

Town of Essex, Vermont  
BASIC FINANCIAL STATEMENTS  
June 30, 2020

**Town of Essex, Vermont**  
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**Kittell Branagan & Sargent**

*Certified Public Accountants*

Vermont License # 167

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Essex, Vermont, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Vermont, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information on page 40, the schedule of proportionate share of the net pension liability on page 41 and the schedule of contributions on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Kathleen Branagan + Sargent*

St. Albans, Vermont  
January 22, 2021

TOWN OF ESSEX, VERMONT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020

Management of the Town of Essex (the Town) offers readers of the basic financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2020. Readers should consider this information in conjunction with the financial statements immediately following this analysis. Please note that this section of the Basic Financial Statements is unaudited.

## **FINANCIAL HIGHLIGHTS**

### **Government-wide Highlights**

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$37,803,086 (net position). Of this amount, \$8,741,780 (unrestricted net position) may be used to meet the Town's ongoing obligations. The balance of net position is made up of \$28,246,147 invested in capital assets net of related debt and \$815,159 restricted for specific purposes.
- The Town's total net position increased by \$903,884 (2.45%). Of this amount, net position of the governmental activities increased by \$599,535 (2.08%), and net position attributable to business-type activities increased by \$304,349 (3.77%).
- The Town's total debt increased during the fiscal year to \$6,437,211 a net increase of \$122,766. There was \$786,339 in new capital leases during the fiscal year. Offset by principal payments totaling \$663,573; of these, \$13,870 were in the water and sewer fund.

### **Fund Highlights**

- At the end of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$8,403,493 an increase of \$142,508 from the prior year's combined ending fund balance, as restated.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$3,982,888; or approximately 29% of total general fund expenditures (excluding transfers) in the fiscal year ended June 30, 2020. The Town has a fund balance policy authorizing the Town to maintain and administer an unassigned fund balance of up to 15% of the current year General Fund operating budget. The unassigned fund balance of \$2,299,896 as of June 30, 2020 is exactly 15% of the General Fund operating budget for the fiscal year ending June 30, 2021 (\$15,332,636).

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements which are presented in three sections: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. In addition to the basic financial statements, this report also contains other and required supplementary information such as a general fund budget to actual comparison.

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It is important for the reader to understand that, although governmental accounting resembles private sector accounting, the two differ significantly. The government-wide financial statements will be the most familiar for readers versed in private sector financial reporting. Readers should know that the financial activities of the government unit are recorded in funds. A fund, generally, is a separate set of books for each major activity. For example, the Town has a Water and Sewer Fund and a Recreation Programs Fund. These operations are referred to as business-type activities, they are supported by user fees, and are recorded in enterprise funds separately from the general governmental activities which are accounted for primarily in the general fund and supported in large part by property tax revenues.

### **Government-Wide Financial Statements**

The government-wide financial statements provide a general overview of the Town's operations presenting all data on a full accrual basis, similar to the way a private sector business would present its financial statements. There are two statements presented at the government-wide level: the Statement of Net Position and the Statement of Activities. Within each of these statements, governmental activities are presented separately from business-type activities. The governmental activities reflect the Town's basic services; including general government, public safety, public works, community development, parks and recreation, and public improvements. Property taxes finance the majority of these services supplemented by program fees, grant revenues, and other miscellaneous revenues such as investment earnings or proceeds from the sale of assets. The business-type activities reflect private-sector-type operations for which user fees recover all or a significant portion of costs. The business-type activities of the Town include the water and sewer operations and recreation programming.

The Statement of Net Position presents information on all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities reports how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave time).

The government-wide financial statements include not only the Town itself (referred to as the primary government), but also other legally separate entities for which the Town is financially accountable (referred to as component units). During the current year, the Town was not responsible for any entities that qualify as component units.

The government-wide financial statements can be found on pages 1 and 2 of this report.

### **Fund Financial Statements**

A fund is a group of related accounts 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 finance-related legal compliance. The funds of the Town are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

TOWN OF ESSEX, VERMONT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Consequently, the governmental fund financial statements provide a detailed short-term view that helps the reader determine the level of financial resources that are available to finance the Town's programs in the near future. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided that reconciles the governmental fund financial statements to the government-wide statements explaining the relationship between the two. The Town maintains two governmental funds - the General Fund and the Capital Projects Fund.

The basic governmental fund financial statements can be found on pages 3 through 6 of this report. The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement is provided on page 40 for the purpose of demonstrating compliance with the duly appropriated budget.

**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 or 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.

**Proprietary funds** are used to account for a government's business-type activities at the fund level. There are two types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town maintains two enterprise funds: the Water and Sewer Fund and the Recreation Programs Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. At this time, the Town has no internal service funds.

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Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund and the Recreation Programs Fund separately. The proprietary fund financial statements of the Town may be found on pages 7 through 9.

***Fiduciary funds***, also known as trust and agency funds, account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the programs of the Town. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains a Cemetery Trust Fund and an Agency Fund for developer escrow funds. The Town's fiduciary activities are reported in a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position beginning on page 10.

***Notes to the Financial Statements*** provide additional information that is necessary to obtain a full understanding of the data provided in the government-wide and fund financial statements. The notes serve to explain, clarify, and expand upon the financial data presented in the financial statements, and provide some additional information. The notes can be found immediately following the basic financial statements.

In addition to the basic financial statements and accompanying notes, certain ***Supplementary Information*** is provided, including a budgetary comparison statement for the general fund, information on changes in the net pension liability, employer contributions to pensions, and investment returns. The supplementary information can be found immediately following the notes to the financial statements in this report.

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Summary Statement of Net Position**

	Governmental Activities		Business-type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Assets:						
Cash	\$ 15,197,656	\$ 14,037,233	\$ 3,739,097	\$ 3,196,690	\$ 18,936,753	\$ 17,233,923
Other Assets	861,634	792,578	689,472	632,409	1,551,106	1,424,987
Capital Assets	29,965,433	28,667,306	4,716,925	4,990,965	34,682,358	33,658,271
Total Assets	46,024,723	43,497,117	9,145,494	8,820,064	55,170,217	52,317,181
Deferred Outflows of Resources	1,388,296	1,644,609	141,788	154,234	1,530,084	1,798,843
Liabilities:						
Other Liabilities	8,000,956	6,773,181	242,287	152,582	8,243,243	6,197,443
Noncurrent Liabilities	9,786,114	9,401,890	659,065	599,416	10,445,179	10,179,496
Total Liabilities	17,787,070	16,175,071	901,352	751,998	18,688,422	16,376,939
Deferred Inflows of Resources	153,084	136,458	9,164	4,979	162,248	141,437
Net Position:						
Net Investment in Capital Assets	23,701,376	22,538,885	4,544,771	4,804,941	28,246,147	27,343,826
Restricted	815,159	761,171	0	0	815,159	761,171
Unrestricted	4,909,785	5,530,927	3,831,995	3,412,380	8,741,780	8,943,307
Total Net Position, as reported	29,426,320	28,830,983	8,376,766	8,217,321	37,803,086	37,048,304
Correct Overstatement of Revenue	0	(4,197)	0	(144,905)	0	(149,102)
Total Net Position, as restated	\$ 29,426,320	\$ 28,826,786	\$ 8,376,766	\$ 8,072,416	\$ 37,803,086	\$ 36,899,202

As noted earlier, net position serves as a useful indicator of a government's financial position over time. At the end of the most recent fiscal year, the Town's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$37,803,086. The Town's total net position is split between governmental activities net position of \$29,426,320 and business-type activities net position of \$8,376,766. A prior year adjustment was made to net position on June 30, 2019 to correct an overstatement of revenue in the governmental activities by \$4,197 and business-type activities by \$144,905 for recreation fees received for programs occurring the next fiscal year.

The largest portion of the Town's total net position \$23,701,376 (74.72%) reflects its investment in capital assets (construction in progress, equipment, land, buildings and infrastructure) net of any outstanding debt used to acquire or construct those assets. The Town uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The Town's total net position includes \$815,159 (2.16%) of restricted net position. Restricted net position represents assets whose use is subject to external restrictions. The remaining balance of \$4,909,785 (23.12%) is unrestricted net position, which may be used to meet the government's ongoing financial obligations. Included in unrestricted net position are amounts that have been assigned for particular purposes, such as capital reserve funds and reserves for expenditures in subsequent years.

**TOWN OF ESSEX, VERMONT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Government</b>	
	2020	2019	2020	2019	2020	2019
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 990,148	\$ 960,214	\$ 3,185,024	\$ 3,062,502	\$ 4,175,172	\$ 4,022,716
Operating Grants & Revenues	996,666	788,964	287,949	285,665	1,284,615	1,074,629
Capital Grants & Revenues	77,489	143,760	-	-	77,489	143,760
<b>General Revenues:</b>						
Property Taxes	14,089,536	13,587,489	-	-	14,089,536	13,587,489
Other	330,502	458,088	19,594	14,864	350,096	472,952
<b>Total Revenues</b>	<b>16,484,341</b>	<b>15,938,515</b>	<b>3,492,567</b>	<b>3,363,031</b>	<b>19,976,908</b>	<b>19,301,546</b>
<b>Expenses:</b>						
General Government	3,366,490	2,970,069	-	-	3,366,490	2,970,069
Public Safety	5,433,921	5,442,959	-	-	5,433,921	5,442,959
Highways and Streets	4,576,172	4,484,490	-	-	4,576,172	4,484,490
Health and Welfare	272,247	278,907	-	-	272,247	278,907
Culture and Recreation	1,568,480	1,371,189	-	-	1,568,480	1,371,189
Intergovernmental	472,134	456,198	-	-	472,134	456,198
Interest on Long-Term Debt	194,779	206,262	-	-	194,779	206,262
Water and Sewer	-	-	2,854,558	2,767,858	2,854,558	2,767,858
Recreation Programs	-	-	334,243	408,960	334,243	408,960
<b>Total Expenses</b>	<b>15,884,223</b>	<b>15,210,074</b>	<b>3,188,801</b>	<b>3,176,818</b>	<b>19,073,024</b>	<b>18,386,892</b>
<b>Increase (Decrease) in Net Position</b>						
Before Transfers	600,118	728,441	303,766	186,213	903,884	914,654
Transfers	(583)	(2,210)	583	2,210	-	-
<b>Increase (Decrease) in Net Position</b>	<b>599,535</b>	<b>726,231</b>	<b>304,349</b>	<b>188,423</b>	<b>903,884</b>	<b>914,654</b>
Net Position - July 1, as reported	28,830,983	28,104,752	8,217,321	8,028,898	37,048,304	36,133,650
Correct Overstatement of Revenues	(4,197)	-	(144,905)	-	(149,102)	-
Net Position - July 1, as restated	28,826,786	28,104,752	8,072,416	8,028,898	36,899,202	36,133,650
<b>Ending Net Position</b>	<b>\$ 29,426,321</b>	<b>\$ 28,830,983</b>	<b>\$ 8,376,765</b>	<b>\$ 8,217,321</b>	<b>\$ 37,803,086</b>	<b>\$ 37,048,304</b>

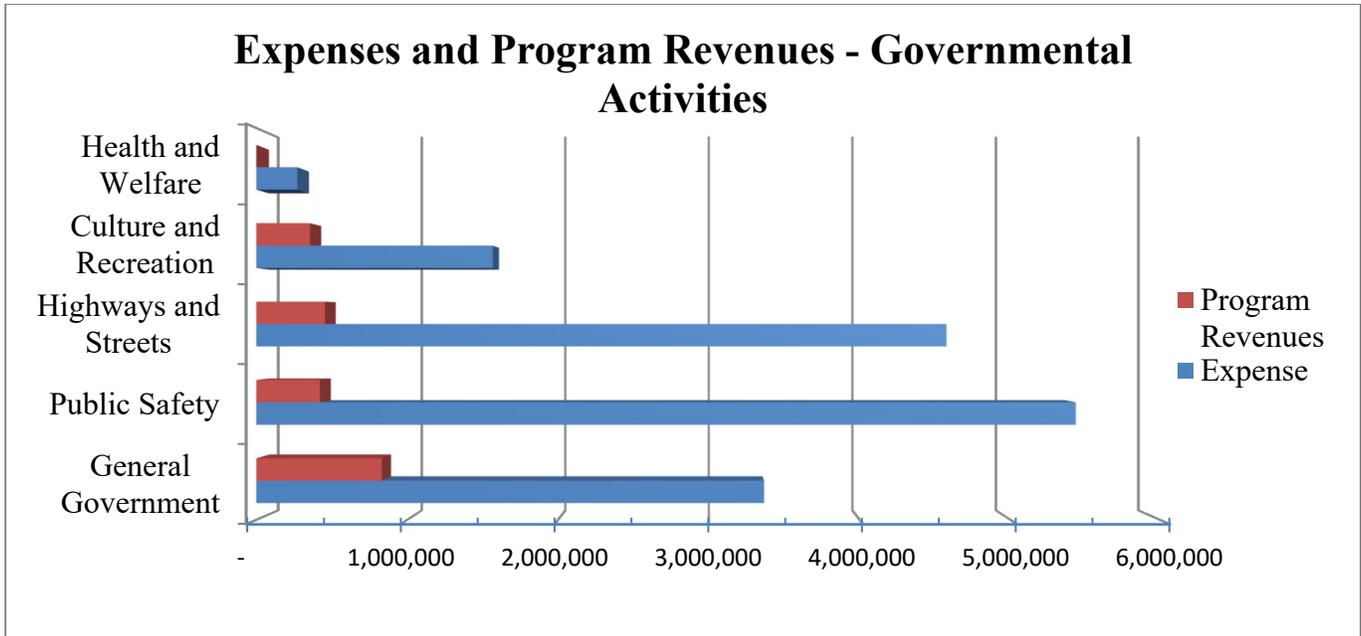
## **Governmental Activities**

Governmental activities increased the Town's net position by \$595,338 for the year ended June 30, 2020. Key elements of the change are as follows.

- Total governmental activities' revenues increased by 3.4% (\$545,826) from 2019 to 2020. Capital grants and revenues decreased by \$66,271 while operating grants and revenues increased by \$207,702.
- Property tax revenues increased 3.7% or \$502,047 from the previous year as a result of growth in the grand list combined with a 0.0135 cent (2.7%) increase in the Town general fund tax rate.
- Total governmental activities' expenses increased by 4.4% (\$674,149) from 2019 to 2020. Public Safety expenses end the year at 34.2% (\$5,433,921) of total governmental activities' expenses. Public Safety remains the largest category of expenses from year to year followed by Highways and Streets which ended the year at 28.8% (\$4,576,172) of total governmental activities' expenses and includes funding for the operating budgets of the Highways and Stormwater departments of the Village of Essex Junction.

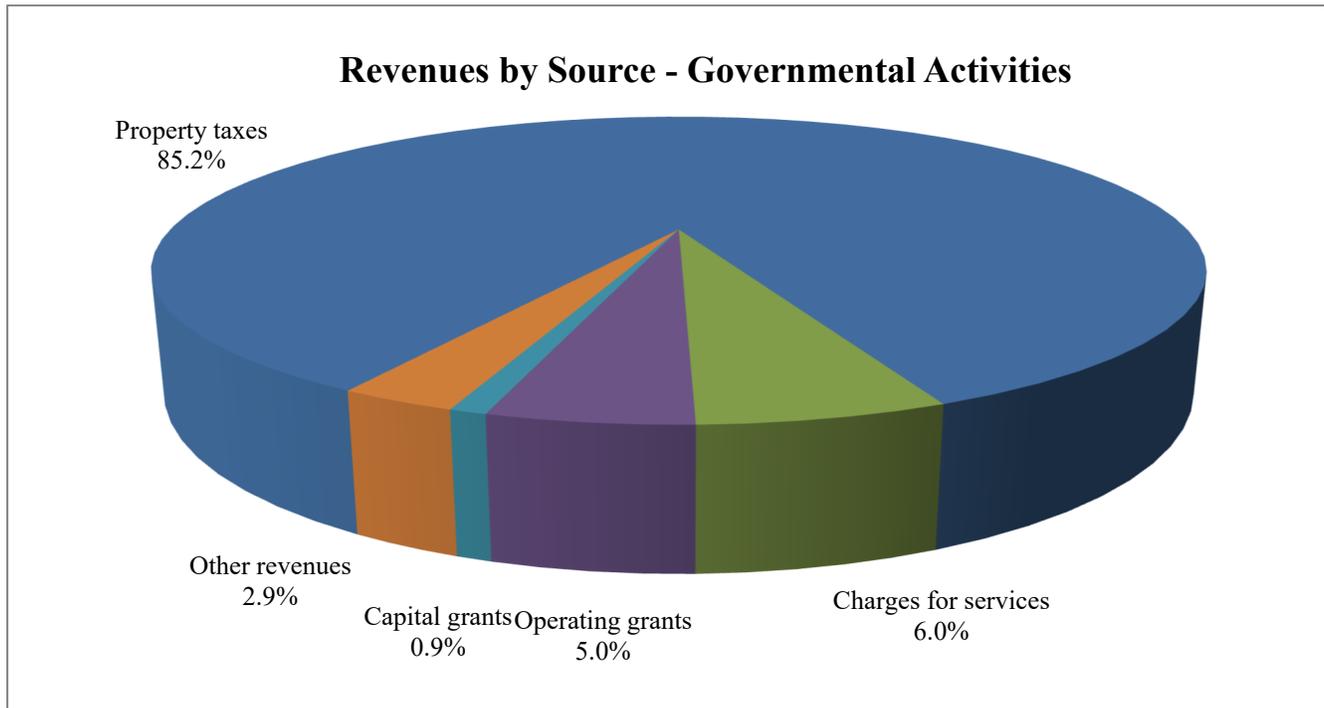
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The following graph entitled Expense and Program Revenues – Governmental Activities, gives the reader an idea of how each major program is funded. The revenues included in this graph are program specific revenues including user fees, operating grants, and capital grants. General revenues such as property taxes and interest earnings are excluded from the graph but are used to support the cost of each major program that is not covered by program specific revenues. The supporting data may be found in the Statement of Activities on page 2. As noted previously, Public Safety is the largest category of expenses in the current year and historically, followed by Highways and Streets.



The majority of governmental activities revenue comes from property taxes; 85.5% of total revenue or \$14,089,536. The second largest category of revenue is operating grants coming in at \$996,666; 6.0% of total revenue. Charges for services are the third largest category of revenue accounting for 6.0% or \$990,148. This is relatively consistent with the prior year when property tax revenue accounted for 85.2% of total revenues, operating grants and revenues at 5.0% and charges for services at 6.0%. The following graph shows the distribution of governmental activities revenues by source for the year ended June 30, 2020.

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### Business-type Activities

Business-type activities increased the Town's net position by \$304,349 (3.77%) during the current fiscal year. Key elements of this increase are as follows:

- Total revenues of \$3,492,567 were \$129,536 or 3.9% higher than the previous year. The increase is attributable to a \$122,522 (4%) increase in charges for services as well as small changes in operating grants and revenues and other revenues.
- Total expenses of \$3,188,801 reflect an increase of \$11,983 (0.4%) over the prior year. This increase is primarily on the water and sewer side with \$86,700 of the change offset by a \$74,717 decrease in recreation costs. The impacts of the COVID-19 pandemic were felt most severely by the Recreation Program fund as programs were abruptly cancelled in the Spring of 2020.
- Prior year net position was adjusted by \$144,905 to correct an overstatement of revenue at June 30, 2019 for program fees received for programs held in the next fiscal year.

The Town's business-type activities are supported by user fees, also referred to as charges for services (\$3,185,024) with assistance from operating grants (\$287,949) and investment income (\$19,594).

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

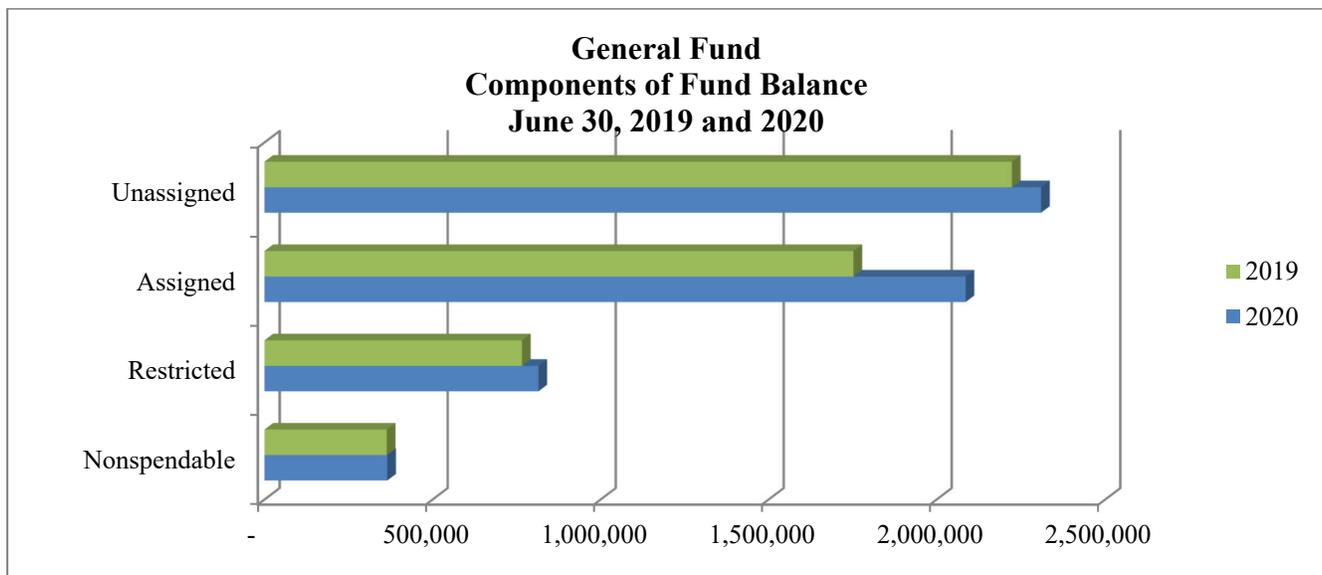
As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Information presented and discussed in this section is specific to the fund financial statements.

TOWN OF ESSEX, VERMONT  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Governmental Funds**

The focus of the Town's governmental funds is to provide information on current year revenue, expenditures, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town's governmental funds (general fund and capital projects fund) reported combined ending fund balances of \$8,403,493, an increase of \$142,508 over the prior year, after a prior year adjustment in the amount of \$4,197 to correct an overstatement of revenue at June 30, 2019 for recreation fees for programs held in the next year. Of the total fund balance amount, \$370,242 is non-spendable (prepaid items and inventories) and \$815,519 is restricted, which indicates it is not available for discretionary spending, as it is otherwise restricted by grant agreements, statutes, or debt covenants. Of the remaining amount, \$4,918,196 has been assigned by the Town for various purposes (detailed in Note 15 Fund Balances and Net Position) and unassigned fund balance is \$2,299,896.



The general fund is the chief operating fund of the Town. At the end of the year, total fund balance in the general fund was \$5,578,779, an increase of \$470,516 from the previous year. Of this amount, \$365,596 is non-spendable and \$815,519 is restricted. Assignments totaling \$2,098,128 in the general fund are detailed in Note 15 and unassigned fund balance is \$2,299,896. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total general fund expenditures. Total fund balance represents approximately 39.79% of total general fund expenditures (excluding transfer), however, this amount includes nonspendable and restricted balances which would not be available to finance general fund expenditures if necessary. The remaining categories of fund balance (committed, assigned, and unassigned) are referred to as unrestricted fund balance and are resources that could be liquidated to support general fund expenditures if necessary. Unrestricted fund balance represents 31.37% of total general fund expenditures, excluding transfers.

The Selectboard is the body that authorizes assignments of fund balance in accordance with its fund balance policy and has the authority to make changes if they see fit. The Town's fund balance policy limits the amount of unassigned fund balance in the general fund to 15% of the current year's general fund operating budget.

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### **General Fund Budgetary Highlights**

The Town's budget for the year ended June 30, 2020 passed on the first vote at Town Meeting in March of 2019. There were no amendments made to the budget during the year.

On the revenue side, the Town recorded property tax revenue less than the amount budgeted by \$51,042 and fines and forfeits revenue less than the amount budgeted by \$16,670. Both of these are a direct result of an increase in the amount of unavailable property tax revenue (property taxes that remain uncollectible sixty days after the end of the fiscal year). Intergovernmental revenues exceeded budget by \$82,261; of this \$67,567 is the amount received for future reappraisals which has been reserved for such in the general fund balance.

Public safety expenditures were \$649,651 under budget driven by unanticipated vacancies. Culture and recreation expenditures were \$133,628 under budget, the majority of which was a result of actual personnel costs that were less than budgeted. General government expenditures were under budget overall by \$47,632.

During the year, the Town collected unbudgeted grants and other revenues totaling \$429,147 which went to offset unbudgeted grant and other expenditures totaling \$507,136. The largest grant was the grant funding the Community Justice Center at \$215,538 for the year. Other items in this category are federal forfeiture funds used for public safety purposes, unrestricted revenue raised by the Community Justice Center, and a small number of miscellaneous grants.

### **Proprietary Funds**

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net position in the Water and Sewer Fund is \$8,488,626, an increase of 3.78% or \$309,151 from the previous year. Over half of the Water and Sewer Fund's net position is invested in capital assets net of related debt; 53.54% or \$4,544,770. This is a decrease from the previous year when the net investment in capital assets was \$4,804,941. Over time, the net book value (historical cost less accumulated depreciation) of assets decreases with the systematic allocation of the cost of said assets over their useful life by way of annual depreciation expense. Of the \$3,943,856 balance in unrestricted net position at the end of the year, \$864,007 is designated for future capital projects and \$7,628 is designated for prepaid expenses. This balance designated for future capital projects grows annually by the amount of connection fees received in excess of the amount budgeted to offset operating expenses.

The Town's second proprietary fund is the Recreation Programs Fund which was authorized by the Selectboard during the fiscal year ended June 30, 2011. This fund accounts for the majority of recreation programs which are expected to be supported by user fees. Program revenues, unlike property tax revenues, are derived from exchange transactions where the user receives a service of perceived equal value to the amount the user is willing to pay for the service. For the year ended June 30, 2020, this fund realized a net loss from operations in the amount of \$4,802. The fund has a deficit fund balance of \$111,861.

TOWN OF ESSEX, VERMONT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Town's capital assets for governmental and business-type activities as of June 30, 2020 were \$65,391,271 offset by \$30,708,913 in accumulated depreciation resulting in capital assets net of accumulated depreciation of \$34,682,358. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

#### Summary of Capital Assets

	Governmental Activities		Business-type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Capital Assets:						
Land	\$ 4,636,481	\$ 4,636,481	\$ -	\$ -	\$ 4,636,481	\$ 4,636,481
Construction in Progress	1,092,454	436,821	26,650	424,424	1,119,104	861,245
Buildings and Improvements	11,503,100	11,311,418	-	-	11,503,100	11,311,418
Machinery and Equipment	7,737,568	6,995,347	530,956	548,287	8,268,524	7,543,634
Book Collection	459,726	459,726	-	-	459,726	459,726
Infrastructure	26,202,586	25,188,095	13,201,750	12,778,838	39,404,336	37,966,933
	<u>51,631,915</u>	<u>49,027,888</u>	<u>13,759,356</u>	<u>13,751,549</u>	<u>65,391,271</u>	<u>62,779,437</u>
Less: Accumulated Depreciation	(21,666,482)	(20,360,582)	(9,042,431)	(8,760,584)	(30,708,913)	(29,121,166)
Total Assets, Net	<u>\$ 29,965,433</u>	<u>\$ 28,667,306</u>	<u>\$ 4,716,925</u>	<u>\$ 4,990,965</u>	<u>\$ 34,682,358</u>	<u>\$ 33,658,271</u>

Major capital asset activity for the year ended June 30, 2020 included the following.

#### Governmental Activities

- Highway projects including reconstruction, paving, ditching, and culvert work totaled \$953,609 with work done on multiple roads in town.
- Six vehicles were purchased including two highway vehicles, a skid steer and three police vehicles for a total of \$543,593. This was offset by the retirement, disposal or trade of four vehicles with original cost totaling \$225,310, one of which was fully depreciated.

#### Business-Type Activities

- Asset additions include waterline improvements in the Susie Wilson Road – Dalton Drive area, a message board and pump station control panel upgrades at the Alderbrook pump station.
- The Town has two projects in process: waterline improvements at the Sandhill and VT15 intersection and waterline improvements in the Town Center.

Additional information on the Town's capital assets can be found in Note 7 Capital Assets.

### Long-Term Debt

The Town began the year with \$6,314,445 in long-term debt outstanding. As of June 30, 2020, this amount had increased by \$122,766 or 1.94% to end the current year with \$6,437,211 in long-term debt outstanding.

TOWN OF ESSEX, VERMONT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020

**Summary of Long Term Debt**

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>
<b>Governmental Activities</b>				
General Obligation Bonds	\$ 5,175,000	\$ -	\$ 345,000	\$ 4,830,000
Capital Lease	953,421	786,339	304,703	1,435,057
<b>Business-type Activities</b>				
Water and Sewer Bond	186,024	-	13,870	172,154
<b>Total Government</b>	<u>\$ 6,314,445</u>	<u>\$ 786,339</u>	<u>\$ 663,573</u>	<u>\$ 6,437,211</u>

The Town entered into capital lease financing agreement totaling \$786,339 during the year and made all required payments on the three items of long-term debt outstanding. Additional information about long-term debt can be found in Note 10 Notes and Bonds Payable and Note 11 Capital Lease.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

**Consolidation of Service Delivery Systems**

- Starting in FY2015 the Town entered into an agreement with the Village of Essex Junction and the Essex Junction School District to bill and collect their property taxes. This action was an effort to reduce the duplication of services that existed. As part of the agreement the Town assumed the delinquent taxes of the Village and Village School District. The Town of Essex will continue to do the school tax billing for those residents that reside in the Town of Essex.
- In FY14 the Town and Village entered into an agreement to share the services of the Town Manager as the Municipal Manager for both entities. This arrangement led to the Village sharing the salary costs of the Manager with the Town, thereby reducing the cost to all taxpayers. In FY2015 it was determined that this cost sharing was beneficial and efforts should continue to find more areas to cooperate in the delivery of services to be more efficient. This arrangement has resulted in substantial savings for both the Village and Town. In FY18 the current Unified Municipal Manager, Pat Scheidel, who has been Town Manager for 27 retired. A new Unified Municipal Manager, Evan Teich, began employment on February 26, 2018. The decision to hire Mr. Teich was unanimous by both the Village of Essex Junction Trustees and the Town Selectboard.
- FY16 was the first of a three-year commitment to combine Highway and Street budgets with the Village of Essex Junction. The Village Trustees adopted the Village Street budget and the Town of Essex voters approved the funding for this budget as part of the Town budget. A Committee was formed in the spring of 2017 to evaluate how successful this arrangement has been so far and whether it should be continued. The Public Works Consolidation Committee came to the following conclusions:
  - Maintain the MOU until June 2018 and do the studies outlined in the report.
  - Extend the MOU from July 1, 2018 until the studies are complete or well underway. The goal is full consolidation eventually.
  - Benchmarks will be established as a result of the studies

TOWN OF ESSEX, VERMONT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020

- Cross-train staff in the Village and Town and identify common best practices
  - Consolidate rolling stock and equipment budgets as well as capital planning.
  - Practice resources management with assets, administration, processes, services.
  - Both the Selectboard and the Trustees approved the report.
- In FY16 the Town and the Village combined accounts payable, accounts receivable, cash receipts and general ledger. Two Village employees were relocated to the Town offices to share this work.
  - In FY17 the Village Clerk/Treasurer became the combined Town and Village Clerk/Treasurer when the Town Clerk/Treasurer position became vacant through retirement.
  - In FY18 a Human Resources Director was hired as the combined Town and Village Human Resources Director.
  - In FY19 the pay rates and practices of both Fire Departments were aligned. A combined Assistant to the Manager position was established which is funded by both entities.
  - In FY20, EJP and the Essex Parks and Recreation Department co-located at 75 Maple Street and began streamlining services at the front desk by co-supervising the Customer Service Specialist, the Program Director – Senior Services, and by contracting for joint Communications Services. The two departments have hosted joint events and have moved to producing one brochure.
  - The Village Trustees and Town Selectboard have been meeting jointly and working to put together a merger plan for the two entities. The Village voted during the November 2020 on the plan of merger and it passed 3,453 to 1,205. The Town will vote on this initiative in March 2021.

### **FY21 Budgets**

The above listed factors were considered in preparing the Town of Essex's budget for the 2021 fiscal year. The approved budget resulted in a tax rate for FY21 of \$0.5267 (Town General and Capital Tax),

Rates for water and sewer operations were increased in fiscal year 2021 in response to increased costs for water purchases and an increase in repairs and maintenance. The use of initiation fees applied to the rate dropped from \$20,000 in FY20 to zero in FY21.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town's finances to all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department at 81 Main Street, Essex Jct., VT 05452. The report is available online at [www.essex.org](http://www.essex.org).

**TOWN OF ESSEX, VERMONT**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 15,197,656	\$ 3,739,097	\$ 18,936,753
Taxes receivable, net of allowance	375,719	-	375,719
Other accounts receivable	115,673	681,844	797,517
Inventory	176,170	-	176,170
Prepaid expenses	194,072	7,628	201,700
Capital assets not being depreciated:			
Land	4,636,481	-	4,636,481
Construction in progress	1,092,454	26,650	1,119,104
Capital assets, net of accumulated depreciation:			
Buildings	8,732,157	-	8,732,157
Infrastructure	11,912,440	-	11,912,440
Machinery, equipment, and vehicles	3,591,901	111,731	3,703,632
Water and sewer infrastructure	-	4,578,544	4,578,544
	<u>46,024,723</u>	<u>9,145,494</u>	<u>55,170,217</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to the Town's participation in VMERS	<u>1,388,296</u>	<u>141,788</u>	<u>1,530,084</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	373,359	89,767	463,126
Due to Village of Essex Junction	6,504,535	-	6,504,535
Accrued payroll and benefits payable	204,265	26,020	230,285
Unearned revenue	101,562	98,668	200,230
Accrued interest payable	44,028	861	44,889
Current portion of compensated absences	239,632	12,824	252,456
Current portion notes and bonds payable	345,000	14,147	359,147
Current portion capital lease payable	<u>188,575</u>	<u>-</u>	<u>188,575</u>
	<u>8,000,956</u>	<u>242,287</u>	<u>8,243,243</u>
<b>NONCURRENT LIABILITIES</b>			
Accrued compensated absences	468,959	130,141	599,100
Net pension liability	3,633,218	370,917	4,004,135
Notes and bonds payable	4,485,000	158,007	4,643,007
Capital lease payable	<u>1,245,482</u>	<u>-</u>	<u>1,245,482</u>
	<u>9,832,659</u>	<u>659,065</u>	<u>10,491,724</u>
Total Noncurrent Liabilities	<u>9,832,659</u>	<u>659,065</u>	<u>10,491,724</u>
Total Liabilities	<u>17,833,615</u>	<u>901,352</u>	<u>18,734,967</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid property taxes	63,353	-	63,353
Deferred inflows of resources related to the Town's participation in VMERS	<u>89,731</u>	<u>9,164</u>	<u>98,895</u>
	<u>153,084</u>	<u>9,164</u>	<u>162,248</u>
Total Deferred Inflows of Resources	<u>153,084</u>	<u>9,164</u>	<u>162,248</u>
<b>NET POSITION</b>			
Net investment in capital assets	23,701,376	4,544,771	28,246,147
Restricted	815,159	-	815,159
Unrestricted- designated	-	692,141	692,141
Unrestricted	<u>4,909,785</u>	<u>3,139,854</u>	<u>8,049,639</u>
	<u>\$ 29,426,320</u>	<u>\$ 8,376,766</u>	<u>\$ 37,803,086</u>

See Accompanying Notes to Basic Financial Statements.

**TOWN OF ESSEX, VERMONT**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Revenues	Capital Grants and Revenues	Governmental Activities	Business-Type Activities	
<b>Governmental activities:</b>							
General government	\$ 3,366,490	\$ 597,466	\$ 234,630	\$ -	\$ (2,534,394)	\$ -	\$ (2,534,394)
Public safety	5,433,921	204,008	217,160	-	(5,012,753)	-	(5,012,753)
Highways and Stre	4,576,172	113,810	263,996	77,489	(4,120,877)	-	(4,120,877)
Health and Welfare	272,247	25	-	-	(272,222)	-	(272,222)
Culture and Recreation	1,568,480	74,839	280,880	-	(1,212,761)	-	(1,212,761)
Intergovernmental	472,134	-	-	-	(472,134)	-	(472,134)
Interest on long-term debt	194,779	-	-	-	(194,779)	-	(194,779)
Total governmental activities	<u>15,884,223</u>	<u>990,148</u>	<u>996,666</u>	<u>77,489</u>	<u>(13,819,920)</u>	<u>-</u>	<u>(13,819,920)</u>
<b>Business-type activities:</b>							
Water and Sewer	2,854,557	2,855,667	287,949	-	-	289,059	289,059
Recreation	334,243	329,357	-	-	-	(4,886)	(4,886)
Total business-type activities	<u>\$ 3,188,800</u>	<u>\$ 3,185,024</u>	<u>\$ 287,949</u>	<u>\$ -</u>	<u>-</u>	<u>284,173</u>	<u>284,173</u>
<b>General Revenues:</b>							
Property taxes, levied for general purposes					14,089,535	-	14,089,535
Penalties and interest on delinquent taxes					161,506	-	161,506
Unrestricted investment earnings					72,690	19,594	92,284
Transfers					(583)	583	-
Gain on sale of capital assets					64,755	-	64,755
Other revenues					31,551	-	31,551
Total general revenues and transfers					<u>14,419,454</u>	<u>20,177</u>	<u>14,439,631</u>
Change in Net Position					599,534	304,350	903,884
Net position, beginning (as restated)					<u>28,826,786</u>	<u>8,072,416</u>	<u>36,899,202</u>
Net position, ending					<u>\$ 29,426,320</u>	<u>\$ 8,376,766</u>	<u>\$ 37,803,086</u>

See Accompanying Notes to Basic Financial Statements.

**TOWN OF ESSEX, VERMONT**  
**FUND FINANCIAL STATEMENTS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2020**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash	\$ 12,266,684	\$ 2,930,972	\$ 15,197,656
Taxes receivable, net of allowance	375,719	-	375,719
Other receivables	88,751	26,922	115,673
Inventory	176,170	-	176,170
Prepaid expenses	<u>189,426</u>	<u>4,646</u>	<u>194,072</u>
 Total Assets	 <u>\$ 13,096,750</u>	 <u>\$ 2,962,540</u>	 <u>\$ 16,059,290</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 257,595	\$ 115,764	\$ 373,359
Due to Village of Essex Junction	6,504,535	-	6,504,535
Accrued payroll and benefits payable	204,265	-	204,265
Unearned revenue	<u>101,562</u>	<u>-</u>	<u>101,562</u>
 Total Liabilities	 <u>7,067,957</u>	 <u>115,764</u>	 <u>7,183,721</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid property taxes	63,353	-	63,353
Unavailable revenue - property taxes	318,400	-	318,400
Unavailable revenue - other	<u>68,261</u>	<u>22,062</u>	<u>90,323</u>
 Total Deferred Inflows of Resources	 <u>450,014</u>	 <u>22,062</u>	 <u>472,076</u>
<b>FUND BALANCE</b>			
Nonspendable	365,596	4,646	370,242
Restricted	815,159	-	815,159
Assigned	2,098,128	2,820,068	4,918,196
Unassigned	<u>2,299,896</u>	<u>-</u>	<u>2,299,896</u>
 Total Fund Balances	 <u>5,578,779</u>	 <u>2,824,714</u>	 <u>8,403,493</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 13,096,750</u>	 <u>\$ 2,962,540</u>	 <u>\$ 16,059,290</u>

See Accompanying Notes to Basic Financial Statements.

**TOWN OF ESSEX, VERMONT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2020**

**Total fund balances - governmental funds** \$ 8,403,493

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. 29,965,433

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

Unavailable property tax revenue 318,400

Unavailable grant revenue 90,323

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 (708,591)

Net pension liabilities (3,633,218)

Accrued interest on long-term debt (44,028)

Notes payable (4,830,000)

Capital Lease (1,434,057)

Deferred outflows of resources represent the consumption of net position that is applicable to a future reporting period and therefore not reported as assets in the funds. 1,388,296

Deferred inflows of resources represent the acquisition of net position applicable to a future reporting period and therefore are not reported as liabilities in funds. (89,731)

**Total net position - governmental activities** \$ 29,426,320

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, 2020**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>REVENUES</b>			
Property tax	\$ 13,511,133	\$ 528,283	\$ 14,039,416
Licenses and permits	80,034	-	80,034
Intergovernmental revenues	474,261	-	474,261
Charges for services	637,064	158,231	795,295
Fines and forfeits	158,330	-	158,330
Interest income	54,278	17,510	71,788
Grant income	277,117	258,577	535,694
Miscellaneous income	149,515	5,838	155,353
	<u>15,341,732</u>	<u>968,439</u>	<u>16,310,171</u>
<b>EXPENDITURES</b>			
Current expenditures:			
General government	3,097,009	15,277	3,112,286
Public safety	4,609,955	12,620	4,622,575
Highways and Streets	2,991,308	24,981	3,016,289
Stormwater	308,415	90,754	399,169
Sanitation	7,999	-	7,999
Health and Welfare	272,247	-	272,247
Culture and Recreation	1,215,871	166,506	1,382,377
Intergovernmental	472,134	-	472,134
Capital Outlays:			
General government	-	26,494	26,494
Public safety	112,680	844,304	956,984
Highways and Streets	381,350	1,210,769	1,592,119
Stormwater	-	26,520	26,520
Culture and Recreation	6,305	199,221	205,526
Debt Service:			
Principal	349,982	300,721	650,703
Interest	195,735	28,555	224,290
	<u>14,020,990</u>	<u>2,946,722</u>	<u>16,967,712</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>1,320,742</u>	<u>(1,978,283)</u>	<u>(657,541)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of fixed assets	10,793	3,500	14,293
Proceeds from long-term debt	-	786,339	786,339
Operating transfers in/(out)	(856,822)	856,239	(583)
	<u>(846,029)</u>	<u>1,646,078</u>	<u>800,049</u>
Net Change in Fund Balance	474,713	(332,205)	142,508
Fund Balance - July 1, 2019, as restated	<u>5,104,066</u>	<u>3,156,919</u>	<u>8,260,985</u>
Fund Balance - June 30, 2020	<u>\$ 5,578,779</u>	<u>\$ 2,824,714</u>	<u>\$ 8,403,493</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, 2020**

<b>Net change in fund balances - governmental funds</b>	<b>\$ 142,508</b>
<p>Amounts reported for governmental activities in the Statement of  Activities are different because:</p>	
<p>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.</p>	
Depreciation Expense	(1,559,979)
Capital Outlay	2,807,643
Proceeds from Sale of Asset	(14,293)
Loss on Sale of Asset	64,755
<p>Revenues in the statement of activities that do not provide current financial  resources are not reported as revenues in the funds.</p>	
Increase in the unavailable property taxes	53,300
Increase in the unearned and other unavailable revenue	56,120
<p>Issuance and repayment of long-term debt are revenue and expenditures in the  governmental funds, but the Issuance and repayment increase and decrease  long-term liabilities in the statement of net position.</p>	
Repayment of long-term debt	345,000
Repayment of capital lease	305,703
Issuance of long-term debt	(55,300)
Issuance of capital lease	(731,039)
<p>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.</p>	
Pension expense	(864,275)
Accrued interest on long-term debt	(5,913)
Accrued compensated absences	<u>55,304</u>
<b>Change in net position of governmental activities</b>	<b><u>\$ 599,534</u></b>

See Accompanying Notes to Basic Financial Statements.

**TOWN OF ESSEX, VERMONT**  
**FUND FINANCIAL STATEMENTS**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	Water & Sewer Fund	Recreation Fund	Total
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 3,704,739	\$ 34,358	\$ 3,739,097
Accounts receivable - net	681,844	-	681,844
Prepaid expenses	<u>7,628</u>	<u>-</u>	<u>7,628</u>
Total Current Assets	<u>4,394,211</u>	<u>34,358</u>	<u>4,428,569</u>
Noncurrent Assets:			
Capital assets not being depreciated:			
Construction in progress	26,650	-	26,650
Capital assets, net of accumulated depreciation:			
Machinery, equipment, and vehicles	111,731	-	111,731
Water and sewer infrastructure	<u>4,578,544</u>	<u>-</u>	<u>4,578,544</u>
Total Noncurrent Assets	<u>4,716,925</u>	<u>-</u>	<u>4,716,925</u>
Total Assets	<u>9,111,136</u>	<u>34,358</u>	<u>9,145,494</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to the Town's participation in VMERS	<u>131,698</u>	<u>10,090</u>	<u>141,788</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 9,242,834</u>	<u>\$ 44,448</u>	<u>\$ 9,287,282</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 75,543	\$ 14,224	\$ 89,767
Current portion compensated absences	12,824	-	12,824
Current portion long-term debt	14,147	-	14,147
Accrued payroll	18,822	7,198	26,020
Unearned revenue	-	98,668	98,668
Other accrued expenses	<u>861</u>	<u>-</u>	<u>861</u>
Total Current Liabilities	<u>122,197</u>	<u>120,090</u>	<u>242,287</u>
Noncurrent Liabilities:			
Accrued compensated absences	130,141	-	130,141
Net pension liabilities	335,350	35,567	370,917
Notes and bonds payable	<u>158,007</u>	<u>-</u>	<u>158,007</u>
Total Noncurrent Liabilities	<u>623,498</u>	<u>35,567</u>	<u>659,065</u>
Total Liabilities	<u>745,695</u>	<u>155,657</u>	<u>901,352</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to the Town's participation in VMERS	<u>8,512</u>	<u>652</u>	<u>9,164</u>
<b>NET POSITION</b>			
Net investment in capital assets	4,544,771	-	4,544,771
Unrestricted - designated	692,141	-	692,141
Unrestricted	<u>3,251,715</u>	<u>(111,861)</u>	<u>3,139,854</u>
Total Net Position	<u>8,488,627</u>	<u>(111,861)</u>	<u>8,376,766</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 9,242,834</u>	<u>\$ 44,448</u>	<u>\$ 9,287,282</u>

See Accompanying Notes to Basic Financial Statements.

**TOWN OF ESSEX, VERMONT**  
**FUND FINANCIAL STATEMENTS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Water & Sewer Fund	Recreation Fund	Total
	<u>        </u>	<u>        </u>	<u>        </u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 2,855,667	\$ 328,134	\$ 3,183,801
Connection fees	257,253	-	257,253
Interest and penalties	27,721	-	27,721
Other income	2,975	1,223	4,198
	<u>3,143,616</u>	<u>329,357</u>	<u>3,472,973</u>
Total Operating Revenues			
<b>OPERATING EXPENSES</b>			
Salaries and benefits	759,391	129,647	889,038
Professional services	34,527	1,025	35,552
Repair and maintenance	100,155	-	100,155
Rentals	1,356	16,041	17,397
Printing and postage	-	9,716	9,716
Travel	1,854	6,254	8,108
Utilities	65,651	1,541	67,192
CWD water purchases	672,698	-	672,698
Insurance	23,718	-	23,718
Machinery	36,776	-	36,776
Bond expense	297,758	-	297,758
Other operating	13,273	24,132	37,405
Depreciation expense	313,014	-	313,014
Recreation programming	-	145,887	145,887
Sewage treatment	530,735	-	530,735
	<u>2,850,906</u>	<u>334,243</u>	<u>3,185,149</u>
Total Operating Expenses			
Operating Income (Loss)	<u>292,710</u>	<u>(4,886)</u>	<u>287,824</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	19,510	84	19,594
Interest expense	(3,651)	-	(3,651)
Transfers	583	-	583
	<u>16,442</u>	<u>84</u>	<u>16,526</u>
Total Nonoperating Revenues (Expenses)			
Change in Net Position	309,152	(4,802)	304,350
Net Position - July 1, 2019, restated	<u>8,179,475</u>	<u>(107,059)</u>	<u>8,072,416</u>
Net Position - June 30, 2020	<u>\$ 8,488,627</u>	<u>\$ (111,861)</u>	<u>\$ 8,376,766</u>

See Accompanying Notes to Basic Financial Statements.

**TOWN OF ESSEX, VERMONT**  
**FUND FINANCIAL STATEMENTS**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Water & Sewer Fund	Recreation Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 3,087,854	\$ 329,357	\$ 3,417,211
Payments to suppliers	(1,775,831)	(280,266)	(2,056,097)
Payments for salaries and benefits	(655,571)	(126,818)	(782,389)
	<u>656,452</u>	<u>(77,727)</u>	<u>578,725</u>
Net Cash Provided (Used) by Operating Activities			
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of property, plant and equipment	(38,974)	-	(38,974)
Interest payments on debt	(3,651)	-	(3,651)
Principal payments on debt	(13,870)	-	(13,870)
	<u>(56,495)</u>	<u>-</u>	<u>(56,495)</u>
Net Cash (Used) by Capital and Related Financing Activities			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Transfers	583	-	583
Interest income	19,510	84	19,594
	<u>20,093</u>	<u>84</u>	<u>20,177</u>
Net Cash Provided by Investing Activities			
Net Increase (Decrease) in Cash	620,050	(77,643)	542,407
Cash - July 1, 2019	<u>3,084,689</u>	<u>112,001</u>	<u>3,196,690</u>
Cash - June 30, 2020	<u>\$ 3,704,739</u>	<u>\$ 34,358</u>	<u>\$ 3,739,097</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 292,710	\$ (4,886)	\$ 287,824
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	313,014	-	313,014
Change in net assets and liabilities:			
Receivables, net	(55,762)	-	(55,762)
Prepaid expenses	(1,301)	-	(1,301)
Deferred outflows of resources	14,564	(2,118)	12,446
Accounts payable	4,040	(11,752)	(7,712)
Accrued payroll and compensated absences	21,831	(3,453)	18,378
Unearned revenue	-	(63,918)	(63,918)
Other accrued expenses	(69)	-	(69)
Net pension liability	63,635	8,005	71,640
Deferred inflows of resources	3,790	395	4,185
	<u>656,452</u>	<u>(77,727)</u>	<u>578,725</u>
Net cash provided (used) by operating activities			

See Accompanying Notes to Basic Financial Statements.

**TOWN OF ESSEX, VERMONT**  
**FUND FINANCIAL STATEMENTS**  
**STATEMENT OF NET POSITION - FIDUCIARY FUND**  
**June 30, 2020**

	Cemetery Trust Fund	Agency Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 58,453	\$ 304,065
Total Assets	\$ 58,453	\$ 304,065
 <b>LIABILITIES</b>		
Accounts payable	\$ 325	\$ -
Unearned revenue	-	304,065
Total Liabilities	325	\$ 304,065
 <b>NET POSITION</b>		
Restricted	58,128	
Total Net Position and Liabilities	\$ 58,453	

See Accompanying Notes to Basic Financial Statements.

**TOWN OF ESSEX, VERMONT  
 FUND FINANCIAL STATEMENTS  
 STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND  
 FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Cemetery Trust Fund</u>
<b>ADDITIONS</b>	
Sales of plots	\$ 9,306
Cemetery grant revenue	25,000
Interest on deposits	<u>233</u>
Total Additions	<u>34,539</u>
<b>DEDUCTIONS</b>	
Supplies	(644)
Restoration	<u>(20,245)</u>
Total Deductions	<u>(20,889)</u>
Increase in Net Position	13,650
Net Position - July 1, 2019	<u>44,478</u>
Net Position - June 30, 2020	<u><u>\$ 58,128</u></u>

See Accompanying Notes to Basic Financial Statements.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Essex, Vermont, (herein the “Town”) 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.

The accounting policies adopted by the Town conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the more significant accounting policies employed in the preparation of these financial statements.

**A. Financial 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. Basis of Presentation**

The accounts of the Town are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

The basic financial statements of the Town include both government-wide statements and fund financial statements. The focus of the government-wide statements is on reporting the operating results and financial position of the Town as a whole and present a longer-term view of the Town's finances. The focus of the fund financial statements is on reporting the operating results and financial position of the most significant funds of the Town and present a shorter-term view of how operations were financed and what remains available for future spending.

**Government-wide Statements:** The statement of net position and the statement of activities display information about the primary government, the Town. These statements report the financial activities of the overall government, excluding fiduciary activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Eliminations have been made to minimize the double counting of activities between funds.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Town's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The Town reports on the following major governmental funds:

General Fund – This is the Town's primary operating fund. It accounts for all financial resources of the general government except those accounted for in another fund.

Capital Projects Fund – This capital project fund accounts for resources established to fund the Town's long-term capital plan.

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.

The Town reports on the following major enterprise funds:

Water and Sewer Fund – This fund accounts for the operations of the Water and Sewer Department of the Town.

Recreation Fund – This fund accounts for the majority of programs sponsored by the Town's Recreation Department. Programs in this fund are supported by user fees.

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. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of that fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Additionally, the Town reports the following fiduciary funds:

Cemetery Trust Fund – This fund accounts for monies maintained for use in operating the Town’s cemeteries.

Agency Fund – This fund accounts for resources held by the Town in a purely custodial capacity for other governments, private organizations or individuals.

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

**C. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, intergovernmental revenues, sewer usage fees and water usage fees are considered 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. Measurable means the amount of the transaction can be determined, and available means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. 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, except for principal and interest on general long-term debt, the net pension liability, certain compensated absences and other long-term liabilities which are recognized when the obligations are expected to be liquidated or are funded with expendable available financial resources.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Property taxes, licenses, fees and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within sixty days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the Town.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity**

**1. Cash 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 primary 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.

**2. Receivables**

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

**3. Internal Balances**

Activities between funds that is representative of lending or borrowing arrangements that are outstanding at the end of the fiscal year are referred to as Advances to/from Other Funds. All other outstanding balances between funds are reported as Due to/from Other Funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4. Inventories and Prepaid Expenses**

Inventory quantities are determined by physical count and are valued at the lower of cost or market. Inventory in the General Fund consists of salt, sand and various gravels. Certain payments to vendors reflect costs that are applicable to future accounting periods and are recorded as prepaid expenses. Inventories and prepaid expenses of governmental funds in the fund financial statements are offset by a nonspendable fund balance as these are not in spendable form.

**5. Capital Assets**

Capital assets are reported at actual cost or estimated historical cost based on appraisals or deflated current replacement cost if purchased or constructed. Contributed assets are recorded at their estimated fair value at the time received. Major outlays for capital assets and improvements are capitalized as constructed. Interest incurred during the construction phase for proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of any interest earned on the invested proceeds during the same period. Interest is not capitalized during the construction phase of capital assets used in governmental activities. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Capital assets reported in the government-wide and proprietary fund financial statements are depreciated in order that the cost of these assets will be charged to expenses over their estimated service lives, generally using the straight-line method of calculating depreciation. Assets are 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 greater than one year at the date of acquisition.

Capital assets are not reported in the governmental fund financial statements. Capital outlays in these funds are recorded as expenditures in the year they are incurred.

**6. Long-term Liabilities**

Long-term liabilities include bonds, notes and capital leases payable and other obligations such as compensated absences and the net pension liability. Long-term liabilities are reported in the government-wide and proprietary fund financial statements. Governmental fund financial statements do not include any long-term liabilities as those statements use the current financial resources measurement focus and only include current liabilities on their balance sheets.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**7. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The Town has one type of item which arises under the accrual basis of accounting that qualifies for reporting in this category. The governmental activities, the business-type activities and the proprietary funds report deferred outflows of resources related to the Town's participation in VMERS.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items which arise under the accrual basis of accounting and three types which arise under the modified accrual basis of accounting that qualify for reporting in this category.

The governmental activities, the business-type activities and the proprietary funds report deferred inflows of resources from two sources: prepaid property taxes and deferred inflows of resources related to the Town's participation in VMERS. The governmental funds report deferred inflows of resources from three sources: prepaid property taxes, unavailable property taxes (including penalty and interest) and unavailable other revenue. Unavailable other revenue includes grant revenues earned but not received within sixty days of the end of the current period.

**8. Pensions**

For purposes of measuring the proportionate share of the net pension liability and the related deferred outflows and inflows of resources and pension expense, information about the fiduciary net position of the Vermont Municipal Employees' Retirement System (VMERS) pension plan and additions to or deductions from the VMERS fiduciary net position have been determined on the same bases as they are reported by VMERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**9. Net Position**

Government-wide and proprietary fund net position is divided into three components:

Net Investment in Capital Assets – consists of the historical cost of capital assets less accumulated depreciation and less any outstanding debt that was used to finance those assets.

Restricted – consists of net position that is restricted by the Town's creditors, by enabling legislation, by grantors (both federal and state) and/or by contributors.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Unrestricted – all other net position is reported in this category

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to use restricted net position before unrestricted net position.

**10. Fund Balance**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Fund balances are classified as nonspendable (not in spendable form or legally required to remain intact); restricted (constraints on the use of resources are either externally imposed by creditors, grantors, or donors, or imposed by law through enabling legislation); committed (constraints on the use of resources are imposed by formal action of the voters); assigned (reflecting the Selectboard's intended use of the resources); and unassigned. Positive unassigned fund balance can only be reported in the General Fund.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The Town has a fund balance policy allowing it to maintain an unassigned fund balance of up to fifteen percent (15%) of the current year General Fund operating budget.

**E. Estimates**

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

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 2            EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND AND GOVERNMENT - WIDE STATEMENTS**

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, whereas government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. These differences in the measurement focus and basis of accounting lead to differences between the governmental fund financial statements and the government-wide financial statements as follows.

Long-term revenue differences arise because governmental funds report revenues only when they are considered available, whereas government-wide statements report revenues when they are earned. Long-term expense differences arise because governmental funds report expenditures (including interest) using the modified accrual basis of accounting, whereas government-wide statements report expenses using the accrual basis of accounting.

Capital-related differences arise because governmental funds report capital outlays as current period expenditures, whereas government-wide statements report depreciation as an expense. Further, governmental funds report the proceeds from the sale of capital assets as another financing source, whereas government-wide statements report the gain or loss from the sale of capital assets as revenue or expense.

Long-term debt transaction differences arise because governmental funds report proceeds of long-term debt as other financing sources and principal payments as expenditures, whereas government-wide statements report those transactions as increases and decreases in liabilities, respectively.

Pension related differences arise because governmental funds report the current year's required employer contributions as current period expenditures, whereas government-wide statements report those transactions as deferred outflows of resources. In addition, the accrual for the Town's proportionate share of the VMERS net pension liability is recorded in the government-wide financial statements along with the related deferred inflows and outflows of resources.

**NOTE 3            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.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 4 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at June 30, 2020 consisted of the following:

	Book Balance	Bank Balance
Insured by the FDIC	\$ 500,000	\$ 500,000
Insured by Deposit Surety Bond	18,795,926	19,030,725
Petty Cash	3,345	-
 Total Deposits	 \$ 19,299,271	 \$ 19,530,725

The difference between the book and bank balance is due to reconciling items such as deposits in transit and outstanding checks.

The Town generally maintains one cash account in the General Fund to pay expenditures and receive payments for efficiency. All interfund balances resulted from the time lag between the dates that (1) reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) repayments between funds are made.

The Town's cash management account is insured under an Irrevocable Standby Letter of Credit. The coverage with TD Bank is in the amount of \$83,253. The Town's general fund checking account is insured by a sweep account. The coverage with Community Bank, NA is in the full amount of the bank balance at the close of business on any given day if the bank were to fail. The funds swept from the account are secured by a perfected security interest in purchased securities and therefore would not be considered deposits with the bank.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counter-party (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in possession of another party. The Town's policy only allows deposits in banks that are FDIC insured and agree to collateralize amounts in excess of FDIC limits. The Town has no investments subject to credit risk.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town has no investments subject to interest rate risk disclosure.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 4 CASH AND CASH EQUIVALENTS (continued)**

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Town's policy does not allow investment in securities that are subject to credit risk unless issued by the Federal Government.

**Concentration of Credit Risk**

The Town has no limit on the amount that they may invest with any one issuer. As June 30, 2020, the Town is not exposed to concentration of credit risk.

**NOTE 5 RECEIVABLES**

Receivables at June 30, 2020, as reported in the statement of net position, net of applicable allowances for uncollectible accounts, are as follows.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Delinquent Taxes	\$ 406,599	\$ -	\$ 406,599
Penalties and Interest	69,120	-	69,120
Billed Services	83,885	196,269	280,154
Unbilled Services	-	488,000	488,000
Grants	26,922	-	26,922
Other	4,866	75	4,941
Allowance for Doubtful Accounts	<u>(100,000)</u>	<u>(2,500)</u>	<u>(102,500)</u>
	<u>\$ 491,392</u>	<u>\$ 681,844</u>	<u>\$ 1,173,236</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 17<sup>th</sup> and March 16<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 sixty days after the close of the current period. Taxes receivable that remain uncollected as of August 31, 2020 have been recorded as unavailable property tax revenue, a deferred inflow of resources, with a corresponding decrease in current year tax revenues. Unavailable property tax revenue amounted to \$318,400 at June 30, 2020.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 6      NOTES RECEIVABLE**

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

The Town received a \$510,447 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 7      CAPITAL ASSETS**

<b>Governmental Activities</b>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 4,636,481	\$ -	\$ -	\$ 4,636,481
Construction in progress	436,821	1,385,430	(729,797)	1,092,454
Total capital assets not being depreciated	<u>5,073,302</u>	<u>1,385,430</u>	<u>(729,797)</u>	<u>5,728,935</u>
Other capital assets:				
Book collection	459,726	-	-	459,726
Building and improvements	11,311,418	191,682	-	11,503,100
Infrastructure	25,188,095	1,015,806	(1,315)	26,202,586
Vehicles and Equipment	6,995,347	1,038,372	(296,151)	7,737,568
Total other capital assets	<u>43,954,586</u>	<u>2,245,860</u>	<u>(297,466)</u>	<u>45,902,980</u>
Less accumulated depreciation for:				
Book collection	(459,726)	-	-	(459,726)
Building and improvements	(2,491,090)	(279,853)	-	(2,770,943)
Infrastructure	(13,599,035)	(692,332)	1,221	(14,290,146)
Vehicles and Equipment	(3,810,731)	(587,794)	252,858	(4,145,667)
Total accumulated depreciation	<u>(20,360,582)</u>	<u>(1,559,979)</u>	<u>254,079</u>	<u>(21,666,482)</u>
Total capital assets being depreciated, net	<u>23,594,004</u>	<u>685,881</u>	<u>(43,387)</u>	<u>24,236,498</u>
Governmental Activities - Capital Assets, Net	<u>\$28,667,306</u>	<u>\$2,071,311</u>	<u>\$ (773,184)</u>	<u>\$29,965,433</u>

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 7 CAPITAL ASSETS (continued)**

Depreciation expense was charged to functions, as follows:

General Government	\$ 93,418
Public Safety	471,843
Highways and Streets	882,466
Stormwater	14,409
Culture and Recreation	<u>97,843</u>
<b>TOTAL</b>	<b><u>\$ 1,559,979</u></b>

<b>Business-Type Activities</b>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	<u>\$ 424,424</u>	<u>\$ 25,138</u>	<u>\$ (422,912)</u>	<u>\$ 26,650</u>
Capital assets being depreciated:				
Water and sewer infrastructure	12,778,838	422,912	-	13,201,750
Machinery and equipment	329,982	13,835	-	343,817
Vehicles	<u>218,305</u>	<u>-</u>	<u>(31,166)</u>	<u>187,139</u>
Total Capital assets being depreciated	<u>13,327,125</u>	<u>436,747</u>	<u>(31,166)</u>	<u>13,732,706</u>
Less accumulated depreciation for:				
Water and sewer infrastructure	(8,340,274)	(282,932)	-	(8,623,206)
Machinery and equipment	(254,883)	(12,542)	-	(267,425)
Vehicles	<u>(165,426)</u>	<u>(17,540)</u>	<u>31,166</u>	<u>(151,800)</u>
Total accumulated depreciation	<u>(8,760,583)</u>	<u>(313,014)</u>	<u>31,166</u>	<u>(9,042,431)</u>
Total capital assets being depreciated, net	<u>4,566,542</u>	<u>123,733</u>	<u>-</u>	<u>4,690,275</u>
<b>Business-Type Activities - Capital Assets, Net</b>	<b><u>\$4,990,966</u></b>	<b><u>\$ 148,871</u></b>	<b><u>\$ (422,912)</u></b>	<b><u>\$4,716,925</u></b>

Depreciation expense for the Business-type Activities was \$313,014 for the fiscal year ended June 30, 2020.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 8 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, 2020.

<u>Amount</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Purpose</u>
\$ 175,000	General Fund	Capital Projects	Fire Department
6,000	General Fund	Capital Projects	Administration Vehicles
25,000	General Fund	Capital Projects	Parks Equipment
199,353	General Fund	Capital Projects	Public Works Vehicles
4,000	General Fund	Capital Projects	Senior Vans
443,036	General Fund	Capital Projects	FY20 Assignments for Capital
3,850	General Fund	Capital Projects	Information Technology
583	General Fund	Water & Sewer	Farmers Credit
<u>\$ 856,822</u>			

**NOTE 9 ACCRUED COMPENSATION**

Accrued compensation includes vacation, compensatory time and sick leave for eligible employees. Upon termination (voluntary or involuntary) the employee shall be entitled to receive the accrued and unused vacation and compensatory time in a cash payment. Sick time is only paid out upon retirement. It is the Town's policy to begin accruing sick time for individuals who are 55 or older as of the end of the fiscal year.

At June 30, 2020, the Town had the following vested benefits earned by their employees:

	<u>General Fund</u>	<u>Water/Sewer Fund</u>
Vested Compensation	\$ 708,591	\$ 142,965
Less: Current Portion	<u>(239,632)</u>	<u>(12,824)</u>
<b>TOTAL LONG-TERM PORTION</b>	<u>\$ 468,959</u>	<u>\$ 130,141</u>

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 10 NOTES AND BONDS PAYABLE**

	Beginning Balance	Additions	Principal Reduction	Ending Balance	Current Portion
<b>Governmental Activities</b>					
Vermont Municipal Bond Bank, 2013 Series I Bonds, interest varies from .444% to 4.644%. Annual principal payments of \$345,000 plus interest, due November 15, 2033	<u>\$ 5,175,000</u>	<u>\$ -</u>	<u>\$ (345,000)</u>	<u>\$4,830,000</u>	<u>\$ 345,000</u>

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Governmental Activities as of June 30, 2020, are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 345,000	\$ 184,890	\$ 529,890
2022	345,000	174,408	519,408
2023	345,000	162,844	507,844
2024	345,000	150,617	495,617
2025	345,000	127,216	472,216
2026-2030	1,725,000	433,711	2,158,711
2031-2034	1,380,000	83,003	1,463,003
TOTAL	\$ 4,830,000	\$1,316,689	\$6,146,689

	Beginning Balance	Additions	Principal Reduction	Ending Balance	Current Portion
<b>Business-Type Funds</b>					
Note payable to State of Vermont, note, 2% administrative fee, due January 1, 2031.	<u>\$ 186,024</u>	<u>\$ -</u>	<u>\$ (13,870)</u>	<u>\$ 172,154</u>	<u>\$ 14,147</u>

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 10 NOTES AND BONDS PAYABLE (continued)**

The annual debt service requirements to maturity, including principle and interest, for long-term debt of Business-Type Funds as of June 30, 2020, are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 14,147	\$ 3,443	\$ 17,590
2022	14,430	3,160	17,590
2023	14,719	2,872	17,591
2024	15,013	2,577	17,590
2025	15,313	2,277	17,590
2026-2030	81,287	6,666	87,953
2031	17,245	345	17,590
	<u>\$ 172,154</u>	<u>\$ 21,340</u>	<u>\$ 193,494</u>

Total interest expense paid for the year ended June 30, 2020 was \$194,779 in the governmental activities funds and \$3,651 in the business-type funds.

**NOTE 11 CAPITAL LEASE**

The Town has six lease agreements as lessee for financing the acquisition of seven pieces of capital equipment. Asset value, estimated useful life, and current year depreciation are listed in the following table. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

Equipment	Value	Useful Life	FY20 Depreciation
Fire Engine	\$ 737,104	15 years	\$ 41,140
Fire Tanker	\$ 497,281	15 years	\$ 29,152
2018 Explorer Police Vehicle	\$ 28,019	5 year	\$ 5,603
Administrative Vehicle	\$ 30,017	5 year	\$ 5,003
Sidewalk Plow	\$ 145,420	5 year	\$ 29,084
FY20 Fire Truck	\$ 731,039	15 years	CIP
Kubota Loader	\$ 59,300	10 years	\$ 2,565

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020 were as follows:

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 11 CAPITAL LEASE (continued)**

Year Ending June 30,	Future Minimum Payments	Net Present Value	Interest
2021	\$ 235,020	\$ 188,575	\$ 46,445
2022	253,213	212,145	41,068
2023	206,607	174,173	32,434
2024	175,017	148,275	26,742
2025	175,017	152,853	22,164
2026-2030	<u>598,002</u>	<u>558,036</u>	<u>39,966</u>
Total minimum lease payments	<u>\$ 1,642,876</u>	<u>\$1,434,057</u>	<u>\$ 208,819</u>

**NOTE 12 DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources on the Government-wide financial statements related solely to the Town's participation in VMERS with \$1,388,296 attributable to Governmental Activities and \$141,788 attributable to Business-Type Activities.

**NOTE 13 UNEARNED REVENUE**

Unearned revenue in the General Fund consists of \$86,697 in police department equitable sharing funds; \$6,555 and \$8,310 in other funds received in advance. The revenue will be recognized as related expenses are incurred. Total Unearned Revenue in the General Fund is \$101,562.

Unearned revenue in the Recreation Programs Fund of \$98,668 consists funds collected for the purpose of providing scholarships (\$9,749), funds raised in support of specific programs (\$7,799), and funds received in advance for recreation programs (\$81,120). This revenue will be earned as related expenses are incurred.

**NOTE 14 DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources in the General Fund consists of \$318,400 in delinquent property taxes, penalties and interest on those taxes that were not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities. There are also \$68,261 of grant receivables not collected within sixty (60) days after year-end. Deferred inflows of resources also includes \$63,353 of prepaid property taxes. Total deferred inflows of resources in the General Fund are \$450,014.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 14 DEFERRED INFLOWS OF RESOURCES (continued)**

Deferred inflows of resources in the Capital Projects Fund consists of \$22,062 of grant receivables not collected within sixty (60) days after year-end as these would not be available to liquidate current liabilities.

Deferred inflows of resources in the Governmental Activities consist \$63,353 of prepaid property taxes and \$89,731 related to the Town's participation in VMERS. Deferred inflows of resources in the Business-Type Activities consist of \$9,164 related to the Town's participation in VMERS.

**NOTE 15 FUND BALANCES AND NET POSITION**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use. The Town has implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

Governmental fund balances are classified as: nonspendable (not in spendable form or legally required to remain intact); restricted (constraints on the use of resources are either externally imposed by creditors, grantors or donors, or imposed by law through enabling legislation); committed (constraints on the use of resources are imposed by formal action of the voters); assigned (reflecting the Selectboard's intended use of resources); and unassigned.

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, 2020 are as follows:

**Governmental Activities**

Restricted for:	
Reappraisal	<u>\$ 815,159</u>

**General Fund**

Nonspendable for:	
Inventory	\$ 176,170
Prepaid expenses	<u>189,426</u>
 Total Nonspendable Fund Balance	 <u>\$ 365,596</u>

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 15 FUND BALANCES AND NET POSITION (continued)**

Restricted for:	
Reappraisal	\$ <u>815,159</u>
Assigned for:	
Public Safety- K9 Program	\$ 3,386
Economic development	9,713
Planning	30,113
Retirement	512,056
Governance Advisory Attorney	92,621
Records preservation	146,148
Community Justice Center	43,244
Conservation	27,739
Personnel costs	200,000
FY21 Costs	49,670
Reduce FY21 Taxes	100,000
Reduce FY22 Taxes	402,500
Transfer to capital	189,717
Assigned for future tax reduction	<u>291,221</u>
Total Assigned Fund Balance	<u>\$2,098,128</u>

**Capital Projects Fund**

Nonspendable for:	
Prepaid expenses	\$ <u>4,646</u>
Assigned for:	
Future vehicle purchases	\$ 267,933
Future parks and recreation projects	630,104
Future highway projects	449,481
Future stormwater projects	579,347
Future building projects	152,681
Future paths projects	258,088
Future conservation initiatives	26,187
Future information management	3,170
Future capital projects	<u>453,077</u>
Total Assigned Fund Balance	<u>\$2,820,068</u>

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 15 FUND BALANCES AND NET POSITION (continued)**

**Water and Sewer Fund**

Designated for:	
Future capital expenses	\$ 684,513
Prepaid expenses	<u>7,628</u>
Total Designated Net Assets	<u>\$ 692,141</u>

**Fiduciary Fund**

Restricted for Cemetery - These funds are accumulated for the maintenance of the cemetery.	<u>\$ 58,128</u>
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When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Town's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Town's policy to use the fund balances in the following order: (1) Committed (2) Assigned (3) Unassigned.

**NOTE 16 DEFINED CONTRIBUTION PLAN**

Prior to January 1, 2004 all full-time employees were covered under the ICMA 401(A) Defined Contribution Plan. Under this plan the town contributes 8% and the employee contributes 3% of employee's salaries. Town contributions to the plan were \$27,250 and the employee contributions were \$10,219 for the year ended June 30, 2020.

**NOTE 17 PENSION PLAN**

**Plan Description**

The Vermont Municipal Employees' Retirement System (VMERS) is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirements is required to join the system. During the year ended June 30, 2019, the retirement system consisted of 379 participating employers.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 17 PENSION PLAN (continued)**

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

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

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

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources**

Net pension liabilities, deferred pension outflows of resources, deferred pension inflows of resources, and pension expense are all presented as of the Town's reporting date June 30, 2020 and for the Town's reporting period (the year ended June 30, 2020). These amounts are measured as of the measurement date and for the measurement period (the period between the prior and current measurement dates). GASB Statement No. 68 requires that the current measurement date be no earlier than the end of the employer's prior fiscal year. For the reporting date of the Town, the State has chosen to use the end of the prior fiscal year (June 30, 2019) as the measurement date, and the year ended June 30, 2019 as the measurement period.

The total pension liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. The State has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of July 1, 2015, to the measurement date of June 30, 2019.

As of June 30, 2019, the Town's proportionate share of the total VMERS net pension liability was 2.30797%, a decrease from 2.38930% as of June 30, 2018. For the year ended June 30, 2020, the Town recognized pension expense of \$1,334,104.

As of June 30, 2020, the Town reported deferred outflows or resources and deferred inflows of resources from the following sources.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 17 PENSION PLAN (continued)**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportional share of contributions	\$ 169,829	\$ 64,284
Difference between projected and actual earnings on pension plan investments	272,725	-
Difference between expected and actual experience	518,775	34,611
Town's required employer contributions made subsequent to the measurement date	435,067	-
Changes in assumptions	<u>133,688</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 1,530,084</u></b>	<b><u>\$ 98,895</u></b>

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows.

<u>Year Ended June 30</u>	
2020	\$ 403,744
2021	237,572
2022	237,367
2023	<u>117,440</u>
Total	<b><u>\$ 996,123</u></b>

**Summary of System Provisions**

**Membership:** Full time employees of participating municipalities. Municipality elects coverage under Groups A, B, C or D provisions. The Town has elected coverage under Group C and D provisions for the year ended June 30, 2020

**Credible Service:** Service as a member plus purchased service.

**Average Final Compensation (AFC):** Group C – Average annual compensation during the highest 3 consecutive years.

Group D – Average annual compensation during highest 2 consecutive years.

**Service Retirement Allowance:**

**Eligibility:** Group C and D – Age 55 with five (5) years of service.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 17 PENSION PLAN (continued)**

Amount: Group C – 2.5% of AFC times service as a Group C member plus percentage earned as a Group A or B member times AFC.

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

Maximum benefit is 50% of AFC for Group C and D. The previous amounts include the portion of the allowance provided by member contributions.

Early Retirement Allowance:

Eligibility: There is no early retirement allowance for Group C. Age 50 with 20 years of Service for Group D.

Amount: Normal allowance on service and AFC at early retirement, payable without reduction to Group D members.

Vested Retirement Allowance:

Eligibility: Five (5) years of service.

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

Disability Retirement Allowance:

Eligibility: Five (5) years of service and disability as determined by Retirement Board.

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

Death Benefit:

Eligibility: Death after five (5) years of service.

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

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 17 PENSION PLAN (continued)**

Optional Benefit and Death after Retirement: For Group C, lifetime allowance or actuarially equivalent 50% or 100% joint and survivor allowance with refund of contribution guarantee. For Group D, lifetime allowance or 70% contingent annuitant option with no reduction.

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

Post-Retirement Adjustments: Allowance in payment for at least one year increased on each January 1 by one-half of the percentage increase in the Consumer Price Index but not more than 3% for Group C and D.

Retirement Stipend: \$25 per month payable at the option of the Board of Trustees.

Member Contributions: Group C – 10.25%  
Group D – 11.60%

Employer Contributions: Group C – 7.50%  
Group D – 10.10%

**Significant Actuarial Assumptions and Methods**

Interest Rate: 7.50%, net of pension plan investment expenses, including inflation

Salary Increases: 5.00% per year.

Deaths:

*Death in Service:*

Group C- 98% of RP-2006 mortality table, blended 60% Blue Collar Employee, 40% Healthy Employee with generational projection using scale SSA-2017.

Group D- 100% of RP-2006 mortality table, Blue Collar Employee Table with generational projection using scale SSA-2017.

*Health Post-Retirement:*

Group C- 98% of RP-2006 mortality table, blended 60% Blue Collar Employee, 40% Healthy Employee with generational projection using scale SSA-2017.

Group D- 100% of RP-2006 Blue Collar Annuitant Table with generational projection using scale SSA-2017.

*Disabled Post-Retirement:*

All Groups- RP-2006 Disabled Mortality Table with generational projection using scale SSA-2017.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 17 PENSION PLAN (continued)**

Spouse's Age: Females three years younger than males.

Cost-of-Living Assumed to occur on January 1 following one year of retirement at the rate of 1.30% per annum for members from Groups C and D (beginning at Normal Retirement eligibility age for members who elect reduced early retirement, at age 62 for members of Group D who receive a disability retirement benefit, and at age 55 for members of Group C who receive a disability retirement benefit) The January 1, 2020 COLA is assumed to be .8% for all groups.

Actuarial Cost Method: Entry Age Actuarial Cost Method. Entry Age is the age at date of employment or, if date is unknown, current age minus years of service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary with Normal Cost determined using the plan benefits applicable to each participant.

Assets: The valuation is based on the market value of assets as of the valuation date, as provided by the System. The System uses an "actuarial value of assets" that differs from market value to gradually reflect year-to-year changes in the market value of assets in determining the contribution requirements.

Inflation: 2.50%

Long-term Expected Rate of Return: The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2019 are summarized in the following table:

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 17 PENSION PLAN (continued)**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global Equity	29.00%	6.90%
US Equity- Large Cap	4.00%	5.94%
US Equity- Small/Mid Cap	3.00%	6.72%
Non-US Equity - Large Cap	5.00%	6.81%
Non-US Equity - Small Cap	2.00%	7.31%
Emerging Markets Debt	4.00%	4.26%
Core Bond	14.00%	1.79%
Non-Core Bonds	6.00%	3.22%
Short Quality Credit	5.00%	1.81%
Private Credit	5.00%	6.00%
US TIPS	3.00%	1.45%
Core Real Estate	5.00%	4.26%
Non-Core Real Estate	3.00%	5.76%
Private Equity	10.00%	10.81%
Infrastructure/Farmland	2.00%	4.89%

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. In accordance with paragraph 29 of GASB 68, professional judgement was applied to determine that the System's projected fiduciary net position exceeds projected benefit payments for current active and inactive members for all years. The analysis was based on the expectation that employers will continue to contribute at the rates set by the Board, which exceed the actuarially determined contribution, which is comprised on an employer normal cost payment and a payment to reduce the unfunded liability to zero by June 30, 2038, Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the proportionate share would be if it were calculated using a discount rate that is one percent lower (6.5%) or one percent higher (8.5%) than the current rate.

<b>1% Decrease (6.50%)</b>	<b>Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
\$ 6,566,177	\$ 4,004,135	\$ 1,883,236

**Additional Information**

Additional information regarding the State of Vermont Municipal Employees' Retirement System, including the details of the Fiduciary Net Position, is available upon request from the State of Vermont.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 18 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 19 LANDFILL POST CLOSURE COSTS**

Landfill post closure costs were 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. The monitoring program outlined in the Closure Order expired in May 2013. Annual water quality monitoring has continued per the request of the State of VT Solid Waste Management Program. Sufficient funds were not set aside in the tipping fee during the landfill's years of operation to cover these continuing expenses. The Town budgets on an annual basis for continued site maintenance and testing. The Town's cost of the site maintenance and testing were \$7,999 for the year ended June 30, 2020.

**NOTE 20 RELATED PARTY**

In July 2014 the Town entered agreements with the Village of Essex Junction and the Essex Junction School District to bill and collect property taxes for each entity. Under the terms of the agreements, the Town purchased the outstanding delinquent taxes, penalty and interest receivables as of July 1, 2014, and assumes liability for the collection of those balances due. The Town will turn over to each entity, one half of the total amounts billed within 20 days of each due date. All penalty and interest that accrues on delinquent balances shall belong to the Town. Included in the Unavailable Property Tax Revenue, is a provision for the delinquent balances associated with the taxes billed for the Village of Essex Junction and The Essex Westford School District. Effective July 2015, the accounting departments of the Village of Essex (the Village) and the Town merged and operate under one accounting system and one operating cash account. At June 30, 2020 \$6,504,535 was owed to the Village from the Town.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 21      CONCENTRATION OF REVENUES**

The Town receives a major portion of its revenue from Global Foundries. For the year ended June 30, 2020, the Town received 3.0% of its total property tax income from Global Foundries.

**NOTE 22      TAX ABATEMENT**

The Town has one tax stabilization agreement that qualifies as a tax abatement per GASB Statement no. 77 Tax Abatement Disclosures. The Town, under the authority of the Town of Essex Selectboard Commercial/Industrial/Mixed Use Tax Stabilization Policy, has entered into a ten-year tax stabilization agreement beginning in FY2018. In exchange the recipient agrees to keep and maintain its manufacturing operation on the property in the Town and create and maintain at least 170 jobs in the Town for the duration of the agreement. The Town has agreed to abate 100% of the municipal taxes for the first five years of the agreement. The percentage of abated taxes decreases to 80% in year 6, 70% in year 7, 60% in year 8, 40% in year 9, and 20% in year 10. For FY2020 the amount of taxes abated totaled \$36,073. The agreement includes provisions to recapture foregone property taxes if the agreement is terminated. If the years elapsed between the close of the tax year when the tax reduction was provided and the year the company became ineligible are two or less the recapture will be 100%; if years elapsed are two to four the recapture will be 50%; and if years elapsed are four to six the recapture will be 25%. This agreement applies to Town taxes only and has no impact on Educational property taxes.

**NOTE 23      PRIOR PERIOD ADJUSTMENT**

Fund balance in the general fund has been adjusted \$4,197 at the beginning of fiscal year 2020 to correct an overstatement of revenue at June 30, 2019.

Net position in the recreation and governmental activities fund has been adjusted \$144,905 and \$4,197, respectively, at the beginning of fiscal year 2020 to correct an overstatement of revenue at June 30, 2019.

**NOTE 24      DISCLOSURE OF SUBSEQUENT EVENTS**

In accordance with professional accounting standards, the Town has evaluated subsequent events through January 22, 2021, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2020, have been incorporated into the financial statements herein.

**Town of Essex, Vermont**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE 24      DISCLOSURE OF SUBSEQUENT EVENTS (continued)**

The Town evaluated its June 30, 2020 financial statements through January 22, 2021, the date the financial statements were available to be issued. As a result of the spread of the COVID-19 Coronavirus, economic uncertainties have arisen which are likely to negatively impact net income. Other financial impact could occur though such potential impact and the duration cannot be reasonably estimated at this time. In March 2020, the Governor of Vermont declared a state of emergency and issued an order to close all nonessential businesses. The closure lasted for months and has still not completely resumed. Some businesses continue to be impacted due to restrictions in operations and the requirement for at least partial student remote learning. Due to the uncertainty of the effect of the virus and whether there could be a resurgence, possible effects may include, but are not limited to, disruption to the Town's cash flow and receivable collections, absenteeism in the Town's labor workforce, unavailability of products and supplies used in operations, and decline in value of assets held by the Town including inventories, property and equipment and marketable securities.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF ESSEX, VERMONT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 BUDGETARY BASIS - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Property tax	\$ 13,562,175	\$ 13,511,133	\$ (51,042)
Licenses and permits	66,300	80,034	13,734
Intergovernmental revenues	392,000	474,261	82,261
Charges for services	451,173	525,621	74,448
Fines and forfeits	175,000	158,330	(16,670)
Interest income	24,000	54,278	30,278
Grant income	-	13,053	13,053
Miscellaneous income	60,001	112,554	52,553
	<u>14,730,649</u>	<u>14,929,264</u>	<u>198,615</u>
Total Revenues			
<b>EXPENDITURES</b>			
General government	3,144,641	3,097,009	47,632
Public safety	4,865,150	4,215,499	649,651
Highways and Streets	3,381,906	3,372,658	9,248
Stormwater	341,500	308,415	33,085
Sanitation	16,000	7,999	8,001
Health and Welfare	284,183	272,247	11,936
Culture and Recreation	1,355,804	1,222,176	133,628
Debt service	539,973	545,717	(5,744)
Intergovernmental	476,842	472,133	4,709
	<u>14,405,999</u>	<u>13,513,853</u>	<u>892,146</u>
Total Expenditures			
Excess of Revenues over Expenditures	<u>324,650</u>	<u>1,415,411</u>	<u>1,090,761</u>
<b>OTHER FINANCING SOURCES/(USES)</b>			
Operating Transfers Out	(424,650)	(873,502)	(448,852)
Proceeds from sale of fixed assets	-	10,793	10,793
	<u>(424,650)</u>	<u>(862,709)</u>	<u>(438,059)</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balance	<u>\$ (100,000)</u>	<u>\$ 552,702</u>	<u>\$ 652,702</u>
<b>RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS</b>			
Excess of Revenues over Expenditures- Budgetary Basis		\$ 552,702	
Adjustments for non-budget:			
Grant revenues		264,064	
Other revenues		53,640	
Police outside duty revenues		111,443	
Grant expenditures		(376,280)	
Other expenditures		(28,421)	
Police outside duty expenditures		(102,435)	
Excess of Revenues over Expenditures- GAAP Basis		<u>\$ 474,713</u>	

See Accompanying Notes to Basic Financial Statements.

TOWN OF ESSEX, VERMONT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 FOR THE YEAR ENDED JUNE 30, 2020

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Town's proportion of the net pension liability (asset)	2.3080%	2.3893%	2.1170%	1.9431%	1.8136%	1.8721%	1.7839%
Town's proportionate share of the net pension liability (asset)	<u>\$ 4,004,134</u>	<u>\$ 3,361,144</u>	<u>\$ 2,564,813</u>	<u>\$ 2,500,717</u>	<u>\$ 1,398,230</u>	<u>\$ 170,857</u>	<u>\$ 649,480</u>
Town's covered-employee payroll	<u>\$ 5,494,183</u>	<u>\$ 5,388,738</u>	<u>\$ 4,765,037</u>	<u>\$ 4,109,687</u>	<u>\$ 3,653,790</u>	<u>\$ 3,610,210</u>	<u>\$ 3,294,379</u>
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	72.88%	62.37%	53.83%	60.85%	38.27%	4.73%	19.71%
Plan fiduciary net position as a percentage of the total pension liability	80.35%	82.60%	83.64%	80.95%	87.42%	98.32%	92.71%

*Significant Actuarial Assumptions and methods are described in Note 14 to the financial statements. Changes in Assumptions and Methods were effective June 30, 2019:  
 There were no changes in methods or assumption during the year ended June 30, 2019*

See Accompanying Notes to Basic Financial Statements.

TOWN OF ESSEX, VERMONT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS  
 FOR THE YEAR ENDED JUNE 30, 2020

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions (Actuarially Determined)	\$ 443,441	\$ 418,499	\$ 345,718	\$ 295,324	\$ 253,517	\$ 241,486	\$ 214,135
Contributions in Relation to the Actuarially Determined Contributions	<u>443,441</u>	<u>418,499</u>	<u>345,718</u>	<u>295,324</u>	<u>253,517</u>	<u>241,486</u>	<u>214,135</u>
Covered Employee Payroll	<u>\$ 5,494,183</u>	<u>\$ 5,388,738</u>	<u>\$ 4,765,037</u>	<u>\$ 4,109,687</u>	<u>\$ 3,653,790</u>	<u>\$ 3,610,210</u>	<u>\$ 3,294,379</u>
Contributions as a Percentage of Covered Employee Payroll	8.07%	7.77%	7.26%	6.20%	6.17%	6.69%	6.50%

*Significant Actuarial Assumptions and methods are described in Note 14 to the financial statements. Changes in Assumptions and Methods were effective June 30, 2019:*

*There were no changes in methods or assumption during the year ended June 30, 2019*

See Accompanying Notes to Basic Financial Statements.