

**TOWN OF ESSEX, MASSACHUSETTS**

**INDEPENDENT AUDITORS' REPORT ON  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**



**TOWN OF ESSEX, MASSACHUSETTS**  
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**BASIC FINANCIAL STATEMENTS AND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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# *Independent Auditors' Report*

## Independent Auditors' Report

To the Honorable Board of Selectmen  
Town of Essex, Massachusetts

### Report on the Financial Statements

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 the Town of Essex, Massachusetts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Essex, Massachusetts' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, Massachusetts, as of June 30, 2013, 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 (located on pages 4 through 13) and budgetary comparison and certain pension and other postemployment benefits information (located on pages 55 through 61) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2014 on our consideration of the Town of Essex, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Essex, Massachusetts' internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Boston, Massachusetts  
February 14, 2014

# *Management's Discussion and Analysis*



TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

As management of the Town of Essex, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2013.

***Financial Highlights***

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$35,994,915 (net position). Of this amount, \$16,062,555 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$5,487,988 in the current fiscal year.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$1,317,498, or 10.0%, of total general fund expenditures and transfers out.
- The Town's total long-term debt decreased by \$1,391,942 during the fiscal year.

***Overview of the Basic Financial Statements***

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains other required supplementary information in addition to the basic financial statements.

**Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The **statement of net position** presents information on all of the Town's non-fiduciary assets, deferred outflows, liabilities and deferred inflows 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** presents information showing how the government'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, earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include sewer and water activities.

The government-wide financial statements can be found on pages 15-17 of this report.

TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower 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. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 79 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, community preservation (special revenue) and Conomo Point (special revenue) funds, each of which are considered to be major funds. Data from the other 76 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 18-21 of this report.

**Proprietary funds**

The Town maintains one type of proprietary fund.

*Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its sewer and water activities, which are considered to be major funds.

The basic proprietary funds financial statements can be found on pages 22-24 of this report.

TOWN OF ESSEX, MASSACHUSETTS  
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**Fiduciary funds**

Fiduciary funds are used to 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 Town's programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary funds financial statements can be found on pages 25-26 of this report.

**Notes to the basic financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-54 of this report.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension and other post employment benefits information, which can be located on pages 55-61 of this report.

***Government-Wide Financial Analysis***

The following tables present current and prior year data on the government-wide financial statements.

Net position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$35,994,915 at the close of the fiscal year and are summarized as follows:

TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
<b>Assets</b>						
Current assets.....	\$ 9,770,820	\$ 3,832,786	\$ 3,641,725	\$ 3,605,219	\$ 13,412,545	\$ 7,438,005
Noncurrent assets (excluding capital assets).....	197,871	310,915	11,910,163	12,852,154	12,108,034	13,163,069
Capital assets (net).....	3,498,002	3,163,196	26,830,266	27,430,553	30,328,268	30,593,749
<b>Total assets.....</b>	<b>13,466,693</b>	<b>7,306,897</b>	<b>42,382,154</b>	<b>43,887,926</b>	<b>55,848,847</b>	<b>51,194,823</b>
<b>Liabilities</b>						
Current liabilities (excluding debt).....	901,711	491,012	501,143	499,226	1,402,854	990,238
Noncurrent liabilities (excluding debt).....	923,281	800,460	190,884	156,343	1,114,165	956,803
Current debt.....	131,291	131,242	1,418,569	1,409,700	1,549,860	1,540,942
Noncurrent debt.....	442,116	573,407	15,344,937	16,626,506	15,787,053	17,199,913
<b>Total liabilities.....</b>	<b>2,398,399</b>	<b>1,996,121</b>	<b>17,455,533</b>	<b>18,691,775</b>	<b>19,853,932</b>	<b>20,687,896</b>
<b>Net Position</b>						
Net investment in capital assets.....	3,152,368	2,672,320	10,069,881	9,397,468	13,222,249	12,069,788
Restricted.....	6,710,111	1,373,921	-	-	6,710,111	1,373,921
Unrestricted.....	1,205,815	1,264,535	14,856,740	15,798,683	16,062,555	17,063,218
<b>Total net assets.....</b>	<b>\$ 11,068,294</b>	<b>\$ 5,310,776</b>	<b>\$ 24,926,621</b>	<b>\$ 25,196,151</b>	<b>\$ 35,994,915</b>	<b>\$ 30,506,927</b>

A portion of the Town's net position (36.8%) reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, machinery, vehicles and equipment and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (18.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (44.6% or \$16,062,555) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$1,205,815 may be used to support governmental activities and \$14,856,740 may be used to support business-type activities.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net position

For the fiscal year ended June 30, 2013, the Town's total net position increased by \$5,487,988, compared to a decrease of \$111,373 in the prior fiscal year. These amounts are summarized as follows:

TOWN OF ESSEX, MASSACHUSETTS  
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JUNE 30, 2013

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for services.....	\$ 533,602	\$ 476,859	\$ 1,524,689	\$ 1,536,149	\$ 2,058,291	\$ 2,013,008
Operating grants and contributions.....	326,030	330,355	588,946	631,463	914,976	961,818
Capital grants and contributions.....	296,224	197,784	-	-	296,224	197,784
<i>General Revenues:</i>						
Real estate and personal property taxes.....	10,993,849	10,599,592	-	-	10,993,849	10,599,592
Motor vehicle and other excise taxes.....	556,851	477,338	-	-	556,851	477,338
Conomo Point lease revenue.....	573,188	319,740	-	-	573,188	319,740
Penalties and interest on taxes.....	69,689	50,263	-	-	69,689	50,263
Community preservation surcharges.....	45,173	42,697	-	-	45,173	42,697
Grants and contributions not restricted to specific programs.....	268,807	287,322	-	-	268,807	287,322
Unrestricted investment income.....	11,840	11,209	-	-	11,840	11,209
<b>Total revenues.....</b>	<b>13,675,253</b>	<b>12,793,159</b>	<b>2,113,635</b>	<b>2,167,612</b>	<b>15,788,888</b>	<b>14,960,771</b>
<b>Expenses</b>						
General government.....	1,537,975	1,329,962	-	-	1,537,975	1,329,962
Public safety.....	2,274,167	2,165,143	-	-	2,274,167	2,165,143
Education.....	7,497,392	7,373,980	-	-	7,497,392	7,373,980
Public works.....	1,110,599	1,053,203	-	-	1,110,599	1,053,203
Health and human services.....	271,098	261,180	-	-	271,098	261,180
Culture and recreation.....	188,592	200,447	-	-	188,592	200,447
Debt service - interest.....	13,416	14,546	-	-	13,416	14,546
Sewer.....	-	-	1,948,311	1,949,810	1,948,311	1,949,810
Water.....	-	-	728,545	723,873	728,545	723,873
<b>Total expenses.....</b>	<b>12,893,239</b>	<b>12,398,461</b>	<b>2,676,856</b>	<b>2,673,683</b>	<b>15,570,095</b>	<b>15,072,144</b>
Change in net position before special item and transfers.....	782,014	394,698	(563,221)	(506,071)	218,793	(111,373)
Special item - gain on sale of assets.....	5,269,195	-	-	-	5,269,195	-
Transfers, net.....	(293,691)	(293,690)	293,691	293,690	-	-
Change in net position.....	5,757,518	101,008	(269,530)	(212,381)	5,487,988	(111,373)
Net position - beginning of year.....	5,310,776	5,209,768	25,196,151	25,408,532	30,506,927	30,618,300
Net position - end of year.....	\$ 11,068,294	\$ 5,310,776	\$ 24,926,621	\$ 25,196,151	\$ 35,994,915	\$ 30,506,927

Governmental activities increased the Town's net position by \$5,757,518. In the prior year, governmental activities increased the Town's net position by \$101,008. The key element of this change was the Town's sale of various Conomo Point properties (\$5,267,949).

Business-type activities decreased the Town's net position by \$269,530. In the prior year, business-type activities decreased the Town's net position by \$212,381. The key element of this change was a decrease in the sewer enterprise subsidy from the MWPAT (approximately \$42,000).

**Fund Financial Statement Analysis**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$8,549,966, an increase of \$5,404,190 in comparison with the prior year. Approximately \$1,317,000 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$387,947)
- Restricted (\$6,418,231)
- Committed (\$387,811)
- Assigned (\$38,479)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$1,317,498, while total fund balance was \$1,784,038. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 10.0% of total general fund expenditures and transfers out, while total fund balance represents 13.5% of that same amount.

The balance of the Town's general fund increased by \$75,038 during fiscal year 2013. The Town anticipated utilizing approximately \$735,000 of reserves to fund the budget; however, the Town ultimately recognized an approximate \$1,139,000 budgetary surplus (excluding encumbrances and continuing appropriations). Furthermore, tax refunds payable increased approximately \$365,000 due to increased appellate tax board exposure.

Financial highlights of the Town's other major governmental fund is as follows:

The fund balance of the community preservation fund (special revenue) increased by \$44,198 during the current fiscal year. This is attributable to community preservation surcharges (\$44,919), intergovernmental revenues (\$11,454), investment income (\$605) and expenditures of \$12,780.

The fund balance of the Conomo Point fund (special revenue) increased by \$5,266,303 during the current fiscal year, which was primarily attributable to the sale of various Conomo Point properties totaling \$5,267,949.

Proprietary funds

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

Unrestricted net position of the sewer and water enterprise funds at the end of the year amounted to \$14,317,938 and \$538,802, respectively. The sewer and water enterprise funds had decreases in net position for the year of \$264,702 and \$5,458, respectively.

Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$13,116,173 was increased by \$404,481 (3.0%) during the fiscal year. The following table summarizes the increase:

TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Purpose of Increase	Amount	Funding Source
Town Hall and library building renovations.....	\$ 137,000	Unassigned fund balance
Replenish finance committee reserve fund .....	127,921	Unassigned fund balance
Conomo Point legal expenses.....	50,000	Real estate and personal property taxes
Police cruiser.....	37,000	Unassigned fund balance
Police body armour.....	15,500	Unassigned fund balance
Fire and police station roof repairs.....	15,000	Unassigned fund balance
Funding of OPEB trust fund.....	15,000	Unassigned fund balance
Police detail revolving fund deficit.....	3,690	Transfer from electrical inspections fund
Police detail revolving fund deficit.....	1,864	Unassigned fund balance
Police detail revolving fund deficit.....	1,170	Transfer from plumbing inspections fund
FY 12 unpaid consulting services invoice .....	336	Unassigned fund balance
<b>Total increase.....</b>	<b>\$ <u>404,481</u></b>	

During the year, general fund revenues, other financing sources and uses exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgeted appropriations, resulting in a positive budget to actual variance of approximately \$989,000.

***Capital Asset and Debt Administration***

Capital assets

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$30,328,268 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year totaled \$265,481, or 0.9% (a \$334,806 increase for governmental activities and a \$600,287 decrease for business-type activities).

Major capital asset events that occurred during the current fiscal year include the following:

- Roadway infrastructure (\$171,477)
- Purchase of a fire truck (\$192,148)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
Land.....	\$ 133,095	\$ 133,095	\$ 2	\$ 2	\$ 133,097	\$ 133,097
Land improvements.....	414,463	448,622	-	-	414,463	448,622
Buildings and improvements.....	1,377,767	1,394,013	754,286	828,633	2,132,053	2,222,646
Machinery, vehicles and equipment.....	915,874	804,019	118,411	66,479	1,034,285	870,498
Infrastructure.....	456,394	297,343	25,957,567	26,535,439	26,413,961	26,832,782
Construction in progress.....	200,409	86,104	-	-	200,409	86,104
<b>Total capital assets.....</b>	<b>\$ <u>3,498,002</u></b>	<b>\$ <u>3,163,196</u></b>	<b>\$ <u>26,830,266</u></b>	<b>\$ <u>27,430,553</u></b>	<b>\$ <u>30,328,268</u></b>	<b>\$ <u>30,593,749</u></b>

Additional information on the Town's capital assets can be found in Note 5 on pages 41-42 of this report.

TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$17,199,913, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
General obligation bonds.....	\$ 135,000	\$ 205,000	\$ 1,215,000	\$ 1,325,000	\$ 1,350,000	\$ 1,530,000
MWPAT notes.....	320,707	346,949	15,411,506	16,562,206	15,732,213	16,909,155
State House notes.....	117,700	152,700	-	-	117,700	152,700
Total bonds and notes.....	<u>\$ 573,407</u>	<u>\$ 704,649</u>	<u>\$ 16,626,506</u>	<u>\$ 17,887,206</u>	<u>\$ 17,199,913</u>	<u>\$ 18,591,855</u>

The Town's total bonded debt decreased by \$1,391,942 (7.5%) during the current fiscal year.

State statutes limit the amount of general obligation debt the Town may issue to 5.0% of its equalized valuation. The current debt limit is \$39,934,230.

Additional information on the Town's long-term debt can be found in Note 9 on pages 45-47 of this report.

***Economic Factors and Next Year's Budgets and Rates***

The development of the fiscal year 2014 general fund operating budget was influenced by five major factors: employee salary increases, decreased "new growth", level-funded state receipts, limitations on the property tax levy imposed by Proposition 2 1/2, and the Manchester Essex Regional School District budget apportionment. Revenue from leased property at Conomo Point is another factor that the Town is closely monitoring as we head toward fiscal year 2015 and the Town has realized a net savings associated with our recent migration from our own emergency dispatch center to a new, regional dispatch center in Middleton.

Approximately 60% of municipal employees are covered by collective bargaining agreements (CBAs) in two different unions (AFSCME and the Essex Police Benevolent Association - EPBA). Both CBAs were renewed, effective July 1, 2013 and run for three years. The actual percentage increase to union and non-union salaries and wages was 1.0% between fiscal year 2013 and fiscal year 2014 (excepting the EPBA, which had a 1.0% increase as of July 1, 2013 and another 1.0% increase as of January 1, 2014).

In fiscal year 2013, the Commonwealth of Massachusetts provided the Town with \$241,540 in State Cherry Sheet aid. This amount was \$8,246, or 3.5%, higher than received in fiscal year 2012. This follows a 6.8% decrease from fiscal year 2011 to fiscal year 2012. \$237,911 in State aid is expected for fiscal year 2014, representing essentially level funding. In addition, a new State assessment of \$56,975 was added in fiscal year 2014 for the new regional dispatch center. However, as noted above, the transition to the new center actually represents a net savings to the Town of approximately \$170,000 in fiscal year 2014. Further, Essex voters adopted the local option meals tax, effective October 1, 2013, which will generate additional excise revenue to the Town in fiscal year 2014.



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JUNE 30, 2013

Property taxes in Massachusetts' municipalities are limited to a levy growth of 2 ½ percent plus a factor for "new growth", unless the voters elect to approve an increase for operating expenses or debt service for a specific project. Spending was impacted from an increase in "new growth" from \$104,437 in fiscal year 2012 to \$133,947 in fiscal year 2013. \$79,084 in "new growth" has been certified for fiscal year 2014.

The Manchester Essex Regional School District apportions its annual operating budget to the Towns of Essex and Manchester-by-the-Sea using a formula found in the Regional School Agreement that formed the District. For fiscal year 2014, the Essex apportionment increased by 2.4% (\$151,937) and totaled \$6,481,083. Also in fiscal year 2014, a debt assessment from the District relative to the new Manchester Essex Regional High School building construction of \$811,358 comes due and is covered by a debt exclusion outside of the Proposition 2 ½ limit. This assessment represents a \$49,653 increase from the fiscal year 2013 assessment of \$761,705.

The Town presently leases property in an area known as Conomo Point to residential leaseholders and has done so for over 100 years. The last of the long-term leases (ten-year leases) for this property expired on December 31, 2011. The Selectmen entered into bridge leases at the end of the ten-year leases, in order for the Town to plan further. Town Meeting approved of that concept at the 2011 Annual Town Meeting after the Town received Special Legislation to offer bridge leases to the current leaseholders. The Selectmen offered 121 bridge leases and, ultimately, 119 leaseholders signed. Bridge leases have been offered annually, for a total of three, one-year terms thus far. Approximately 40 properties in the southern area of Conomo Point have been or will soon be sold to the tenants (as per Special Legislation and a 2012 Annual Town Meeting vote) and the segregated proceeds from the sale of those properties to date is just over \$5.8M. In May of 2014, the Town Meeting will likely consider authorizing the sale of the Beach Circle neighborhoods (which is part of Central Conomo Point). In calendar year one, revenue from bridge leases was \$606,300, which represents an approximate \$500,000 increase over revenue generated from the expiring leases. In calendar year two, revenue from bridge leases was \$576,916, which represents a \$29,384 decrease in revenue as compared with the year-one leases. Year-three leases are expected to generate approximately \$630,000, as affected by how many tenants in the central area (central tenants will likely have to rent at least one more calendar year to allow for the sale process to unfold) and the northern areas opt to pay third-year rates. It is possible that the remaining northern area will be long-term leased again in the future but its status is simply not known at this time since Town Meeting action will dictate the issue's future. In the summer and fall of 2013, the Town received two very favorable legal decisions after tenants sued the Town over who owns the structures on the Town's land and whether the Town had the right to charge a certain rental rate. The court found that the structures of two named plaintiffs became property of the Town at the expiration of the leases and that two other named plaintiffs' sole remedy was to remove their structures from the Town land at the expiration of the leases. The court also upheld the Town's rental rates that had been set at the end of 2011. This issue has the potential to be revenue-positive or revenue-negative and will include such factors as property sale proceeds, new lease revenue, loss of lease revenue, redistribution of taxes, development of vacated property, substantial legal fees, and other complex issues.

### *Requests for Information*

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town of Essex, 30 Martin Street, Essex, MA 01929.

# *Basic Financial Statements*

TOWN OF ESSEX, MASSACHUSETTS  
STATEMENT OF NET POSITION  
JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents.....	\$ 2,460,678	\$ 2,161,174	\$ 4,621,852
Restricted cash and cash equivalents.....	1,779,881	3,121	1,783,002
Restricted investments.....	4,833,358	-	4,833,358
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	316,874	-	316,874
Tax liens.....	189,534	-	189,534
Motor vehicle and other excise taxes.....	50,310	-	50,310
Community preservation surcharges.....	1,627	-	1,627
Water.....	-	292,325	292,325
Sewer.....	-	257,882	257,882
Special assessments.....	-	802,052	802,052
Departmental and other.....	43,608	-	43,608
Intergovernmental.....	78,719	125,171	203,890
Loans.....	16,231	-	16,231
<b>Total current assets.....</b>	<b>9,770,820</b>	<b>3,641,725</b>	<b>13,412,545</b>
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Special assessments.....	-	10,042,045	10,042,045
Intergovernmental.....	-	1,868,118	1,868,118
Loans.....	170,057	-	170,057
Tax foreclosures.....	27,814	-	27,814
Capital assets not being depreciated.....	333,504	2	333,506
Capital assets, net of accumulated depreciation.....	3,164,498	26,830,264	29,994,762
<b>Total noncurrent assets.....</b>	<b>3,695,873</b>	<b>38,740,429</b>	<b>42,436,302</b>
<b>Total assets.....</b>	<b>13,466,693</b>	<b>42,382,154</b>	<b>55,848,847</b>
<b>LIABILITIES</b>			
Current liabilities:			
Warrants payable.....	208,154	47,428	255,582
Accrued payroll.....	70,417	11,725	82,142
Tax refunds payable.....	530,090	-	530,090
Other liabilities.....	28,154	-	28,154
Accrued interest.....	4,682	437,311	441,993
Capital lease obligations.....	45,540	-	45,540
Compensated absences.....	14,674	4,679	19,353
Short-term notes payable.....	-	137,000	137,000
Long-term bonds and notes payable.....	131,291	1,281,569	1,412,860
<b>Total current liabilities.....</b>	<b>1,033,002</b>	<b>1,919,712</b>	<b>2,952,714</b>
Noncurrent liabilities:			
Capital lease obligations.....	72,177	-	72,177
Compensated absences.....	132,069	42,106	174,175
Net OPEB obligation.....	719,035	148,778	867,813
Long-term bonds and notes payable.....	442,116	15,344,937	15,787,053
<b>Total noncurrent liabilities.....</b>	<b>1,365,397</b>	<b>15,535,821</b>	<b>16,901,218</b>
<b>Total liabilities.....</b>	<b>2,398,399</b>	<b>17,455,533</b>	<b>19,853,932</b>
<b>NET POSITION</b>			
Net investment in capital assets.....	3,152,368	10,069,881	13,222,249
Restricted for:			
Capital purposes.....	5,266,303	-	5,266,303
Employee benefits.....	15,321	-	15,321
Community preservation.....	282,548	-	282,548
Loans.....	186,288	-	186,288
Ambulance.....	349,138	-	349,138
Permanent funds:			
Expendable.....	32,498	-	32,498
Nonexpendable.....	201,659	-	201,659
Other specific purposes.....	376,356	-	376,356
Unrestricted.....	1,205,815	14,856,740	16,062,555
<b>Total net position.....</b>	<b>\$ 11,068,294</b>	<b>\$ 24,926,621</b>	<b>\$ 35,994,915</b>

The accompanying notes are an integral part of the financial statements.

TOWN OF ESSEX, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>					
Governmental activities:					
General government.....	\$ 1,537,975	\$ 252,244	\$ 16,812	\$ 11,454	\$ (1,257,465)
Public safety.....	2,274,167	243,554	25,201	50,134	(1,955,278)
Education.....	7,497,392	-	261,804	-	(7,235,588)
Public works.....	1,110,599	4,405	-	234,636	(871,558)
Health and human services.....	271,098	29,984	9,939	-	(231,175)
Culture and recreation.....	188,592	3,415	12,274	-	(172,903)
Debt service - interest.....	13,416	-	-	-	(13,416)
Total governmental activities.....	<u>12,893,239</u>	<u>533,602</u>	<u>326,030</u>	<u>296,224</u>	<u>(11,737,383)</u>
Business-type activities:					
Sewer.....	1,948,311	802,375	588,173	-	(557,763)
Water.....	<u>728,545</u>	<u>722,314</u>	<u>773</u>	<u>-</u>	<u>(5,458)</u>
Total business-type activities.....	<u>2,676,856</u>	<u>1,524,689</u>	<u>588,946</u>	<u>-</u>	<u>(563,221)</u>
Total primary government.....	<u>\$ 15,570,095</u>	<u>\$ 2,058,291</u>	<u>\$ 914,976</u>	<u>\$ 296,224</u>	<u>\$ (12,300,604)</u>

(continued)

TOWN OF ESSEX, MASSACHUSETTS  
STATEMENT OF ACTIVITIES (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Changes in net position:</b>			
Net (expense)/revenue (from previous page).....	\$ (11,737,383)	\$ (563,221)	\$ (12,300,604)
<i>General revenues:</i>			
Real estate and personal property taxes.....	10,993,849	-	10,993,849
Motor vehicle and other excise taxes.....	556,851	-	556,851
Lease revenue.....	573,188	-	573,188
Penalties and interest on taxes.....	69,689	-	69,689
Community preservation surcharges.....	45,173	-	45,173
Grants and contributions not restricted to specific programs.....	268,807	-	268,807
Unrestricted investment income.....	11,840	-	11,840
<i>Special item - gain on sale of assets</i> .....	5,269,195	-	5,269,195
<i>Transfers, net</i> .....	(293,691)	293,691	-
Total general revenues, special item and transfers (net).....	17,494,901	293,691	17,788,592
Change in net position.....	5,757,518	(269,530)	5,487,988
Net position - beginning of year.....	5,310,776	25,196,151	30,506,927
Net position - end of year.....	\$ 11,068,294	\$ 24,926,621	\$ 35,994,915

(concluded)

The accompanying notes are an integral part of the financial statements.

TOWN OF ESSEX, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2013

ASSETS	General	Community Preservation	Conomo Point	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 2,460,678	\$ -	\$ -	\$ -	\$ 2,460,678
Receivables, net of allowance for uncollectible amounts:					
Real estate and personal property taxes.....	316,874	-	-	-	316,874
Tax liens.....	189,534	-	-	-	189,534
Motor vehicle and other excise taxes.....	50,310	-	-	-	50,310
Community preservation surcharges.....	-	1,627	-	-	1,627
Departmental and other.....	-	-	-	43,608	43,608
Intergovernmental.....	-	-	-	78,719	78,719
Loans.....	-	-	-	186,288	186,288
Tax foreclosures.....	27,814	-	-	-	27,814
Restricted assets:					
Cash and cash equivalents.....	40,250	280,921	432,945	1,025,765	1,779,881
Investments.....	-	-	4,833,358	-	4,833,358
<b>TOTAL ASSETS.....</b>	<b>\$ 3,085,460</b>	<b>\$ 282,548</b>	<b>\$ 5,266,303</b>	<b>\$ 1,334,380</b>	<b>\$ 9,968,691</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Warrants payable.....	\$ 136,086	\$ -	\$ -	\$ 72,068	\$ 208,154
Accrued payroll.....	70,417	-	-	-	70,417
Tax refunds payable.....	530,090	-	-	-	530,090
Other liabilities.....	28,154	-	-	-	28,154
Deferred revenue.....	536,675	1,627	-	43,608	581,910
<b>TOTAL LIABILITIES.....</b>	<b>1,301,422</b>	<b>1,627</b>	<b>-</b>	<b>115,676</b>	<b>1,418,725</b>
<b>FUND BALANCES:</b>					
Nonspendable.....	-	-	-	387,947	387,947
Restricted.....	40,250	280,921	5,266,303	830,757	6,418,231
Committed.....	387,811	-	-	-	387,811
Assigned.....	38,479	-	-	-	38,479
Unassigned.....	1,317,498	-	-	-	1,317,498
<b>TOTAL FUND BALANCES.....</b>	<b>1,784,038</b>	<b>280,921</b>	<b>5,266,303</b>	<b>1,218,704</b>	<b>8,549,966</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 3,085,460</b>	<b>\$ 282,548</b>	<b>\$ 5,266,303</b>	<b>\$ 1,334,380</b>	<b>\$ 9,968,691</b>

The accompanying notes are an integral part of the financial statements.

TOWN OF ESSEX, MASSACHUSETTS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2013

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Total governmental fund balances (page 18).....	\$	8,549,966
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		3,498,002
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		581,910
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(4,682)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable.....		(573,407)
Capital lease obligations.....		(117,717)
Compensated absences.....		(146,743)
Net OPEB obligation.....		(719,035)
Net position of governmental activities (page 15).....	\$	<u>11,068,294</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ESSEX, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General	Community Preservation	Conomo Point	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Real estate and personal property taxes.....	\$ 10,992,746	\$ -	\$ -	\$ -	\$ 10,992,746
Motor vehicle and other excise taxes.....	534,208	-	-	-	534,208
Tax liens.....	24,816	-	-	-	24,816
Community preservation surcharges.....	-	44,919	-	-	44,919
Charges for services.....	162,270	-	-	81,483	243,753
Intergovernmental.....	516,117	11,454	-	273,004	800,575
Special assessments.....	-	-	-	3,560	3,560
Penalties and interest on taxes.....	69,689	-	-	-	69,689
Licenses and permits.....	173,754	-	-	-	173,754
Fines and forfeitures.....	15,110	-	-	-	15,110
Lease revenue.....	573,188	-	-	-	573,188
Departmental.....	77,351	-	-	22,022	99,373
Contributions.....	-	-	-	24,398	24,398
Investment income.....	13,373	605	(1,646)	918	13,250
<b>TOTAL REVENUES.....</b>	<b>13,152,622</b>	<b>56,978</b>	<b>(1,646)</b>	<b>405,385</b>	<b>13,613,339</b>
<b>EXPENDITURES</b>					
Current:					
General government.....	1,277,550	-	-	87,409	1,364,959
Public safety.....	1,872,225	-	-	23,446	1,895,671
Education.....	7,164,591	-	-	-	7,164,591
Public works.....	884,749	-	-	268,955	1,153,704
Health and human services.....	173,133	-	-	21,875	195,008
Culture and recreation.....	102,548	12,780	-	14,230	129,558
Pension benefits.....	556,373	-	-	-	556,373
Employee benefits.....	479,119	-	-	-	479,119
Property and liability insurance.....	70,239	-	-	-	70,239
State and county charges.....	29,154	-	-	-	29,154
Debt service:					
Principal.....	131,242	-	-	-	131,242
Interest.....	15,035	-	-	-	15,035
<b>TOTAL EXPENDITURES.....</b>	<b>12,755,958</b>	<b>12,780</b>	<b>-</b>	<b>415,915</b>	<b>13,184,653</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>396,664</b>	<b>44,198</b>	<b>(1,646)</b>	<b>(10,530)</b>	<b>428,686</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in.....	137,214	-	-	166,395	303,609
Sale of capital assets.....	1,246	-	5,267,949	-	5,269,195
Transfers out.....	(460,086)	-	-	(137,214)	(597,300)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(321,626)</b>	<b>-</b>	<b>5,267,949</b>	<b>29,181</b>	<b>4,975,504</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>75,038</b>	<b>44,198</b>	<b>5,266,303</b>	<b>18,651</b>	<b>5,404,190</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>1,709,000</b>	<b>236,723</b>	<b>-</b>	<b>1,200,053</b>	<b>3,145,776</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,784,038</b>	<b>\$ 280,921</b>	<b>\$ 5,266,303</b>	<b>\$ 1,218,704</b>	<b>\$ 8,549,966</b>

The accompanying notes are an integral part of the financial statements.



TOWN OF ESSEX, MASSACHUSETTS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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Net change in fund balances - total governmental funds (page 20)..... \$ 5,404,190

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. These amounts represent the related activity of the current period.

Capital outlays.....	614,777
Depreciation.....	(279,971)

Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue..... 11,780

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.

Bond maturities.....	131,242
Capital lease maturities.....	43,256

In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable..... 1,619

Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:

Net OPEB obligation.....	(159,228)
Compensated absences.....	(10,147)

Changes in net position of governmental activities (page 17)..... \$ 5,757,518

The accompanying notes are an integral part of the financial statements.

TOWN OF ESSEX, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF FUND NET POSITION  
 JUNE 30, 2013

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents.....	\$ 1,833,355	\$ 327,819	\$ 2,161,174
Restricted cash and cash equivalents.....	3,121	-	3,121
Receivables, net of allowance for uncollectible amounts:			
User charges.....	257,882	292,325	550,207
Special assessments.....	787,311	14,741	802,052
Intergovernmental.....	125,171	-	125,171
Total current assets.....	<u>3,006,840</u>	<u>634,885</u>	<u>3,641,725</u>
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Special assessments.....	9,964,571	77,474	10,042,045
Intergovernmental.....	1,868,118	-	1,868,118
Capital assets not being depreciated.....	-	2	2
Capital assets, net of accumulated depreciation.....	<u>25,998,108</u>	<u>832,156</u>	<u>26,830,264</u>
Total noncurrent assets.....	<u>37,830,797</u>	<u>909,632</u>	<u>38,740,429</u>
Total assets.....	<u>40,837,637</u>	<u>1,544,517</u>	<u>42,382,154</u>
<b>LIABILITIES</b>			
Current liabilities:			
Warrants payable.....	11,423	36,005	47,428
Accrued payroll.....	3,582	8,143	11,725
Accrued interest.....	437,311	-	437,311
Compensated absences.....	1,831	2,848	4,679
Short-term notes payable.....	-	137,000	137,000
Long-term bonds and notes payable.....	<u>1,251,569</u>	<u>30,000</u>	<u>1,281,569</u>
Total current liabilities.....	<u>1,705,716</u>	<u>213,996</u>	<u>1,919,712</u>
Noncurrent liabilities:			
Compensated absences.....	16,478	25,628	42,106
Net OPEB obligation.....	47,845	100,933	148,778
Long-term bonds and notes payable.....	<u>15,094,937</u>	<u>250,000</u>	<u>15,344,937</u>
Total noncurrent liabilities.....	<u>15,159,260</u>	<u>376,561</u>	<u>15,535,821</u>
Total liabilities.....	<u>16,864,976</u>	<u>590,557</u>	<u>17,455,533</u>
<b>FUND NET POSITION</b>			
Net investment in capital assets.....	9,654,723	415,158	10,069,881
Unrestricted.....	<u>14,317,938</u>	<u>538,802</u>	<u>14,856,740</u>
Total fund net position.....	<u>\$ 23,972,661</u>	<u>\$ 953,960</u>	<u>\$ 24,926,621</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ESSEX, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>OPERATING REVENUES</b>			
Charges for services.....	\$ 587,928	\$ 709,389	\$ 1,297,317
Penalties and interest.....	214,447	12,925	227,372
<b>TOTAL OPERATING REVENUES.....</b>	<b>802,375</b>	<b>722,314</b>	<b>1,524,689</b>
<b>OPERATING EXPENSES</b>			
Cost of service and administration.....	616,900	625,458	1,242,358
Depreciation.....	603,216	89,231	692,447
<b>TOTAL OPERATING EXPENSES.....</b>	<b>1,220,116</b>	<b>714,689</b>	<b>1,934,805</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(417,741)</b>	<b>7,625</b>	<b>(410,116)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Intergovernmental.....	586,952	-	586,952
Investment income.....	1,221	773	1,994
Interest expense.....	(728,195)	(13,856)	(742,051)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(140,022)</b>	<b>(13,083)</b>	<b>(153,105)</b>
<b>(LOSS) BEFORE TRANSFERS .....</b>	<b>(557,763)</b>	<b>(5,458)</b>	<b>(563,221)</b>
<b>TRANSFERS</b>			
Transfers in.....	293,691	-	293,691
<b>CHANGE IN FUND NET POSITION.....</b>	<b>(264,072)</b>	<b>(5,458)</b>	<b>(269,530)</b>
<b>FUND NET POSITION AT BEGINNING OF YEAR.....</b>	<b>24,236,733</b>	<b>959,418</b>	<b>25,196,151</b>
<b>FUND NET POSITION AT END OF YEAR.....</b>	<b>\$ 23,972,661</b>	<b>\$ 953,960</b>	<b>\$ 24,926,621</b>

The accompanying notes are an integral part of the financial statements.

TOWN OF ESSEX, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users.....	\$ 1,567,251	\$ 712,528	\$ 2,279,779
Payments to vendors.....	(453,766)	(267,058)	(720,824)
Payments to employees.....	(147,589)	(309,483)	(457,072)
	<u>965,896</u>	<u>135,987</u>	<u>1,101,883</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers in.....	293,691	-	293,691
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from the issuance of bonds and notes.....	-	137,000	137,000
Acquisition and construction of capital assets.....	(43,260)	(48,900)	(92,160)
Principal payments on bonds and notes.....	(1,115,332)	(179,000)	(1,294,332)
Interest expense.....	(169,246)	(13,857)	(183,103)
	<u>(1,327,838)</u>	<u>(104,757)</u>	<u>(1,432,595)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income.....	1,221	773	1,994
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(67,030)	32,003	(35,027)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$3,121 reported as restricted in the Sewer Enterprise Fund).....	1,903,506	295,816	2,199,322
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$3,121 reported as restricted in the Sewer Enterprise Fund).....	\$ <u>1,836,476</u>	\$ <u>327,819</u>	\$ <u>2,164,295</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>			
Operating income (loss).....	\$ (417,741)	\$ 7,625	\$ (410,116)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Changes in assets and liabilities not requiring current cash flows:			
Depreciation.....	603,216	89,231	692,447
Increase in net OPEB obligation.....	10,877	21,943	32,820
Effect of changes in operating assets and liabilities:			
User charges.....	(20,022)	(22,190)	(42,212)
Special assessments.....	784,898	12,404	797,302
Warrants payable.....	2,958	26,258	29,216
Accrued payroll.....	1,306	(793)	513
Accrued compensated absences.....	404	1,509	1,913
Total adjustments.....	<u>1,383,637</u>	<u>128,362</u>	<u>1,511,999</u>
NET CASH FROM OPERATING ACTIVITIES.....	\$ <u>965,896</u>	\$ <u>135,987</u>	\$ <u>1,101,883</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>			
Intergovernmental debt subsidies (MWPAT) - principal.....	\$ 586,952	\$ -	\$ 586,952
Intergovernmental debt subsidies (MWPAT) - interest.....	115,368	-	115,368

The accompanying notes are an integral part of the financial statements.

TOWN OF ESSEX, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET POSITION  
 JUNE 30, 2013

<b>ASSETS</b>	Private Purpose Trust Funds	Agency Funds
Cash and cash equivalents.....	\$ 383,368	\$ 67,271
Receivables, net of allowance for uncollectible amounts:		
Departmental and other.....	-	10,642
Total assets.....	<u>383,368</u>	<u>77,913</u>
<b>LIABILITIES</b>		
Warrants payable.....	-	1,888
Accrued payroll.....	-	645
Liabilities due depositors.....	-	75,380
Total liabilities.....	<u>-</u>	<u>77,913</u>
<b>NET POSITION</b>		
Assets held in trust for other purposes.....	<u>\$ 383,368</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ESSEX, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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	<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>	
Net investment income:	
Interest.....	\$ <u>1,094</u>
<b>DEDUCTIONS</b>	
Other.....	<u>1,688</u>
CHANGE IN NET POSITION.....	(594)
NET POSITION AT BEGINNING OF YEAR.....	<u>383,962</u>
NET POSITION AT END OF YEAR.....	\$ <u><u>383,368</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ESSEX, MASSACHUSETTS  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General**

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**B. Reporting Entity**

The Town of Essex, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen (Board).

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. It has been determined that there are no component units that require inclusion in the basic financial statements.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in two joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The following table identifies the Town's joint ventures and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2013 Assessment</u>
Manchester Essex Regional School District	To provide educational services	36 Lincoln Street Manchester-by-the Sea, MA	\$ 7,090,851
North Shore Technical High School	To provide educational services	36 Log Bridge Road Middleton, MA	73,741

The Manchester Essex Regional School District is governed by a six member school committee consisting of two elected representatives from the Town. The Town is indirectly liable for the Manchester Essex Regional School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

The North Shore Technical High School is governed by a fifteen member school committee consisting of one elected representative (appointed by the Board of Selectmen) from the Town. The Town is indirectly liable for the North Shore Technical High School's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

**C. Implementation of New Accounting Principles**

For the year ending June 30, 2013, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB Statement No. 63 identifies net position as the residual of all other elements presented in a statement of financial position, which amends the net asset reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements, by renaming net assets to net position and defining net position to incorporate the effects of deferred inflows and outflows.

The implementation of GASB Statement No.'s 60, 61 and 62 had no reporting impact for the Town.

**D. Government-Wide and Fund Financial Statements**

Government-Wide Financial Statements

The government-wide financial statements (statement of net position and the statement activities) report information on all non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are primarily supported by user fees.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Fiduciary funds are reported by fund type.



TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

***E. Measurement Focus, Basis of Accounting and Basis of Presentation***

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

**Governmental funds** financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after the end of the fiscal year. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund.

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

The *community preservation fund* is a special revenue fund used to account for the 0.5% local real estate tax surcharge on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes. Property exempt from the surcharge consists of the first \$100,000 of all residential property and also property owned by low income residents or seniors with low or moderate income as defined by Massachusetts Department of Revenue (DOR) guidelines. Disbursements from this fund must originate from the Community Preservation Committee and approved by Town Meeting.

The *Conomo Point fund* is a special revenue fund used to account for the sales proceeds of various properties located in the Conomo Point area of town.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

*Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

*Capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

*Permanent funds* are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

**Proprietary funds** financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following proprietary funds are reported:

The *sewer enterprise fund* is reported as a major fund and is used to account for the sewer activities.

The *water enterprise fund* is reported as a major fund and is used to account for the water activities.

**Fiduciary funds** financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government's programs.

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

The following fiduciary fund types are reported:

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefits individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist of performance bonds and bid deposits. Agency funds do not present the results of operations or have a measurement focus.

**F. Deposits and Investments**

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

**G. Accounts Receivable**

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide and proprietary funds' financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements is reported under the modified accrual basis of accounting.

**Real Estate Taxes, Personal Property Taxes and Tax Liens**

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date.

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

**Motor Vehicle Excise Taxes**

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

**Community Preservation Surcharges**

Community preservation surcharges are levied annually at a rate of 0.5% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

**Water and Sewer Charges and Utility Liens**

Water and sewer user charges are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer user charges are recorded as receivables in the fiscal year of the levy and are recorded under the accrual basis of accounting. Utility liens are processed quarterly and are included as a lien on the property owner's tax bill.

**Special Assessments**

Special assessments for sewer betterments are levied annually based on the final sewer connection costs incurred related to the inter-municipal agreement entered into with the City of Gloucester. Residents have the option of paying their respective share of the betterment in full or over a period of up to 20 years and are subject to penalties and interest if they are not paid by the respective due dates. Sewer betterments are recorded as receivables in the fiscal year of the levy and are recorded under the accrual basis of accounting.

Special assessments for water betterments are levied based on various water system improvement costs incurred by the Town. Residents have the option of paying their respective share of the betterment in full or over a period of up to 20 years and are subject to penalties and interest if they are not paid by the respective due dates. Water betterments are recorded as receivables in the fiscal year of the levy and are recorded under the accrual basis of accounting.

**Departmental and Other**

Departmental and other receivables consist primarily of police detail and ambulance receivables and are recorded as receivables in the fiscal year accrued.

**Intergovernmental**

Various state and federal operating and capital grants are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

**Loans**

The Town administers a loan program to residents that provide assistance to comply with Title V (related to septic systems) requirements. Loans are recorded as receivables upon issuance.

***H. Allowance for Uncollectible Amounts***

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Certain tax liens
- Motor vehicle and other excise taxes
- Departmental and other

As of June 30, 2013, the allowance for uncollectible accounts for personal property taxes, motor vehicle and other excise taxes and departmental and other accounts receivable are immaterial and therefore not reported.

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Real estate taxes
- Community preservation surcharges
- Water and sewer charges and utility liens
- Special assessments
- Loans

Intergovernmental receivables are considered 100% collectible.

**I. Inventories**

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements and therefore are not reported.

**J. Restricted Assets**

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

**K. Capital Assets**

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$10,000 for land; \$50,000 for buildings; \$25,000 for land and building improvements; and \$5,000 for all other capital assets are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

Capital Asset Type	Estimated Useful Life (in years)
Land improvements.....	20 - 40
Buildings and improvements.....	20 - 40
Machinery, vehicles and equipment.....	5 - 15
Infrastructure.....	50

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Funds Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

**L. Interfund Receivables and Payables**

During the course of its operations, transactions occur between funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

**M. Interfund Transfers**

During the course of its operations, resources are permanently reallocated between within funds.

Government-Wide Financial Statements

Transfers between governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

*N. Deferred Revenue*

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide financial statements (full accrual).

*O. Net position and Fund Balances*

Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net position)

Net position represents the residual difference between assets and deferred outflows less liabilities and deferred inflows. The Town had no deferred inflows or outflows at June 30, 2013. Net position is reported as restricted when amounts are restricted by outside parties for a specific future use.

Net position has been “restricted” for the following:

“Capital purposes” represents amounts restricted as a result of the sale of town land.

“Employee benefits” represents amounts restricted for other postemployment benefits.

“Community preservation” represents amounts restricted for open space, historic resource and affordable housing purposes.

“Loans” represents outstanding septic loans receivable.

“Ambulance” represents amounts restricted for ambulance activities.

“Permanent funds – expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds – nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other specific purposes” represents restrictions placed on assets from outside parties.

Governmental Funds Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

*Nonspendable* – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

*Restricted* – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – represents amounts that can be used only for specific purposes imposed by a formal action of Town Meeting, which is the highest level of decision-making authority for the Town. Committed amounts may be established, modified, or rescinded only through actions approved by Town Meeting.

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

*Assigned* – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the Town’s structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

*Unassigned* – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

***P. Long-term Debt***

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. No unamortized bond premiums or discounts are reported at June 30, 2013.

Governmental Funds Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

***Q. Investment Income***

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from enterprise (proprietary) funds is retained in the funds.

***R. Compensated Absences***

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Funds Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Funds Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon employee retirements and resignations.



TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

**S. *Post Retirement Benefits***

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, and as more fully described in Note 11, the Town provides health and life insurance coverage for current and future retirees and their spouses.

**T. *Use of Estimates***

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

**U. *Total Column***

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. *Budgetary Information***

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases to the original budget subsequent to the approval of the annual budget require Special Town Meeting approval.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2013 approved budget for the general fund authorized \$13,116,173 in appropriations and other amounts to be raised. During fiscal year 2013, supplemental appropriations totaling \$404,481 were authorized.

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

The Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

**B. Excess of Expenditures Over Appropriations**

During the fiscal year ended June 30, 2013, expenditures exceeded appropriations for state and county charges by \$880.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool - the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent funds and private purpose trust funds are held separately from other Town funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2013, the Town's deposits were not exposed to custodial credit risk.

Investments Summary

The Town's investments at June 30, 2013 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (Yrs)</u>	<u>Less Than 1</u>	<u>1 - 5</u>
<u>Debt Securities:</u>				
Money market mutual funds.....	\$ 423,576	\$ 423,576	\$ -	-
Fixed income securities.....	4,833,358	4,098,758	734,600	-
External investment pools.....	118,601	118,601	-	-
 Total debt securities.....	 \$ 5,375,535	 \$ 4,640,935	 \$ 734,600	 -

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Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2013 the Town's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2013, the Town's debt securities were not rated by a national credit rating organization.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town does not have a policy for concentration of credit risk. As of June 30, 2013, the Town was not exposed to concentration of credit risk.

**NOTE 4 - ACCOUNTS RECEIVABLE**

At June 30, 2013, receivables for the individual major governmental funds, nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 316,874	\$ -	\$ 316,874
Tax liens.....	571,753	(382,219)	189,534
Motor vehicle and other excise taxes.....	50,310	-	50,310
Community preservation surcharges.....	1,627	-	1,627
Departmental and other.....	54,250	-	54,250
Intergovernmental.....	78,719	-	78,719
Loans.....	186,288	-	186,288
	<u>\$ 1,259,821</u>	<u>\$ (382,219)</u>	<u>\$ 877,602</u>

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At June 30, 2013, receivables for the enterprise funds consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Water.....	\$ 292,325	\$ -	\$ 292,325
Sewer.....	257,882	-	257,882
Special assessments.....	10,844,097	-	10,844,097
Intergovernmental.....	1,993,289	-	1,993,289
	<u>\$ 13,387,593</u>	<u>\$ -</u>	<u>\$ 13,387,593</u>

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 269,017	\$ -	\$ 269,017
Tax liens.....	189,534	-	189,534
Motor vehicle and other excise taxes.....	50,310	-	50,310
Community preservation surcharges.....	-	1,627 (a)	1,627
Departmental and other.....	-	43,608 (b)	43,608
Tax foreclosures.....	27,814	-	27,814
	<u>\$ 536,675</u>	<u>\$ 45,235</u>	<u>\$ 581,910</u>

- (a) Community Preservation Fund (Major Fund)
- (b) Nonmajor Governmental Funds

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**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 133,095	\$ -	\$ -	\$ 133,095
Construction in progress.....	<u>86,104</u>	<u>114,305</u>	<u>-</u>	<u>200,409</u>
Total capital assets not being depreciated.....	<u>219,199</u>	<u>114,305</u>	<u>-</u>	<u>333,504</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	693,530	-	-	693,530
Buildings and improvements.....	3,492,179	53,687	-	3,545,866
Machinery, vehicles and equipment.....	1,986,901	275,308	(129,286)	2,132,923
Infrastructure.....	<u>341,896</u>	<u>171,477</u>	<u>-</u>	<u>513,373</u>
Total capital assets being depreciated.....	<u>6,514,506</u>	<u>500,472</u>	<u>(129,286)</u>	<u>6,885,692</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(244,908)	(34,159)	-	(279,067)
Buildings and improvements.....	(2,098,166)	(69,933)	-	(2,168,099)
Machinery, vehicles and equipment.....	(1,182,882)	(163,453)	129,286	(1,217,049)
Infrastructure.....	<u>(44,553)</u>	<u>(12,426)</u>	<u>-</u>	<u>(56,979)</u>
Total accumulated depreciation.....	<u>(3,570,509)</u>	<u>(279,971)</u>	<u>129,286</u>	<u>(3,721,194)</u>
Total capital assets being depreciated, net.....	<u>2,943,997</u>	<u>220,501</u>	<u>-</u>	<u>3,164,498</u>
Total governmental activities capital assets, net.....	<u>\$ 3,163,196</u>	<u>\$ 334,806</u>	<u>\$ -</u>	<u>\$ 3,498,002</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2	\$ -	\$ -	\$ 2
 <u>Capital assets being depreciated:</u>				
Buildings and improvements.....	2,957,000	-	-	2,957,000
Machinery, vehicles and equipment.....	155,597	72,760	-	228,357
Infrastructure.....	29,815,100	19,400	-	29,834,500
	<u>32,927,697</u>	<u>92,160</u>	<u>-</u>	<u>33,019,857</u>
 <u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(2,128,367)	(74,347)	-	(2,202,714)
Machinery, vehicles and equipment.....	(89,118)	(20,827)	-	(109,945)
Infrastructure.....	(3,279,661)	(597,273)	-	(3,876,934)
	<u>(5,497,146)</u>	<u>(692,447)</u>	<u>-</u>	<u>(6,189,593)</u>
Total capital assets being depreciated, net.....	<u>27,430,551</u>	<u>(600,287)</u>	<u>-</u>	<u>26,830,264</u>
Total business-type activities capital assets, net.....	<u>\$ 27,430,553</u>	<u>\$ (600,287)</u>	<u>\$ -</u>	<u>\$ 26,830,266</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General government.....	\$ 40,496
Public safety.....	106,783
Education.....	29,430
Public works.....	78,057
Culture and recreation.....	25,205
	<u>279,971</u>
Total depreciation expense - governmental activities.....	<u>\$ 279,971</u>

**Business-Type Activities:**

Water.....	\$ 89,231
Sewer.....	603,216
	<u>692,447</u>
Total depreciation expense - business-type activities.....	<u>\$ 692,447</u>

TOWN OF ESSEX, MASSACHUSETTS  
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**NOTE 6 - INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

Transfers Out:	Transfers In:			
	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	Total
General Fund.....	\$ -	\$ 166,395	\$ 293,691	\$ 460,086 (1)
Nonmajor Governmental Funds....	137,214	-	-	137,214 (2)
	\$ 137,214	\$ 166,395	\$ 293,691	\$ 597,300

(1) Represents budgeted transfers for sewer enterprise fund subsidy (\$293,691) and funding of town hall and library improvements fund (\$137,000). Also represents funding of waterways improvement fund (\$5,580) and transfer of unspent balances to ambulance (\$12,587), cemetery lot care (\$8,720), and wetlands protection (\$2,508) funds.

(2) Represents budgeted transfers to fund the fiscal year 2013 operating budget from the ambulance (\$75,112), septic title V (\$26,242), cemetery lot care (\$15,800), cemetery sale of lots (\$11,400), electrical inspections (\$3,690) wetland protection (\$3,500), plumbing inspections (\$1,170) and cemetery perpetual care (\$300) funds.

**NOTE 7 - SHORT-TERM FINANCING**

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively. Interest expense in the government-wide financial statements is reported in the applicable governmental or business-type activities column.

Details related to the short-term debt activity for the fiscal year ended June 30, 2013, is as follows:

*Notes Payable - Enterprise Funds*

Type	Purpose	Origination Date	Maturity Date	Rate %	Balance at June 30, 2012	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2013
BAN	Pond Street water mains..	8/05/11	8/03/12	1.05	\$ 149,000	\$ -	\$ (149,000)	\$ -
BAN	Pond Street water mains..	8/03/12	8/02/13	0.55	-	137,000	-	137,000
Total.....					\$ 149,000	\$ 137,000	\$ (149,000)	\$ 137,000

TOWN OF ESSEX, MASSACHUSETTS  
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Subsequent Events

On July 10, 2013, the Town issued a BAN in the amount of \$600,000, at an interest rate of 0.60% with a maturity date of July 10, 2014, for the purpose of funding repairs to Town Hall and the Library.

On August 2, 2013, the Town paid down \$12,000 of the Pond Street Water Mains BAN with available funds and renewed the BAN in the amount of \$125,000, at an interest rate of 0.64% with a maturity date of August 1, 2014.

**NOTE 8 - LONG-TERM OBLIGATIONS**

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2013:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable.....	\$ 704,649	\$ -	\$ (131,242)	\$ 573,407	\$ 131,291
Capital lease obligations.....	160,973	-	(43,256)	117,717	45,540
Net OPEB obligations.....	559,807	249,214	(89,986)	719,035	-
Compensated absences.....	136,596	10,147	-	146,743	14,674
Total.....	<u>\$ 1,562,025</u>	<u>\$ 259,361</u>	<u>\$ (264,484)</u>	<u>\$ 1,556,902</u>	<u>\$ 191,505</u>

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion
<b>Business-type Activities:</b>					
Bonds and notes payable.....	\$ 17,887,206	\$ 310,000	\$ (1,230,700)	\$ 16,966,506	\$ 1,251,569
Net OPEB obligations.....	115,958	51,367	(18,547)	148,778	-
Compensated absences.....	44,872	1,913	-	46,785	4,679
Total.....	<u>\$ 18,048,036</u>	<u>\$ 363,280</u>	<u>\$ (1,249,247)</u>	<u>\$ 17,162,069</u>	<u>\$ 1,256,248</u>

Long-term liabilities of the governmental activities are generally liquidated by the general fund. Long-term liabilities of the business-type activities are generally liquidated by the sewer and water enterprise funds.



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**NOTE 9 - LONG-TERM DEBT**

Details related to the outstanding indebtedness at June 30, 2013, and the debt service requirements are as follows:

***Bonds and Notes Payable - Governmental Funds***

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
MWPAT - Title V Loan.....	8/1/19	5.33	\$ 42,963	\$ -	\$ (5,431)	\$ 37,532
MWPAT - Title V Loan.....	8/1/22	4.90	21,625	-	(1,913)	19,712
DPW Barn.....	8/15/14	3.55	150,000	-	(50,000)	100,000
Fire Pumper.....	8/15/14	3.53	55,000	-	(20,000)	35,000
MWPAT - Title V Loan.....	7/15/25	0.00	140,000	-	(10,000)	130,000
MWPAT - Title V Loan.....	7/15/27	0.00	142,361	-	(8,898)	133,463
State House Note - DPW Barn.....	2/1/17	3.10	152,700	-	(35,000)	117,700
Total.....			\$ 704,649	\$ -	\$ (131,242)	\$ 573,407

Debt service requirements for principal and interest for governmental bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2014.....	\$ 131,291	\$ 10,446	\$ 141,737
2015.....	126,291	6,348	132,639
2016.....	61,194	3,573	64,767
2017.....	38,894	2,097	40,991
2018.....	26,194	1,298	27,492
2019.....	26,194	894	27,088
2020.....	26,194	495	26,689
2021.....	20,860	249	21,109
2022.....	20,905	150	21,055
2023.....	20,905	50	20,955
2024.....	18,897	-	18,897
2025.....	18,897	-	18,897
2026.....	18,897	-	18,897
2027.....	8,897	-	8,897
2028.....	8,897	-	8,897
Total.....	\$ 573,407	\$ 25,600	\$ 599,007

TOWN OF ESSEX, MASSACHUSETTS  
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***Bonds Payable –Water Enterprise Fund***

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Refunding Water Treatment Facility.....	8/15/20	3.70	\$ 180,000	\$ -	\$ (20,000)	\$ 160,000
Refunding Water Storage Tank.....	8/15/24	3.99	130,000	-	(10,000)	120,000
Total.....			<u>\$ 310,000</u>	<u>\$ -</u>	<u>\$ (30,000)</u>	<u>\$ 280,000</u>

Debt service requirements for principal and interest for the water enterprise fund bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest
2014.....	\$ 30,000	\$ 11,175
2015.....	30,000	10,012
2016.....	30,000	8,775
2017.....	30,000	7,500
2018.....	30,000	6,225
2019.....	30,000	4,950
2020.....	30,000	3,675
2021.....	30,000	2,400
2022.....	10,000	1,550
2023.....	10,000	1,119
2024.....	10,000	675
2025.....	10,000	225
Total.....	<u>\$ 280,000</u>	<u>\$ 58,281</u>

***Bonds and Notes Payable –Sewer Enterprise Fund***

Project	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
MWPAT.....	4.43	\$ 3,000,913	\$ -	\$ (206,715)	\$ 2,794,198
MWPAT.....	4.43	3,713,229	-	(254,502)	3,458,727
MWPAT.....	4.43	1,668,029	-	(114,434)	1,553,595
Sewer.....	3.99	1,015,000	-	(80,000)	935,000
MWPAT.....	0.00	6,754,812	-	(482,486)	6,272,326
MWPAT.....	0.00	836,558	-	(55,771)	780,787
MWPAT.....	0.00	588,665	-	(36,792)	551,873
Total.....		<u>\$ 17,577,206</u>	<u>\$ -</u>	<u>\$ (1,230,700)</u>	<u>\$ 16,346,506</u>

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Debt service requirements for principal and interest for the sewer enterprise fund bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014.....	\$ 1,251,569	\$ 694,940	\$ 1,946,509
2015.....	1,275,049	637,736	1,912,785
2016.....	1,300,049	578,997	1,879,046
2017.....	1,320,049	519,754	1,839,803
2018.....	1,340,049	460,266	1,800,315
2019.....	1,365,050	399,597	1,764,647
2020.....	1,385,050	338,659	1,723,709
2021.....	1,405,049	277,589	1,682,638
2022.....	1,430,048	215,377	1,645,425
2023.....	1,455,048	151,867	1,606,915
2024.....	1,465,048	87,389	1,552,437
2025.....	650,048	41,300	691,348
2026.....	575,048	20,650	595,698
2027.....	92,561	-	92,561
2028.....	36,791	-	36,791
Total.....	\$ <u>16,346,506</u>	\$ <u>4,424,121</u>	\$ <u>20,770,627</u>

The Town receives subsidy assistance from the MWPAT. Principal and interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2013, the Town's subsidy totaled approximately \$702,000. Future subsidies total approximately \$5,486,000. The amount of MWPAT bonds outstanding at June 30, 2013, totaled \$15,732,213.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2013, the Town had the following authorized and unissued long-term debt:

<u>Purpose</u>	<u>Amount</u>
Town hall repairs.....	\$ 600,000 **
Pond Street water mains.....	<u>137,000 *</u>
Total.....	<u><u>737,000</u></u>

\* Short-term debt of \$137,000 has been issued and is outstanding at June 30, 2013 for the Pond Street water mains.

\*\* Short term debt of \$600,000 has been issued subsequent to year end.

**NOTE 10 - CAPITAL LEASES**

The Town has entered into certain capital lease agreements for a fire truck and dump truck under which the machinery, vehicles and equipment will become property of the Town when all terms of the lease agreement are met. The agreements also contain early purchase options which would allow the Town to purchase the machinery, vehicles and equipment before the end of the lease terms.

TOWN OF ESSEX, MASSACHUSETTS  
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The following schedule presents future minimum lease payments as of June 30, 2013:

Fiscal Years Ending June 30	Governmental Activities
2014.....	\$ 51,214
2015.....	38,652
2016.....	38,652
Total minimum lease payments.....	128,518
Less: amounts representing interest.....	(10,801)
Present value of minimum lease payments...	\$ 117,717

Machinery and equipment and the related accumulated amortization under capital leases is as follows:

<u>Asset:</u>	Governmental Activities
Machinery and equipment.....	\$ 442,640
Less: accumulated amortization.....	(166,586)
Total.....	\$ 276,054

Amortization of leased machinery, vehicles and equipment under capital leases is included with depreciation expense, which is allocated functionally.

**NOTE 11 - OTHER POST EMPLOYMENT BENEFITS**

*Plan Description* - The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2010, the latest actuarial valuation, is as follows:

Active employees.....	28
Retired employees.....	25
Total.....	53

TOWN OF ESSEX, MASSACHUSETTS  
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**Funding Policy** - The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health insurance contribution rates of Plan members and the Town are 25% and 75%, respectively. The Plan members and Town each contribute 50% towards a life insurance policy. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

**Annual OPEB Cost and Net OPEB Obligation** - The Town's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the Town net OPEB obligation:

	Amount
Annual required contribution.....	\$ 309,362
Interest on net OPEB obligation.....	27,031
Adjustment to annual required contribution.....	(35,812)
Annual OPEB cost.....	300,581
Contributions made.....	(108,533)
Increase in net OPEB obligation.....	192,048
Net OPEB obligation at beginning of year.....	675,765
Net OPEB obligation at end of year.....	\$ 867,813

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2011.....	\$ 311,879	35.6%	\$ 479,724
June 30, 2012.....	304,525	35.6%	675,765
June 30, 2013.....	300,581	36.1%	867,813

TOWN OF ESSEX, MASSACHUSETTS  
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**Funded Status and Funding Progress** - The funded status of the Plan at July 1, 2010, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/10	\$ -	\$ 3,513,659	\$ 3,513,659	0.0%	\$ 2,794,869	125.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2010
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level dollar amortization over 30 years at transition
Remaining amortization period:	27 years at July 1, 2010 (closed)
Interest discount rate:	4.00%
Healthcare/Medical cost trend rate:	8.00% in fiscal year 2011 decreasing by 1.00% for 3 years to an ultimate level of 5.00% per year
Projected salary increases:	4.50% annually

TOWN OF ESSEX, MASSACHUSETTS  
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*Allocation of AOPEBC* - AOPEBC costs were allocated to the Town's functions as follows:

<b>Governmental Activities:</b>	
General government.....	\$ 38,174
Public safety.....	94,683
Education.....	37,573
Public works.....	44,218
Health and human services.....	15,931
Culture and recreation.....	<u>18,636</u>
Total AOPEBC - governmental activities.....	<u>249,214</u>
 <b>Business-Type Activities:</b>	
Water.....	34,344
Sewer.....	<u>17,024</u>
Total AOPEBC - business-type activities.....	<u>51,367</u>
Total AOPEBC.....	<u><u>\$ 300,581</u></u>

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 12 - FUND BALANCES**

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	<u>General</u>	<u>Community Preservation</u>	<u>Conomo Point</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable:</b>					
Loans.....	\$ -	\$ -	\$ -	\$ 186,288	\$ 186,288
Permanent fund principal.....	-	-	-	201,659	201,659
Sub-total - Nonspendable.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>387,947</u>	<u>387,947</u>
<b>Restricted for:</b>					
Municipal insurance.....	24,929	-	-	-	24,929
Ambulance.....	-	-	-	305,530	305,530
General government.....	-	-	-	161,403	161,403
Public safety.....	-	-	-	40,067	40,067
Public works.....	-	-	-	290,444	290,444
Health and human services.....	-	-	-	5,849	5,849
Culture and recreation.....	-	-	-	27,464	27,464
Community preservation.....	-	280,921	-	-	280,921
Other postemployment benefits.....	15,321	-	-	-	15,321
Capital purposes.....	-	-	5,266,303	-	5,266,303
Sub-total - Restricted.....	<u>40,250</u>	<u>280,921</u>	<u>5,266,303</u>	<u>830,757</u>	<u>6,418,231</u>
<b>Committed to:</b>					
Subsequent year's expenditures.....	277,079	-	-	-	277,079
Continuing appropriations.....	110,732	-	-	-	110,732
Sub-total - Committed.....	<u>387,811</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>387,811</u>
<b>Assigned to:</b>					
Public safety.....	20,498	-	-	-	20,498
Other.....	17,981	-	-	-	17,981
Sub-total - Assigned.....	<u>38,479</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,479</u>
<b>Unassigned.....</b>	<u>1,317,498</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,317,498</u>
	<u>\$ 1,784,038</u>	<u>\$ 280,921</u>	<u>\$ 5,266,303</u>	<u>\$ 1,218,704</u>	<u>\$ 8,549,966</u>

**NOTE 13 - STABILIZATION FUNDS**

The Town maintains a general stabilization fund that was established under MGL Chapter 40, Section 5B. Appropriations in and out of the stabilization fund require two-thirds vote of Town meeting. Investment income is retained by the fund.

The balance of the stabilization fund at June 30, 2013 totals \$657,170 and is reported as unassigned fund balance in the general fund.



TOWN OF ESSEX, MASSACHUSETTS  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2013

**NOTE 14 - RISK FINANCING**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in a premium-based health care plan for its active employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years. The Town also participates in a premium-based workers' compensation plan.

The Town has a municipal building fund that is used to subsidize the Town's premium-based insurance. As of June 30, 2013, this fund had a balance of \$24,929, which is reported in the general fund as restricted fund balance.

**NOTE 15 - OPERATING LEASES (RENTAL INCOME)**

The Town leases land to property owners within the Conomo Point area of the Town. For the year ended June 30, 2013, the Town recorded approximately \$573,188 in rental income, which is reported in the general fund as lease revenue. The following represents the future minimum lease payments to be received under operating leases at June 30, 2013:

Fiscal Year	Amount
2014.....	\$ 587,992
2015.....	314,707

**NOTE 16 - PENSION PLAN**

*Plan Description* - The Town contributes to the Essex Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Essex Regional Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 491 Maple Street, Danvers, Massachusetts 01923.

*Funding Policy* - Chapter 32 of MGL governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll. The Town's contributions to the System for the fiscal years ended June 30, 2013, 2012, and 2011 were \$385,212, \$326,923, and \$299,371 respectively, which equaled its required contribution for each fiscal year.

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 17 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM**

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$261,803 for the fiscal year ended June 30, 2013, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

**NOTE 18 - CONTINGENCIES**

Various other legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2013.

The Town participates in a number of federal award programs. The programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

**NOTE 19 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.
- Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is required to be implemented during fiscal year 2014. Management has determined that the implementation of this Statement will not impact the basic financial statements.
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Town will be required to recognize its total long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented during fiscal year 2015. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.

This information is an integral part of the accompanying financial statements.

## *Required Supplementary Information*

TOWN OF ESSEX, MASSACHUSETTS  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
(NON-GAAP BUDGETARY BASIS)  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
<b>REVENUES</b>				
Real estate and personal property taxes.....	\$ -	\$ 11,260,340	\$ 50,000	\$ 11,310,340
Motor vehicle and other excise taxes.....	-	480,800	-	480,800
Tax and utility liens.....	-	-	-	-
Charges for services.....	-	142,000	-	142,000
Intergovernmental .....	-	245,950	-	245,950
Penalties and interest on taxes.....	-	46,500	-	46,500
Licenses and permits.....	-	168,100	-	168,100
Fines and forfeitures.....	-	16,000	-	16,000
Lease revenue.....	-	339,500	-	339,500
Departmental.....	-	30,800	-	30,800
Investment income.....	-	7,000	-	7,000
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>12,736,990</b>	<b>50,000</b>	<b>12,786,990</b>
<b>EXPENDITURES</b>				
Current:				
General government.....	91,525	1,217,616	159,330	1,468,471
Public safety.....	34,113	1,905,890	97,574	2,037,577
Education.....	-	7,286,113	-	7,286,113
Public works.....	10,564	933,247	(808)	943,003
Health and human services.....	2,055	196,753	-	198,808
Culture and recreation.....	-	109,542	-	109,542
Pension benefits.....	-	300,465	-	300,465
Employee benefits.....	-	616,829	(3,615)	613,214
Property and liability insurance.....	-	70,239	-	70,239
State and county charges.....	-	28,274	-	28,274
Debt service:				
Principal.....	-	131,242	-	131,242
Interest.....	-	26,272	-	26,272
<b>TOTAL EXPENDITURES.....</b>	<b>138,257</b>	<b>12,822,482</b>	<b>252,481</b>	<b>13,213,220</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(138,257)</b>	<b>(85,492)</b>	<b>(202,481)</b>	<b>(426,230)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in.....	-	132,354	4,860	137,214
Sale of capital assets.....	-	-	-	-
Transfers out.....	-	(293,691)	(152,000)	(445,691)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>(161,337)</b>	<b>(147,140)</b>	<b>(308,477)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(138,257)</b>	<b>(246,829)</b>	<b>(349,621)</b>	<b>(734,707)</b>
<b>FUND BALANCE AT BEGINNING OF YEAR.....</b>	<b>1,165,075</b>	<b>1,165,075</b>	<b>1,165,075</b>	<b>1,165,075</b>
<b>FUND BALANCE AT END OF YEAR.....</b>	<b>\$ 1,026,818</b>	<b>\$ 918,246</b>	<b>\$ 815,454</b>	<b>\$ 430,368</b>

See accompanying notes to required supplementary information.

	Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$	11,340,748	\$ -	\$ 11,340,748	\$ 30,408
	534,208	-	534,208	53,408
	24,816	-	24,816	24,816
	162,270	-	162,270	20,270
	254,313	-	254,313	8,363
	69,689	-	69,689	23,189
	173,754	-	173,754	5,654
	15,110	-	15,110	(890)
	573,188	-	573,188	233,688
	77,351	-	77,351	46,551
	9,140	-	9,140	2,140
	<u>13,234,587</u>	<u>-</u>	<u>13,234,587</u>	<u>447,597</u>
	1,277,550	58,319	1,335,869	132,602
	1,872,225	76,947	1,949,172	88,405
	7,164,592	-	7,164,592	121,521
	884,749	9,639	894,388	48,615
	173,133	4,306	177,439	21,369
	102,548	-	102,548	6,994
	294,569	-	294,569	5,896
	479,119	-	479,119	134,095
	70,239	-	70,239	-
	29,154	-	29,154	(880)
	131,242	-	131,242	-
	15,035	-	15,035	11,237
	<u>12,494,155</u>	<u>149,211</u>	<u>12,643,366</u>	<u>569,854</u>
	<u>740,432</u>	<u>(149,211)</u>	<u>591,221</u>	<u>1,017,451</u>
	137,214	-	137,214	-
	1,246	-	1,246	1,246
	<u>(475,086)</u>	<u>-</u>	<u>(475,086)</u>	<u>(29,395)</u>
	<u>(336,626)</u>	<u>-</u>	<u>(336,626)</u>	<u>(28,149)</u>
	403,806	(149,211)	254,595	989,302
	<u>1,165,075</u>	<u>-</u>	<u>1,165,075</u>	<u>-</u>
\$	<u>1,568,881</u>	<u>(149,211)</u>	<u>1,419,670</u>	<u>989,302</u>

**PENSION PLAN SCHEDULES**

The following schedules provide information related to the System as a whole, for which the Town is one participating employer:

**SCHEDULES OF FUNDING PROGRESS (SYSTEM)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 278,332,006	\$ 536,115,536	\$ 257,783,530	51.9%	\$ 119,707,156	215.3%
01/01/08	301,420,965	445,171,554	143,750,589	67.7%	111,726,856	128.7%
01/01/06	261,327,047	376,034,621	114,707,574	69.5%	98,641,094	116.3%
01/01/04	229,852,971	333,396,222	103,543,251	68.9%	93,404,002	110.9%
01/01/02	218,346,198	287,390,715	69,044,517	76.0%	85,005,338	81.2%
01/01/00	190,363,700	253,847,100	63,483,400	75.0%	69,525,900	91.3%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)**

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2007	\$ 16,294,571	100
2008	16,995,636	100
2009	18,173,867	100
2010	19,566,952	100
2011	21,084,190	100
2012	22,770,925	100

The following schedule provides information related to the Town's portion of the System's ARC:

**TOWN SHARE OF SYSTEM ARC**

Year Ended June 30	ARC	Percentage of ARC Contributed (%)	Town ARC as a Percentage of System ARC (%)
2008	\$ 283,647	100	1.7%
2009	284,083	100	1.7%
2010	280,747	100	1.5%
2011	299,371	100	1.5%
2012	326,923	100	1.6%
2013	385,212	100	1.7%

**OTHER POST EMPLOYEMENT BENEFITS SCHEDULE**

The following schedule provides information related to the Town’s other post employment benefits plan:

**SCHEDULES OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/10	\$ -	\$ 3,513,659	\$ 3,513,659	0.0%	\$ 2,794,869	125.7%
07/01/09	-	3,976,232	3,976,232	0.0%	2,752,402	144.5%

The significant change to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedules of funding progress is the decrease in the trend on medical and prescription drug costs in the 07/01/10 actuarial valuation.

TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2013

**NOTE A - BUDGETARY - GAAP RECONCILIATION**

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2013, is presented below:

	Revenues	Expenditures	OFS/ (OFU), net	Fund Balance
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 13,234,587	\$ 12,643,366	\$ (336,626)	\$ 1,419,670
<u>Reclassifications</u>				
Stabilization fund recorded in the general fund for GAAP purposes.....	3,892	-		657,170
Municipal building trust fund recorded in the general fund for GAAP purposes.....	71	-	-	24,929
OPEB trust fund recorded in the general fund for GAAP purposes.....	321	-	15,000	15,321
<u>Adjustments</u>				
To record 60-day receipts.....	16,610	-	-	47,827
To record tax refunds payable.....	(364,662)	-	-	(530,090)
To record MTRS on-behalf payments.....	261,803	261,803	-	-
To record encumbrances and continuing appropriations.....	-	(149,211)	-	149,211
	\$ 13,152,622	\$ 12,755,958	\$ (321,626)	\$ 1,784,038
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	\$ 13,152,622	\$ 12,755,958	\$ (321,626)	\$ 1,784,038

**NOTE B - PENSION PLAN**

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2011
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar for ERI liability for most units, 4.5% annual increases for ERI liability for other units, increasing amortization for the remaining unfunded liability. Increase in total appropriation not to exceed 8%.
Remaining amortization period:	As of July 1, 2011, schedules as selected by units for 2002 ERI liability, schedules as selected by units for 2003 ERI liability and 24 years for remaining unfunded liability.



TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2013

Asset valuation method: Sum of actuarial value at beginning of year and increase in cost value during year excluding realized appreciation or losses plus 20 percent of market value at end of year (as reported in the Annual Statement) in excess of that preliminary value, adjusted to be within 20 percent of their market value.

Actuarial assumptions:

Investment rate of return:	8.25%
Projected salary increases:	5.00%
Cost of living adjustments:	3.00% of first \$12,000 of retirement income