011

	<u>Cemetery Trust Fund</u>	<u>Agency Fund</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 22,676	\$ 153,083
Due from other funds	<u>1,658</u>	<u>-</u>
 TOTAL ASSETS	 <u>\$ 24,334</u>	 <u>\$ 153,083</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Deferred revenue	\$ -	\$ 153,083
 TOTAL LIABILITIES	 <u>-</u>	 <u>153,083</u>
 <u>NET ASSETS</u>		
Restricted	<u>24,334</u>	<u>-</u>
 TOTAL NET ASSETS	 <u>\$ 24,334</u>	 <u>\$ 153,083</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, 2011

	<u>Cemetery Trust Fund</u>
ADDITIONS	
Sales of plots	\$ 4,550
Interest on deposits	<u>56</u>
TOTAL ADDITIONS	<u>4,606</u>
DEDUCTIONS	
Repairs and maintenance	(1,425)
Supplies	<u>-</u>
TOTAL DEDUCTIONS	<u>(1,425)</u>
CHANGES IN NET ASSETS	3,181
NET ASSETS AT BEGINNING OF YEAR	<u>21,153</u>
NET ASSETS AT END OF YEAR	<u>\$ 24,334</u>

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

The Town reports the following major governmental funds:

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

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

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

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Deposits and Investments

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

E. Receivables and Payables

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

F. Capital Assets

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

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

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

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

G. Long-term Obligations

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

H. Fund Equity

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, 2011

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.

I. Estimates

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

J. Allowance for Uncollectible Accounts

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

K. Operating Transfers

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

NOTE 2           DELINQUENT TAXES RECEIVABLE

Delinquent taxes receivable consist of:

	<u>General Fund</u>
Delinquent property taxes	\$ 580,317
Penalties on taxes receivable	41,555
Interest on taxes receivable	143,576
	765,448
Allowance for uncollectible delinquent taxes	(10,000)
	\$ 755,448

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, 2011 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 \$714,498 at June 30, 2011.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011

NOTE 3      CAPITAL ASSETS

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,763,909	\$ -	\$ -	\$ 2,763,909
Construction in progress	<u>514,671</u>	<u>290,271</u>	<u>(756,357)</u>	<u>48,585</u>
Total capital assets not being depreciated	<u>3,278,580</u>	<u>290,271</u>	<u>(756,357)</u>	<u>2,812,494</u>
<b>Other capital assets:</b>				
Book Collection	459,726	-	-	459,726
Building and improvements	2,484,293	-	-	2,484,293
Equipment	4,709,999	541,601	(90,818)	5,160,782
Infrastructure	<u>19,893,882</u>	<u>1,080,509</u>	<u>-</u>	<u>20,974,391</u>
Total other capital assets	<u>27,547,900</u>	<u>1,622,110</u>	<u>(90,818)</u>	<u>29,079,192</u>
<b>Less accumulated depreciation for:</b>				
Book collection	(415,973)	(25,946)	-	(441,919)
Building and improvements	(1,395,003)	(50,086)	-	(1,445,089)
Equipment	(2,843,653)	(427,512)	90,818	(3,180,347)
Infrastructure	<u>(8,732,747)</u>	<u>(524,090)</u>	<u>-</u>	<u>(9,256,837)</u>
Total accumulated depreciation	<u>(13,387,376)</u>	<u>(1,027,634)</u>	<u>90,818</u>	<u>(14,324,192)</u>
Total capital assets being depreciated, net	<u>14,160,524</u>	<u>594,476</u>	<u>-</u>	<u>14,755,000</u>
<b>Governmental Activities - Capital Assets, Net</b>	<u>\$ 17,439,104</u>	<u>\$ 884,747</u>	<u>\$ (756,357)</u>	<u>\$ 17,567,494</u>

Depreciation expense was charged to functions as follows:

General Government	\$ 27,703
Public Safety	273,867
Highways and Streets	615,254
Storm Water	5,877
Culture and Recreation	<u>104,933</u>
<b>TOTAL</b>	<u>\$ 1,027,634</u>

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011

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	\$ 672,557	\$ 1,308	\$ (651,083)	\$ 22,782
Capital assets being depreciated:				
Water/sewer plant	12,091,929	663,769	-	12,755,698
Machinery and equipment	238,154	7,000	-	245,154
Vehicles	102,460	-	-	102,460
Total Capital assets being depreciated	<u>12,432,543</u>	<u>670,769</u>	<u>-</u>	<u>13,103,312</u>
Less accumulated depreciation for:				
Water/sewer plant	(5,848,548)	(262,562)	-	(6,111,110)
Machinery and equipment	(179,882)	(9,199)	-	(189,081)
Vehicles	(77,290)	(7,192)	-	(84,482)
Total accumulated depreciation	<u>(6,105,720)</u>	<u>(278,953)</u>	<u>-</u>	<u>(6,384,673)</u>
Total capital assets being depreciated, net	<u>6,326,823</u>	<u>391,816</u>	<u>-</u>	<u>6,718,639</u>
Business-Type Activities - Capital Assets, Net	<u>\$ 6,999,380</u>	<u>\$ 393,124</u>	<u>\$ (651,083)</u>	<u>\$ 6,741,421</u>

Depreciation expense for the Business-type Activities was \$278,953 for the fiscal year ended June 30, 2011.

NOTE 4 ACCRUED COMPENSATION

At June 30, 2011, the Town had the following vested benefits earned by their employees:

	<u>General Fund</u>	<u>Water/Sewer Fund</u>
Vested Compensation	\$ 797,163	\$ 113,297
Less: Current Portion	<u>(58,634)</u>	<u>(3,519)</u>
TOTAL LONG-TERM PORTION	<u>\$ 738,529</u>	<u>\$ 109,778</u>

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011

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.	\$ 280,000	\$ -	\$ (70,000)	\$ 210,000	\$ 70,000
Note payable to State of Vermont, ARRA note, 2% administrative fee, due September 1, 2016	110,782	60,847	-	171,629	32,980
	<u>\$ 390,782</u>	<u>\$ 60,847</u>	<u>\$ (70,000)</u>	<u>\$ 381,629</u>	<u>\$ 102,980</u>

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 102,980	\$ 11,392	\$ 114,372
2013	103,640	8,079	111,719
2014	104,312	4,753	109,065
2015	34,999	1,414	36,413
2016	35,698	714	36,412
TOTAL	<u>\$ 381,629</u>	<u>\$ 26,352</u>	<u>\$ 407,981</u>

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Governmental Activities as of June 30, 2011, are as follows:

<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	\$ 100,000	\$ -	\$ (25,000)	\$ 75,000	\$ 25,000

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011

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	80,000	-	(40,000)	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	60,000	-	(15,000)	45,000	15,000
Note payable to State of Vermont, ARRA note, 2% administrative fee, due October 1, 2032.	<u>287,627</u>	<u>-</u>	<u>-</u>	<u>287,627</u>	<u>11,838</u>
	<u>\$ 527,627</u>	<u>\$ -</u>	<u>\$ (80,000)</u>	<u>\$ 447,627</u>	<u>\$ 91,838</u>

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Business-Type Funds as of June 30, 2011, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 91,838	\$ 5,260	\$ 97,098
2013	52,075	2,646	54,721
2014	52,316	887	53,203
2015	12,562	-	12,562
2016	12,814	-	12,814
2017-2021	68,016	-	68,016
2022-2026	75,095	-	75,095
2027-2031	<u>82,911</u>	<u>-</u>	<u>82,911</u>
	<u>\$ 447,627</u>	<u>\$ 8,793</u>	<u>\$ 373,509</u>

Town of Essex, Vermont  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2011

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	\$ 527,404	\$ 696,448
Insured by Deposit Surety Bond	4,745,082	5,020,850
Petty Cash	3,295	-
Total Deposits	\$ 5,275,781	\$ 5,717,298

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 three Irrevocable Standby Letters of Credit. The coverage with TD Bank is in the amount of \$13,000,000 and is for the period April 5, 2011 to July 7, 2011. The coverage with Merchants bank is in the amount of \$1,800,000 and is for the period of June 28, 2011 to May 14, 2012.

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 \$89,097 and the employee contributions were \$33,412 for the year ended June 30, 2011. Under this plan the town also makes fixed quarterly contributions for the Town Manager totaling \$8,510 for the year ended June 30, 2011.

Town of Essex, Vermont  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2011

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 \$253,356 and the employee contributions were \$178,775 to the plan for the year ended June 30, 2011. 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 \$4,737,648, \$1,113,715 was covered under the ICMA retirement plan, \$3,074,763 was covered under the State of Vermont Municipal Employees Retirement Plan and \$549,170 was not covered for the year ended June 30, 2011.

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, 2011 are as follows:

GENERAL FUND

Restricted for:

Reappraisal	\$ <u>217,183</u>
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Committed for:

Prepaid expenses	\$ 204,031
Economic development	6,000
Planning	40,000
Retirement	30,000
Records preservation	419,314
BOS Professional services	<u>8,000</u>

Total Committed Fund Balance	\$ <u>707,345</u>
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Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011

NOTE 9 FUND EQUITY (continued)

CAPITAL PROJECTS FUND

Committed for:

Future vehicle purchases	\$ 158,684
Future parks and recreation projects	498,551
Future highway projects	595,124
Future stormwater project	124,593
Future building projects	<u>1,236,454</u>

Total Committed Fund Balance	<u>\$ 2,613,406</u>
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WATER & SEWER FUND

Designated for:

Future capital expenses	\$ 302,612
Prepaid expenses	14,886
Future bond payments	<u>2,484</u>

Total Designated Fund Balance	<u>\$ 319,982</u>
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FIDUCIARY FUND

Restricted for Cemetery - These funds are accumulated for the maintenance of the cemetery.	<u>\$ 24,334</u>
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NOTE 10 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, 2011 was \$271,433.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011

NOTE 11 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, 2011.

<u>Amount</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Purpose</u>
\$ 20,000	General Fund	Capital Projects	Stormwater Equipment
15,000	General Fund	Capital Projects	Parks Equipment
135,000	General Fund	Capital Projects	Highway Equipment
4,000	General Fund	Capital Projects	Senior Citizen Bus
<u>241,383</u>	General Fund	Capital Projects	Future Projects
<u>\$ 415,383</u>			

NOTE 12 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 13 DEFERRED LOAN RECEIVABLE

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

NOTE 14 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 \$5,350 for the year ended June 30, 2011.

Town of Essex, Vermont  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011

NOTE 15      RESTATED NET ASSETS

Beginning net assets have been restated in the amount of \$346,668 to reflect funds committed for records preservation. These funds were previously classified as deferred revenue.

NOTE 16      DISCLOSURE OF SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Town has evaluated subsequent events through January 25, 2012, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2011, have been incorporated into the financial statements herein.

SUPPLEMENTARY INFORMATION

Town of Essex, Vermont  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
BUDGETARY BASIS - GENERAL FUND  
For the Year Ended June 30, 2011

	Original Budget	Budget	Actual	Variance
<b>REVENUES</b>				
Property tax	\$ 8,380,892	\$ 8,380,892	\$ 8,297,735	\$ (83,157)
Licenses and permits	51,100	51,100	47,628	(3,472)
Intergovernmental revenues	288,633	288,633	456,505	167,872
Charges for services	896,919	896,919	970,872	73,953
Fines and forfeits	124,000	124,000	120,989	(3,011)
Interest income	25,000	25,000	26,365	1,365
Miscellaneous income	31,001	31,001	22,484	(8,517)
Proceeds from sale of fixed assets	15,000	15,000	1,275	(13,725)
<b>TOTAL REVENUES</b>	<u>9,812,545</u>	<u>9,812,545</u>	<u>9,943,853</u>	<u>131,308</u>
<b>EXPENDITURES</b>				
General government	2,222,852	2,222,852	2,243,619	(20,767)
Public safety	3,620,107	3,620,107	3,529,120	90,987
Highways and Streets	1,734,946	1,734,946	1,730,096	4,850
Stormwater	217,912	217,912	283,674	(65,762)
Sanitation	12,500	12,500	5,350	7,150
Health and Welfare	142,284	142,284	142,450	(166)
Culture and Recreation	1,144,835	1,144,835	1,268,085	(123,250)
Debt service	320,250	320,250	321,980	(1,730)
Intergovernmental	396,859	396,859	360,888	35,971
<b>TOTAL EXPENDITURES</b>	<u>9,812,545</u>	<u>9,812,545</u>	<u>9,885,262</u>	<u>(72,717)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,591</u>	<u>\$ 58,591</u>
<b>RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS</b>				
Excess (Deficiency) of Revenues over Expenditures - Budgetary Basis			\$ 58,591	
Adjustments for non-budget:				
Grant revenues			432,180	
Other revenues			160,321	
Grant expenditures			(433,469)	
Other expenditures			(14,495)	
Liquidation of prior year encumbrances			<u>(7,000)</u>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES - GAAP BASIS</b>			<u>\$ 196,128</u>	

See Accompanying Notes to Basic Financial Statements.

Town of Essex, Vermont

ADDITIONAL REPORTS REQUIRED BY  
THE SINGLE AUDIT ACT

June 30, 2011

Town of Essex, Vermont  
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
 For the Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Pass Through Grantor Number	Federal CFDA Number	Expended
U. S. Department of Justice			
DEA Overtime		16.580	\$ 24,948
Public Safety Partnership and Community Policing Grants		16.710	68,756
Bullet Proof Vest		16.607	5,618
U. S. Department of Justice and U.S. Department of the Treasury			
Equitable Sharing Fund		16.000	194,155
U.S. Department of Homeland Security			
State Homeland Security Grant - Equipment		97.067	30,285
Disaster Grant - Public Assistance		97.036	99,475
U.S. Department of Transportation			
Essex STP Walk - Construction Grant		20.205	120,374
Kellog Road Storm water - Design Grant		20.205	2,372
STAG Grant		20.205	38,742
Cluster Subtotal			<u>161,488</u>
U.S. Department of Commerce			
Public Safety Interoperable Communications Grant Program		11.555	130,727
Institute of Museum and Library Services (IMLS)			
Resource Sharing Supplemental Grant for Public Libraries		45.310	1,517
Environmental Protection Agency			
Capitalization Grant for Clean Water State Revolving Funds		66.458	60,846
Capitalization Grant for Clean Water State Revolving Funds		ARRA 66.458	<u>60,847</u>
Cluster Subtotal			<u>121,693</u>
			<u>\$ 838,662</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, 2011, which collectively comprise the Town of Essex, Vermont's basic financial statements and have issued our report thereon dated January 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

*Kittell Branagan & Sargent*

St. Albans, Vermont  
January 25, 2012



**Kittell Branagan & Sargent**

*Certified Public Accountants*

Vermont License #167

REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN 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, 2011. The Town of Essex, Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Essex, Vermont's management. Our responsibility is to express an opinion on the Town of Essex, Vermont's compliance based on our audit.

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

In our opinion, the Town of Essex, Vermont complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

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

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

A handwritten signature in black ink that reads "Kittell Branagan" followed by a stylized flourish.

St. Albans, Vermont  
January 25, 2012

Town of Essex, Vermont  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2011

**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 # 11.555 Public Safety Interoperable Communications Grant Program
  - CFDA # 66.458 Perkins Bend & Eurowest Stormwater Ponds
  - CFDA # 16.000 Federal Forfeiture – Equitable Sharing Fund (Justice and Treasury)
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Essex, Vermont was determined not to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

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

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

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