

**TOWN OF ESSEX, CONNECTICUT**

**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2018**

**TOWN OF ESSEX, CONNECTICUT**  
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## INDEPENDENT AUDITOR'S REPORT

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Finance  
Town of Essex, Connecticut

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Connecticut (the "Town") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Town'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 Town'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, each major fund, and the aggregate remaining fund information of the Town of Essex, Connecticut, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, the Town adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and the information on pages 61 through 79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual fund financial statements and schedules on pages 80 through 88 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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's internal control over financial reporting and compliance.



Certified Public Accountants  
Glastonbury, Connecticut  
December 28, 2018

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TOWN OF ESSEX, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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As management of the Town of Essex (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$18,422,800 (net position). Of this amount, \$2,189,554 represents unrestricted net position.
- The Town's total net position increased by \$2,556,166 during the current fiscal year.
- The beginning net position of the Town was decreased by \$1,185,613 as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This decrease represented the difference between the net other post-employment benefits obligation previously recognized in accordance with GASB Statement No. 45 and the total other post-employment liability recognized in accordance with GASB Statement No. 75.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$6,458,180, an increase of \$1,197,354 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,329,626 or 14.1% of the total General Fund budgetary expenditure appropriation for fiscal year 2019. Expressed another way, unassigned fund balance for the General Fund was sufficient to cover 1.7 months of General Fund operating expenditures.
- The Town's total capital assets increased by \$1,366,589 or 5.1% during the current year due to capital asset additions of \$2,663,985 offset by depreciation and amortization of \$1,297,396.
- The Town's total long-term bonded debt increased by \$5,265,000 during the current fiscal year due to the issuance of \$6,000,000 in new general obligation bonds offset by scheduled principal repayments.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**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 assets, deferred outflows/inflows of resources, and liabilities, with net position as the residual of these elements. 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.



**TOWN OF ESSEX, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**OVERVIEW OF THE FINANCIAL STATEMENTS *(Continued)***

**Government-wide Financial Statements *(Continued)***

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements display information about the Town's governmental activities that include general government, public safety, health and welfare, libraries, highways and transportation, and education. The Town does not have any business-type activities.

The government-wide financial statements include only the Town itself because there are no legally separate organizations for which the Town is financially accountable.

The government-wide financial statements can be found on pages 14 and 15 of this report.

**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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and 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 fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town'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 impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the Capital and Nonrecurring Expenditures Fund, and the Bonded Capital Projects Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 16 through 20 of this report.

**TOWN OF ESSEX, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**OVERVIEW OF THE FINANCIAL STATEMENTS *(Continued)***

**Fund Financial Statements *(Continued)***

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the Town government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to the Town's own programs. The accounting used for fiduciary funds is much like that used for government-wide financial statements.

The basic fiduciary fund financial statements can be found on pages 21 and 22 of this report.

**Notes to the Financial Statements**

The notes to the financial statements 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 23 through 60 of this report.

**Other Information**

Required supplementary information and combining and individual fund statements and schedules and can be found on pages 61 through 88 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

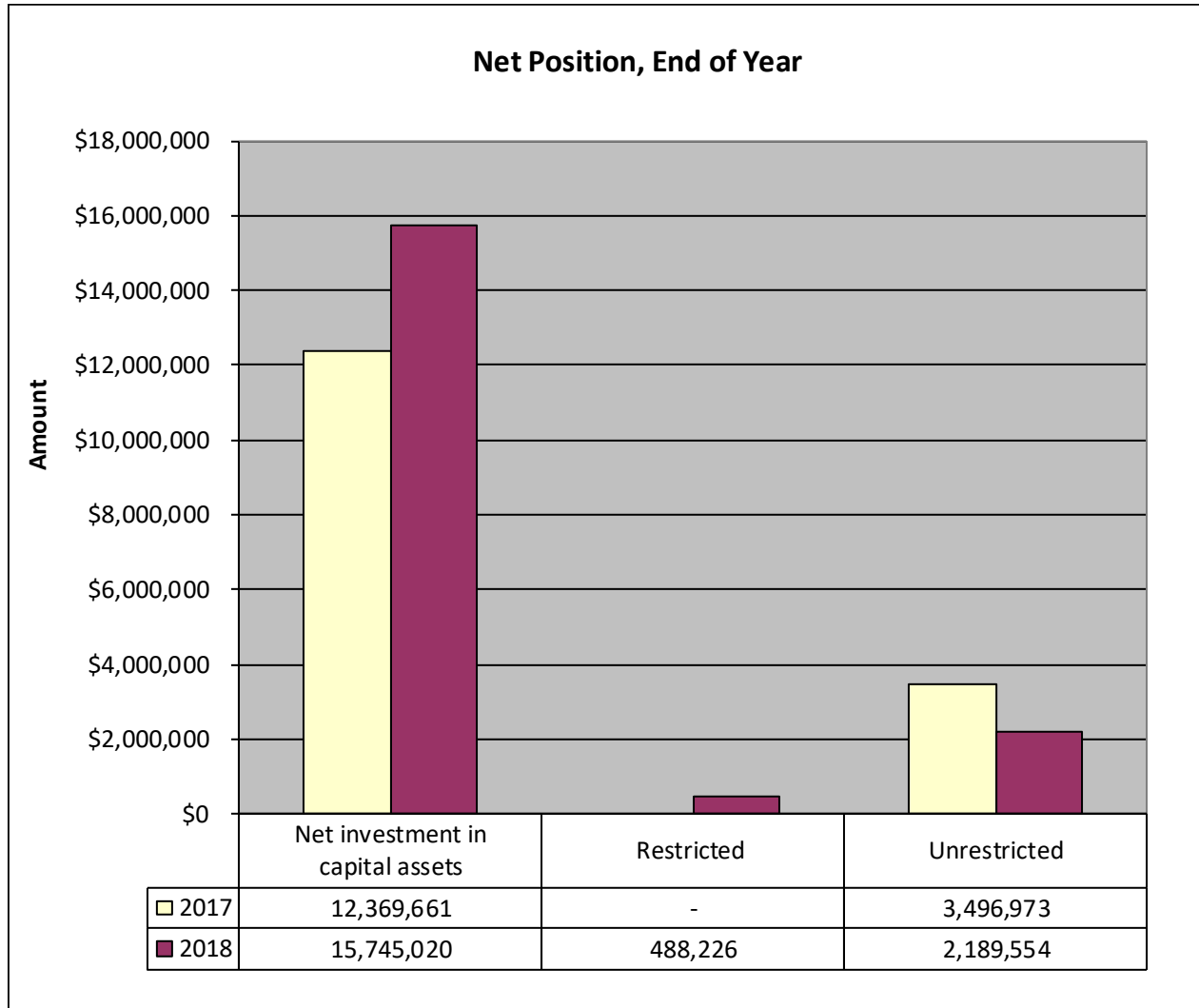
Over time, net position may serve as one measure of a government's financial position. The net position of the Town totaled \$18,422,800 as of June 30, 2018 and \$15,886,634 as of June 30, 2017 as adjusted for the implementation of GASB Statement No. 75, and is summarized as follows.

	<b>2018</b>	<b>2017</b> (As Adjusted)
Current and other assets	\$ 7,866,341	\$ 6,693,463
Capital assets, net	28,323,444	26,956,855
Total assets	36,189,785	33,650,318
Deferred outflows of resources	887,941	641,708
Long-term liabilities	17,427,262	12,007,218
Other liabilities	1,126,054	5,991,140
Total liabilities	18,553,316	17,998,358
Deferred inflows of resources	101,610	427,034
Net position:		
Net investment in capital assets	15,745,020	12,369,661
Restricted	488,226	-
Unrestricted	2,189,554	3,496,973
Total net position	\$ 18,422,800	\$ 15,866,634

**TOWN OF ESSEX, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

**Net Position (Continued)**



Of the Town's net position, 85.5% reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

As of June 30, 2018, 2.6% of the Town's net position is subject to external restrictions on how it may be used and is therefore presented as restricted net position.

The remainder of the Town's net position is considered unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.

Overall, net position increased by \$2,556,166.

**TOWN OF ESSEX, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

**Changes in Net Position**

Changes in net position for the years ended June 30, 2018 and 2017 are as follows. The amounts reported for the year ended June 30, 2017 have not been adjusted for the implementation of GASB Statement No. 75, since the effects of the adjustments on the statements of changes in net position are not readily determinable.

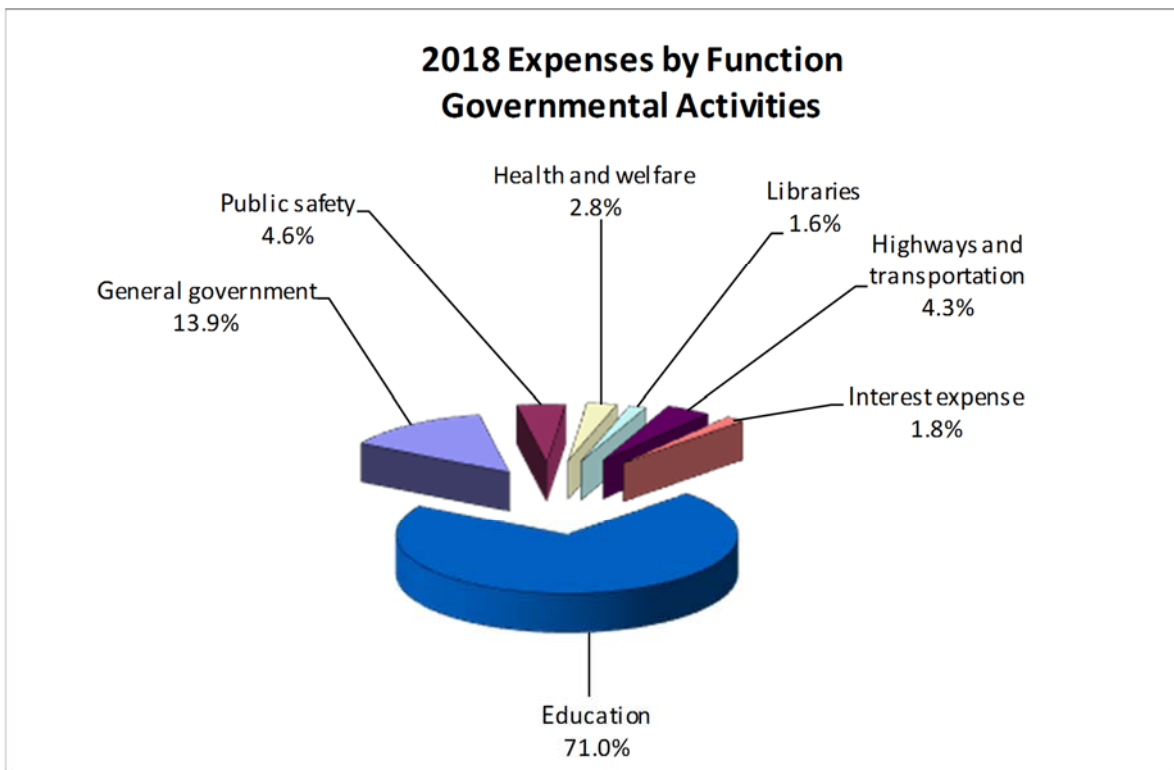
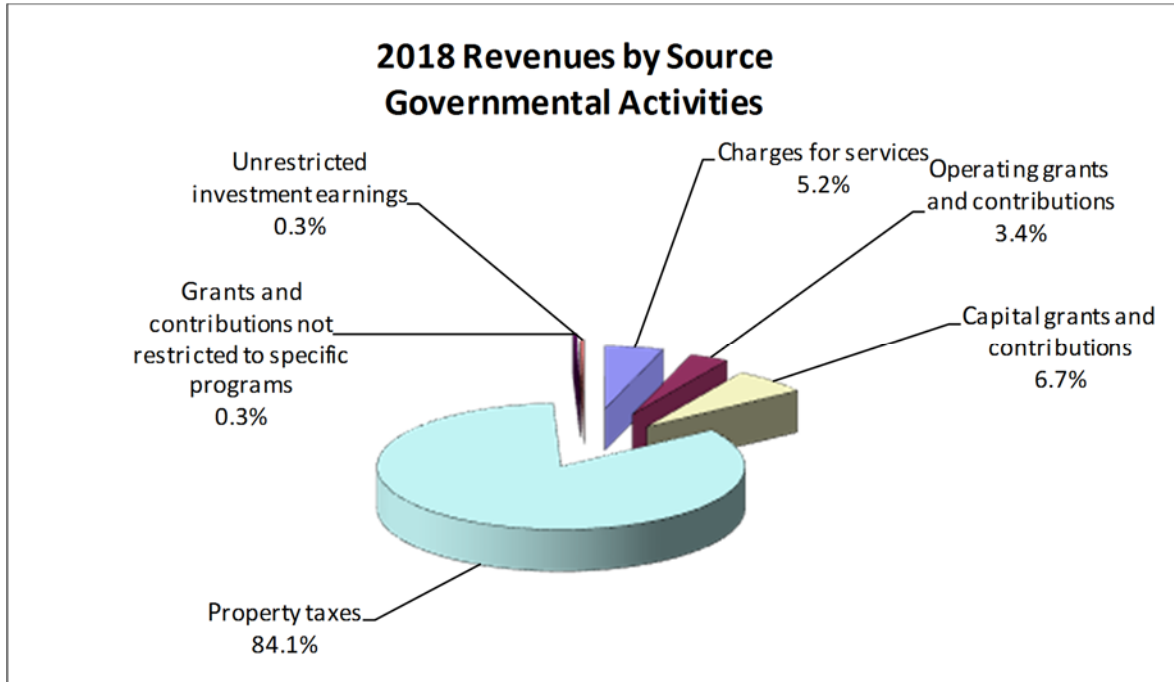
	<u>2018</u>	<u>2017</u>
Program revenues:		
Charges for services	\$ 1,422,155	\$ 1,130,493
Operating grants and contributions	941,113	1,705,957
Capital grants and contributions	1,833,756	1,588,185
General revenues:		
Property taxes	23,134,568	22,654,176
Grants and contributions not restricted to specific programs	92,133	197,556
Unrestricted investment earnings	90,053	14,541
Total revenues	<u>27,513,778</u>	<u>27,290,908</u>
Program expenses:		
General government	3,460,203	4,718,275
Public safety	1,142,250	1,903,882
Health and welfare	709,343	607,152
Libraries	398,371	390,559
Highways and transportation	1,064,597	1,080,103
Interest expense	454,251	370,095
Education	17,728,597	17,713,107
Total expenses	<u>24,957,612</u>	<u>26,783,173</u>
Change in net position	2,556,166	507,735
Net position - beginning, as originally reported	17,052,247	16,544,512
Cumulative effect of implementing new accounting standard	<u>(1,185,613)</u>	-
Net position - beginning, as adjusted	<u>15,866,634</u>	<u>16,544,512</u>
Net position - ending	<u>\$ 18,422,800</u>	<u>\$ 17,052,247</u>

**TOWN OF ESSEX, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS *(Continued)***

**Changes in Net Position *(Continued)***



**TOWN OF ESSEX, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS *(Continued)***

**Governmental Activities**

Governmental activities increased the Town's net position by \$2,556,166. Revenues generated by the Town increased by \$222,870 or 0.8% in comparison to the prior year. Expenses for the Town decreased by \$1,825,561 or 6.8% in comparison to the prior year. A significant driver of the decrease in expenses is the Town incurred \$585,074 in additional public safety expenses in the prior year for the purchase of a new fire apparatus, which was acquired on behalf of the Town's volunteer fire department.

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS**

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

**Governmental Funds**

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$6,458,180, an increase of \$1,197,354 in comparison with the prior year. Of this amount, \$3,290,894 represents unassigned fund balance. The remainder of fund balance is not available for new spending because it has already been assigned, committed, or restricted to specific purposes.

**General Fund**

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 was \$3,329,626, while total fund balance was \$4,649,542. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,329,626 or 14.1% of the total General Fund budgetary expenditure appropriation for fiscal year 2019. Expressed another way, unassigned fund balance for the General Fund was sufficient to cover 1.7 months of General Fund operating expenditures.

The fund balance of the Town's General Fund increased by \$912,203 during the current fiscal year due to budgetary results outlined below.

**Capital and Nonrecurring Expenditures Fund**

The fund balance of the Capital and Nonrecurring Expenditures Fund increased by \$171,111 during the current fiscal year to \$1,471,806. This increase was due primarily to transfers received from the General Fund offset by current year expenditures.

**TOWN OF ESSEX, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS *(Continued)***

**Bonded Capital Projects Fund**

The Bonded Capital Projects Fund has a fund balance of \$113,709 as of June 30, 2018, an increase of \$81,706. This fund accounts for the costs associated with the Town's approved capital projects funded by general obligation bond authorizations. Current year capital outlays included costs associated with improvements to the Walnut Street bridge and to the Town's Town Hall.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The original budget included the use of fund balance in the amount of \$175,217. Additional appropriations of \$693,239 were approved from fund balance during the current year, resulting in a planned use of fund balance in the amount of \$868,456. Additional appropriations were authorized to provide for additional contributions to the Town's pension plans totaling \$225,000, for additional transfers of \$325,000 into the capital and nonrecurring expenditures fund for authorized capital purposes, with the remaining additional appropriations authorized to cover budgetary shortfalls.

The change in fund balance for the General Fund amounted to \$662,403. Revenues exceeded budgetary estimates by \$733,649 due to favorable property tax collections and revenues from local sources. Expenditures were \$309,392 less than budgeted, which represents 1.2% of the overall budget. In addition, the Town recognized a premium of \$487,818 on the issuance of general obligation bonds, which will be used to offset debt service in future years.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Town's investment in capital assets for its governmental activities as of June 30, 2018 totaled \$28,323,444 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, construction in progress, buildings and improvements, machinery and equipment, vehicles and infrastructure. The Town's investment in capital assets increased \$1,366,589 or 5.1%.

The following table is a two year comparison of the investment in capital assets, net of accumulated depreciation:

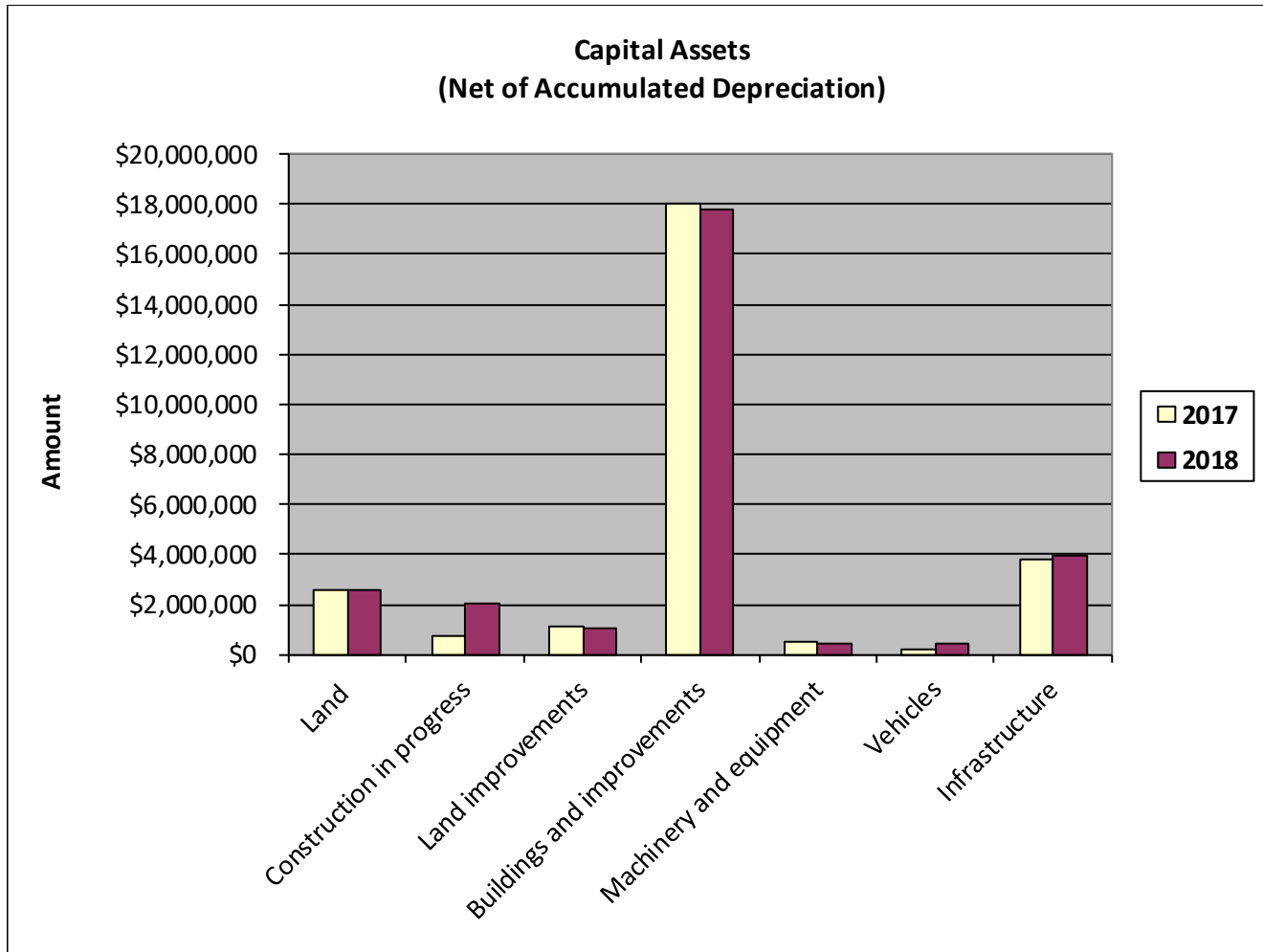
	<u><b>2018</b></u>	<u><b>2017</b></u>
Land	\$ 2,563,245	\$ 2,563,245
Construction in progress	2,032,680	721,558
Land improvements	1,060,680	1,112,707
Buildings and improvements	17,786,068	18,002,697
Machinery and equipment	471,251	520,860
Vehicles	443,086	203,564
Infrastructure	3,966,434	3,832,224
Totals	<u><u>\$ 28,323,444</u></u>	<u><u>\$26,956,855</u></u>

**TOWN OF ESSEX, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**CAPITAL ASSET AND DEBT ADMINISTRATION *(Continued)***

**Capital Assets *(Continued)***



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

- An increase of approximately \$1.3 million in construction in progress primarily for improvements made to the Walnut Street bridge.
- A decrease due to depreciation expense of \$1,297,396

Additional information on the Town's capital assets can be found in Note 4 of this report.



**TOWN OF ESSEX, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**Long-term Debt**

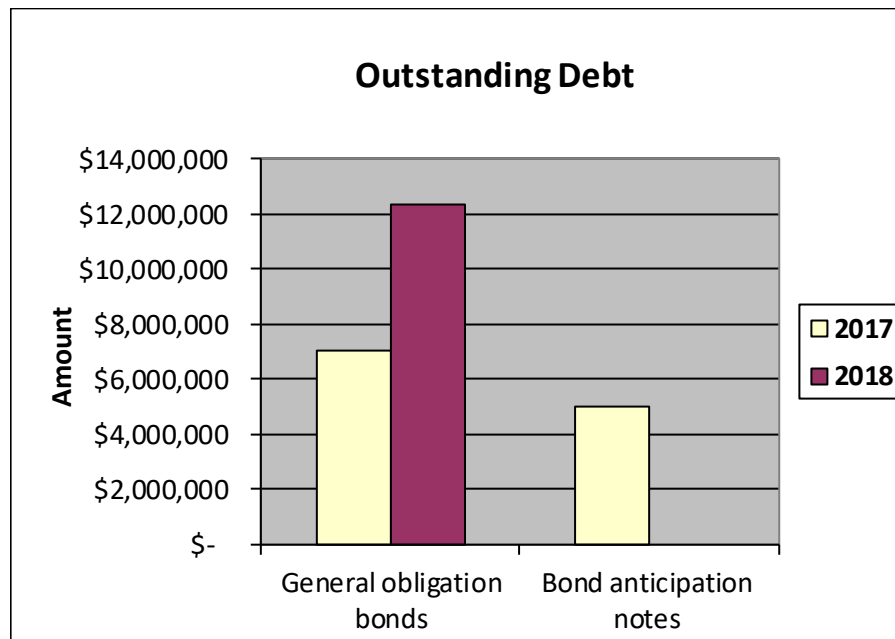
At the end of the current fiscal year, the Town had total bonded debt outstanding of \$12,345,000, all of which is backed by the full faith and credit of the government. The Town's total long-term bonded debt increased by \$5,265,000 during the current fiscal year due to the issuance of a new general obligations bonds in the amount of \$6,000,000, offset by scheduled principal repayments. The proceeds from the issuance of general obligations bonds were utilized to retire \$5,000,000 in bond anticipation notes and to provide additional funding for authorized capital projects.

The Town maintains an "Aa2" rating from Moody's Investor Service for general obligation debt and an "AA+" from S&P Global Ratings.

State statutes limit the amount of general obligation debt the Town may issue to seven times its annual receipts from taxation, as defined by the statutes. The current debt limitation for the Town is significantly in excess of the Town's outstanding general obligation debt.

The following is a two year comparison of bonded debt:

	<b>2018</b>	<b>2017</b>
General obligation bonds	\$ 12,345,000	\$ 7,080,000
Bond anticipation notes	-	5,000,000
Totals	<u>\$ 12,345,000</u>	<u>\$ 12,080,000</u>



Additional information on the Town's long-term debt can be found in Note 8 of this report.

**TOWN OF ESSEX, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

A summary of key economic factors affecting the Town are as follows:

- The Town receives intergovernmental revenues from the State of Connecticut. Due to the current State budget crisis, the Town could experience a reduction in these revenues. Connecticut's economy moves in the same general cycle as the national economy.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town's budget for fiscal year 2019. The Town's fiscal year 2019 General Fund budget was approved on May 14, 2018. The fiscal year 2019 budget contemplated expenditures of \$24,098,258, an increase of \$19,991 or 0.08% over the original fiscal year 2018 budgeted expenditures. The approved mill rate for the fiscal year 2019 budget is 21.85, a decrease of 0.11 or 0.5% over the prior year. Fund balance in the amount of \$109,838 has been assigned for use in the fiscal year 2019 budget.

**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 the Town's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, Town of Essex, 29 West Avenue, Essex, Connecticut 06426.

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## **BASIC FINANCIAL STATEMENTS**

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**TOWN OF ESSEX, CONNECTICUT**

STATEMENT OF NET POSITION

JUNE 30, 2018

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 6,928,211
Receivables:	
Property taxes, net	492,265
Interest	175,765
Grants and contracts	133,670
Other	74,752
Other	61,678
Capital assets:	
Non-depreciable	4,595,925
Depreciable, net	<u>23,727,519</u>
Total assets	<u>36,189,785</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on refunding	578,589
Deferred charges on OPEB expense	60,788
Deferred charges on pension expense	<u>248,564</u>
Total deferred outflows of resources	<u>887,941</u>
<b>LIABILITIES</b>	
Accounts payable	443,897
Accrued interest payable	295,959
Other accrued liabilities	245,416
Unearned revenue	76,509
Due to others	64,273
Noncurrent liabilities:	
Due within one year	749,625
Due in more than one year	<u>16,677,637</u>
Total liabilities	<u>18,553,316</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred charges on OPEB expense	60,716
Deferred charges on pension expenses	<u>40,894</u>
Total deferred inflows of resources	<u>101,610</u>
<b>NET POSITION</b>	
Net investment in capital assets	15,745,020
Restricted	488,226
Unrestricted	<u>2,189,554</u>
Total net position	<u><u>\$ 18,422,800</u></u>

*The accompanying notes are an integral part of these financial statement .*

**TOWN OF ESSEX, CONNECTICUT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position - Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 3,460,203	\$ 1,233,425	\$ 22,896	\$ 69,973	\$ (2,133,909)
Public safety	1,142,250	96,737	3,317	-	(1,042,196)
Health and welfare	709,343	-	118,205	-	(591,138)
Libraries	398,371	-	-	-	(398,371)
Highways and transportation	1,064,597	-	-	1,344,512	279,915
Education	17,728,597	91,993	796,695	419,271	(16,420,638)
Interest expense	454,251	-	-	-	(454,251)
Total governmental activities	<u>\$ 24,957,612</u>	<u>\$ 1,422,155</u>	<u>\$ 941,113</u>	<u>\$ 1,833,756</u>	<u>(20,760,588)</u>
General revenues:					
Property taxes, levied for general purposes					23,134,568
Grants and contributions not restricted to specific programs					92,133
Unrestricted investment earnings					90,053
Total general revenues					<u>23,316,754</u>
					Change in net position
					2,556,166
					Net position - beginning, as originally reported
					17,052,247
					Cumulative effect of implementing
					new accounting standard (see Note 1)
					(1,185,613)
					Net position - beginning, as adjusted
					<u>15,866,634</u>
					Net position - ending
					<u>\$ 18,422,800</u>

*The accompanying notes are an integral part of these financial statements .*

**TOWN OF ESSEX, CONNECTICUT**  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

	General Fund	Capital and Nonrecurring Expenditures Fund	Bonded Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,568,190	\$ 1,110,201	\$ -	\$ 249,820	\$ 6,928,211
Receivables:					
Property taxes, net	492,265	-	-	-	492,265
Interest on property taxes, net	175,765	-	-	-	175,765
Grants and contracts	-	-	83,941	49,729	133,670
Other	69,078	-	-	5,674	74,752
Due from other funds	127,429	427,272	76,371	198,793	829,865
Other	58,269	-	-	3,409	61,678
Total assets	<u>\$ 6,490,996</u>	<u>\$ 1,537,473</u>	<u>\$ 160,312</u>	<u>\$ 507,425</u>	<u>\$ 8,696,206</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 381,203	\$ -	\$ 46,603	\$ 16,091	\$ 443,897
Other accrued liabilities	210,652	-	-	-	210,652
Due to other funds	636,769	65,667	-	127,429	829,865
Unearned revenue	-	-	-	76,509	76,509
Due to others	-	-	-	64,273	64,273
Total liabilities	<u>1,228,624</u>	<u>65,667</u>	<u>46,603</u>	<u>284,302</u>	<u>1,625,196</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - property taxes and interest	<u>612,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>612,830</u>
<b>FUND BALANCES</b>					
Nonspendable	58,269	-	-	3,409	61,678
Restricted	487,818	-	113,709	408	601,935
Committed	119,489	1,471,806	-	258,038	1,849,333
Assigned	654,340	-	-	-	654,340
Unassigned	3,329,626	-	-	(38,732)	3,290,894
Total fund balances	<u>4,649,542</u>	<u>1,471,806</u>	<u>113,709</u>	<u>223,123</u>	<u>6,458,180</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 6,490,996</u>	<u>\$ 1,537,473</u>	<u>\$ 160,312</u>	<u>\$ 507,425</u>	<u>\$ 8,696,206</u>

*The accompanying notes are an integral part of these financial statements .*

**TOWN OF ESSEX, CONNECTICUT**  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018

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Total fund balances for governmental funds		\$ 6,458,180
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
		28,323,444
Some of the Town's taxes and interest will be collected after year end, but are not available soon enough to pay for current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.		
		612,830
Long-term liabilities applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.		
Long-term debt:		
Bonds and notes payable	(12,345,000)	
Unamortized bond premium	(851,167)	
Deferred charges on refunding	578,589	
Obligations under capital lease	(61,936)	
Accrued interest payable	(295,959)	
Other long-term liabilities:		
Compensated absences	(106,673)	
Claims payable	(34,764)	
Net pension liabilities	(2,388,355)	
Total OPEB liability	(1,674,131)	
Total long-term liabilities		(17,179,396)
Deferred outflows and inflows of resources resulting from changes in the components of the net pension and total OPEB liabilities are reported in the statement of net position.		
		207,742
Net position of governmental activities		\$ 18,422,800

*The accompanying notes are an integral part of these financial statements .*

**TOWN OF ESSEX, CONNECTICUT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	<b>General Fund</b>	<b>Capital and Nonrecurring Expenditures Fund</b>	<b>Bonded Capital Projects Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Property taxes	\$ 23,179,381	\$ -	\$ -	\$ -	\$ 23,179,381
Intergovernmental	1,080,492	-	1,074,484	322,386	2,477,362
Local	989,509	105,118	-	327,533	1,422,160
Interest	76,383	13,566	-	104	90,053
Total revenues	<u>25,325,765</u>	<u>118,684</u>	<u>1,074,484</u>	<u>650,023</u>	<u>27,168,956</u>
<b>EXPENDITURES</b>					
Current:					
General government	3,102,390	383,824	62,814	139,902	3,688,930
Public safety	1,346,389	-	-	82,122	1,428,511
Health and welfare	574,340	-	-	184,597	758,937
Libraries	398,371	-	-	-	398,371
Highways and transportation	877,639	-	-	-	877,639
Education	16,679,611	-	-	227,856	16,907,467
Debt service:					
Principal payments	735,000	-	-	-	735,000
Interest and fiscal charges	333,663	-	-	-	333,663
Capital outlays	347,157	60,249	1,929,964	25,712	2,363,082
Total expenditures	<u>24,394,560</u>	<u>444,073</u>	<u>1,992,778</u>	<u>660,189</u>	<u>27,491,600</u>
Excess (deficiency) of revenues over expenditures	931,205	(325,389)	(918,294)	(10,166)	(322,644)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from general obligation bonds	-	-	6,000,000	-	6,000,000
Premium on general obligation bonds	519,998	-	-	-	519,998
Repayment of bond anticipation notes	-	-	(5,000,000)	-	(5,000,000)
Transfers in	-	496,500	-	42,500	539,000
Transfers out	(539,000)	-	-	-	(539,000)
Total other financing sources (uses)	<u>(19,002)</u>	<u>496,500</u>	<u>1,000,000</u>	<u>42,500</u>	<u>1,519,998</u>
Net change in fund balances	912,203	171,111	81,706	32,334	1,197,354
Fund balances - beginning	<u>3,737,339</u>	<u>1,300,695</u>	<u>32,003</u>	<u>190,789</u>	<u>5,260,826</u>
Fund balances - ending	<u>\$ 4,649,542</u>	<u>\$ 1,471,806</u>	<u>\$ 113,709</u>	<u>\$ 223,123</u>	<u>\$ 6,458,180</u>

*The accompanying notes are an integral part of these financial statements .*



**TOWN OF ESSEX, CONNECTICUT**  
**RECONCILIATION TO THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

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Net change in fund balances for governmental funds \$ 1,197,354

Total change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. The amount by which capital outlays were offset by depreciation and amortization in the current period is as follows:

Expenditures for capital assets	\$	2,663,985	
Depreciation and amortization expense		<u>(1,297,396)</u>	
Net adjustment			1,366,589

Certain revenues reported in the statement of activities do not provide current financial resources and therefore are deferred in the governmental funds. This amount represents the change in deferred inflows of resources. (44,815)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of long-term debt is as follows:

Debt issued or incurred:			
Bonds payable	(1,000,000)		
Premium on bonds payable	(519,998)		
Principal repayments:			
Bonds payable	735,000		
Obligations under capital lease	<u>21,732</u>		
Net adjustment			(763,266)

*(Continued)*

**TOWN OF ESSEX, CONNECTICUT**  
RECONCILIATION TO THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES *(Concluded)*  
YEAR ENDED JUNE 30, 2018

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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The net effect on such items is as follows:

Accrued interest	\$ (129,292)	
Amortization of bond premium	71,818	
Amortization of deferred charges on refunding	(63,119)	
Compensated absences	1,352	
Claims payable	14,716	
Net pension liabilities	254,646	
Total OPEB Liability	<u>15,407</u>	
		\$ 165,528

Deferred outflows and inflows of resources resulting from changes in the components of the net pension and total OPEB liabilities are amortized as a component of pension expense in the statement of activities.

634,776

Change in Net Position of Governmental Activities

\$ 2,556,166  
*(Concluded)*

**TOWN OF ESSEX, CONNECTICUT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2018**

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	<b>Pension Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 44,599	\$ 43,692
Investments	5,596,955	111,626
Receivables	-	133,205
Total assets	<u>5,641,554</u>	<u>\$ 288,523</u>
<b>LIABILITIES</b>		
Due to others	-	268,980
Due to student groups	-	19,543
Total liabilities	<u>-</u>	<u>\$ 288,523</u>
<b>NET POSITION</b>		
Restricted for pension benefits	<u>\$ 5,641,554</u>	

*The accompanying notes are an integral part of these financial statements .*

**TOWN OF ESSEX, CONNECTICUT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED JUNE 30, 2018**

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	<b>Pension Trust Funds</b>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 607,719
Plan members	8,015
Total contributions	<u>615,734</u>
Investment earnings:	
Net change in the fair value of investments	261,876
Interest and dividends	166,265
Total investment earnings	<u>428,141</u>
Total additions	<u>1,043,875</u>
<b>DEDUCTIONS</b>	
Benefit payments	479,643
Administrative expenses	26,917
Total deductions	<u>506,560</u>
Change in net position	537,315
Net position - beginning	<u>5,104,239</u>
Net position - ending	<u><u>\$ 5,641,554</u></u>

*The accompanying notes are an integral part of these financial statements .*

**TOWN OF ESSEX, CONNECTICUT**  
**NOTES TO FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

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

The accounting policies of the Town of Essex, Connecticut (the "Town") conform to accounting principles generally accepted in the United States of America, as applicable to governmental organizations. The following is a summary of significant accounting policies:

**Financial Reporting Entity**

The Town of Essex, Connecticut was incorporated as Old Saybrook on September 13, 1852, under the provisions of the Connecticut General Statutes. The Town's name was changed to Essex on July 8, 1854. The Town operates under the Board of Selectmen, Town Meeting and Board of Finance form of government and provides the following services: public safety, highways and transportation, sanitation, health and social services, culture-recreation, education, public improvements, planning and zoning and general administrative services.

The legislative power of the Town is invested with the Board of Selectmen and Town Meeting. The Board of Selectmen may enact, amend or repeal ordinances and resolutions. The Board of Finance is responsible for financial and taxation matters as prescribed by Connecticut General Statutes, and is responsible for presenting fiscal operating budgets for Town Meeting approval.

The basic financial statements of the Town include only the funds of the Town, as no component units exist based on operational or financial relationships with the Town.

**Government-wide and Fund Financial Statements**

**Government-wide Financial Statements**

The statement of net position and the statement of activities display information about the Town and include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. The statements are intended to distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Town has no business-type activities.

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

**Fund Financial Statements**

The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Government-wide and Fund Financial Statements *(Continued)***

**Fund Financial Statements *(Continued)***

The Town reports the following major governmental funds:

**General Fund** - This fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those not accounted for and reported in another fund.

**Capital and Nonrecurring Expenditures Fund** - This capital projects fund is used to account for the revenues and expenditures associated with the Town's various long-term projects.

**Bonded Capital Projects Fund** - This capital projects fund is used to account for the revenues and expenditures related to major capital asset construction and/or purchases which are to be funded through the issuance of general obligation bonds.

In addition, the Town reports the following fiduciary fund types:

**Pension Trust Funds** - These funds are used to account for resources held in trust for the members and beneficiaries of the Town's defined benefit pension plans. The Town utilizes these funds to account for activities of the following plans: Town of Essex Employees' Retirement Plan, the Town of Essex Merit Service Plan and the Town of Essex Police Retirement Plan. These plans are discussed more fully in Note 10.

**Agency Funds** - These funds are used to account for resources held by the Town in a purely custodial capacity. The Town utilizes these funds to account for assets of the elementary school activities fund, performance bond fund and special project escrow fund. The elementary school activities fund accounts for monies generated by student activities in the Town's school system. The performance bond fund accounts for monies received to ensure that driveways are installed to correct specifications for new construction. The special project escrow fund accounts for monies received for various events or projects, but do not constitute Town owned funds.

**Measurement Focus and Basis of Accounting**

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

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Agency Funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the 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.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Measurement Focus and Basis of Accounting *(Continued)***

Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected 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 principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received or available to be received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when the cash is received.

The pension trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

**Implementation of Accounting Standards**

Effective July 1, 2017, the Town adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017*, and GASB State No. 86, *Certain Debt Extinguishment Issues*. The adoption of these statements did not have a material effect on the Town's financial statements.

Effective July 1, 2017, the Town adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 established standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expenses/expenditures for post-employment benefits other than pensions. This standard identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this statement provides for certain required supplementary information and note disclosures about post-employment benefits other than pensions.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Implementation of Accounting Standards *(Continued)***

The Town has reported the following cumulative effect of applying GASB Statement No. 75 as an adjustment of beginning net position as of July 1, 2017.

	<u><b>Governmental Activities</b></u>
Net position - beginning, as originally reported	\$ 17,052,247
Adjustment to remove net other post-employment benefit obligation recognized under GASB Statement No. 45	503,925
Adjustment to record total other post-employment liability recognized under GASB Statement NO. 75	<u>(1,689,538)</u>
	<u>(1,185,613)</u>
Net position - beginning, as adjusted	<u><u>\$ 15,866,634</u></u>

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance**

**Cash and Cash Equivalents**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**Investments**

Investments for the Town are reported at fair value (generally based on quoted market prices).

**Property Taxes**

Property taxes are assessed as of October 1 and are levied on the following July 1. Real estate and personal property taxes are due in two installments, July 1 and the following January 1. Motor vehicle taxes are payable on July 1 and supplemental motor vehicle taxes are payable on January 1. Taxes become delinquent thirty days after the installment is due and liens are filed on delinquent real estate taxes within one year. Liens are effective on the assessment date and are continued by filing before the end of the year following the due date. Based on historical collection experience and other factors, the Town has established an allowance for uncollectible taxes of \$10,000 as of June 30, 2018.



**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance *(Continued)***

**Inventories and Prepaid items**

Inventories are reported at cost using the first-in first-out (FIFO) method, except for USDA donated commodities, which are recorded at market value. Inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets in both the government-wide and the fund financial statements.

**Capital Assets**

Capital assets, which include property, equipment, and infrastructure assets (e.g. roads, bridges, and sidewalks), are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than two years. Such assets are recorded at historical cost, or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of a capital asset or materially extend capital asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	30-50
Machinery and equipment	3-12
Vehicles	3-7
Infrastructure	25-50

**Unearned Revenue**

This liability represents resources that have been received but not yet earned.

**Deferred Outflows/Inflows of Resources**

Deferred outflows and inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources until that time.

Deferred outflows of resources consists of deferred charges on refunding and deferred pension and OPEB expenses reported in the government-wide statement of net position. Deferred charges on refunding resulted from the difference in the carrying value of previously refunded debt and the reacquisition price of the debt and are being amortized to interest expense using the effective-interest method over the life of the related bonds. Deferred pension and OPEB expenses resulted from changes in the components of the Town's net pension and OPEB liabilities and are being amortized as a component of pension and OPEB expenses on a systematic and rational basis.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance *(Continued)***

**Deferred Outflows/Inflows of Resources *(Continued)***

Deferred inflows of resources consist of revenue that is considered unavailable under the modified accrual basis of accounting and deferred charges on pension and OPEB expenses. Unavailable revenue is reported within the governmental funds balance sheet and is recognized as inflows of resources in the period that the amounts become available. Deferred charges on pension and OPEB expenses reported in the government-wide statement of net position and are amortized as a component of pension and OPEB expenses on a systematic and rational basis.

**Compensated Absences**

It is the Town's policy to permit employees to accumulate unused vacation pay benefits. The Board of Education allows employees to accumulate only unused sick pay.

All compensated absences are accrued when incurred in the government-wide financial statements. Expenditures for compensated absences are recognized in the governmental fund financial statements in the current year to the extent they are paid during the year, or the vested amount is expected to be paid with available resources.

**Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expenses when incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Position and Fund Balances**

The statement of net position presents the Town's assets, deferred outflows and inflows of resources, and liabilities, with net position as the residual of these elements. Net position is reported in three categories:

***Net investment in capital assets*** - This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of capital assets.

***Restricted net position*** - This component of net position consists of amounts whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance *(Continued)***

**Net Position and Fund Balances *(Continued)***

***Unrestricted net position*** - This component of net position is the net amount of assets, liabilities, and deferred outflows/inflows of resources which do not meet the definition of the preceding two categories.

The Town's governmental funds report the following fund balance categories:

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

***Restricted*** - Constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments, or imposed by law through enabling legislation.

***Committed*** - Amounts can be only used for specific purposes pursuant to constraints imposed by formal action of the Board of Finance (the highest level of decision making authority of the Town) and cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same formal action.

***Assigned*** - Amounts are constrained by the government's intent to be used for specific purposes, but are not restricted or committed. Amounts may be constrained to be used for a specific purpose by a governing board or body or official that has been delegated authority to assign amounts by Connecticut General Statutes and include the First Selectman and the Treasurer.

***Unassigned*** - Residual classification for the General Fund or amounts necessary in other governmental funds to eliminate otherwise negative fund balance amounts in the other four categories.

***Net Position Flow Assumption***

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

The Town considers restricted net position to have been depleted before unrestricted net position is applied.

***Fund Balance Flow Assumption***

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied.

When committed, assigned and unassigned resources are available for use, it is assumed that the Town will use committed resources first, then assigned resources and then unassigned resources as they are needed.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Interfund Activities**

Interfund activities are reported as follows:

**Interfund Receivables and Payables**

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

Advances between funds, as reported in the fund financial statements, are offset by a restricted fund balance designation (non-spendable) in the General Fund and by a restricted, committed, or assigned fund balance designation of other governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**Interfund Services Provided and Used**

Sales and purchases of goods and services between funds for a price approximating their external exchange value are reported as revenues and expenditures, or expenses, in the applicable funds.

**Interfund Transfers**

Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and other financing sources in the funds receiving transfers.

**Interfund Reimbursements**

Interfund reimbursements represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**Cash Deposits**

Cash deposits consist of the following as of June 30, 2018:

Cash and cash equivalents:	
Government-wide statement of net position	\$ 6,928,211
Statement of fiduciary net position	<u>88,291</u>
	7,016,502
 Add: certificates of deposit classified as investments	 <u>111,626</u>
	<u><u>\$ 7,128,128</u></u>

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the Town will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Town's policy provides for uninsured demand and time deposits with banks and savings and loan institutions to be collateralized as prescribed in the Connecticut general statutes, as described below. In addition, in order to anticipate market changes and provide for a level of security for all funds, all public deposits shall be held in qualified public depositories. As of June 30, 2018, \$7,021,910 of the Town's bank balance of \$7,550,967 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Uninsured and collateralized with securities held by the pledging bank's trust department or agent but not in the Town's name	<u>7,021,910</u>
	<u><u>\$ 7,021,910</u></u>

All of the Town's deposits were in qualified public institutions as defined by Connecticut general statutes. Under these statutes, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio. The amount of public deposits is determined based on either the public deposits reported on the most recent quarterly call report, or the average of the public deposits reported on the four most recent quarterly call reports, whichever is greater. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

**Investments**

A reconciliation of the Town's investments as of June 30, 2018 is as follows:

Investments:	
Statement of fiduciary net position	\$ 5,708,581
 Less: certificates of deposit classified as investments	 <u>(111,626)</u>
	<u><u>\$ 5,596,955</u></u>

As of June 30, 2018, all of the Town's investments consisted of equity mutual funds reported at fair value within the Fiduciary Funds.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 2 - CASH DEPOSITS AND INVESTMENTS *(Continued)***

**Investments *(Continued)***

**Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's investment policy provides for the Town to maintain significant balances in cash equivalents or other short-term maturity investments, as changing interest rates have limited impact on these types of investments. In addition, the Town has established an asset allocation policy that is responsive to the expected cash flows of the Town.

**Credit Risk**

Connecticut general statutes permit the Town to invest in obligations of the United States, including its instrumentalities and agencies; in obligations of any state or of any political subdivision, authority or agency thereof, provided such obligations are rated within one of the top two rating categories of any recognized rating service; or in obligations of the State of Connecticut or of any political subdivision thereof, provided such obligations are rated within one of the top three rating categories of any recognized rating service. The pension trust funds may also invest in certain real estate mortgages, in certain savings banks or savings and loan associations, or in stocks or bonds or other securities selected by the trustee, with the care of a prudent investor.

The Town's investment policy regarding credit risk is to limit investments to those specified in the Connecticut general statutes, to pre-qualify the financial institutions used by the Town and to diversify the Town's portfolio so that the failure of one issuer will not place undue financial burden on the Town.

**Concentrations of Credit Risk**

The Town places no limit on the amount of investment in any one issuer. As of June 30, 2018, more than 10% of the Town's fiduciary investments are invested in the following:

<u>Issuer</u>	<u>Investment</u>	<u>Value</u>	<u>% of Fiduciary Investment</u>
PIMCO	FDS Income Fund I2	\$ 893,197	16.0%
Vanguard	500 Index Fund - Admiral Shares	784,132	14.0%

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of a 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's investments consist primarily of investments in various mutual funds and are therefore not exposed to custodial credit risk, because they are not evidenced by securities that exist in physical or book entry form. The Town's investment policy does not address custodial credit risk with respect to investments.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 3 - FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as of the measurement date. Authoritative guidance establishes a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (also referred to as observable inputs). The Town classifies its assets and liabilities measured at fair value into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which market inputs are observable, either directly or indirectly), and Level 3 (securities valued based on unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Town's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2018, by level within the fair value hierarchy are presented in the table below:

<b>Financial Assets Measured at Fair Value</b>	<b>Prices in Active Market (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Equity Mutual Funds	\$ 5,596,955	\$ -	\$ -

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 consisted of the following:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 2,563,245	\$ -	\$ -	\$ 2,563,245
Construction in progress	721,558	1,986,099	(674,977)	2,032,680
Total capital assets, not being depreciated	3,284,803	1,986,099	(674,977)	4,595,925
Capital assets, being depreciated:				
Land improvements	1,471,913	38,668	-	1,510,581
Buildings and improvements	26,713,213	581,562	-	27,294,775
Machinery and equipment	2,231,940	35,101	-	2,267,041
Vehicles	999,138	292,676	(45,000)	1,246,814
Infrastructure	9,777,557	404,856	-	10,182,413
Total capital assets, being depreciated	41,193,761	1,352,863	(45,000)	42,501,624
Less accumulated depreciation and amortization for:				
Land improvements	359,206	90,695	-	449,901
Buildings and improvements	8,710,516	798,191	-	9,508,707
Machinery and equipment	1,711,080	84,710	-	1,795,790
Vehicles	795,574	53,154	(45,000)	803,728
Infrastructure	5,945,333	270,646	-	6,215,979
Total accumulated depreciation and amortization	17,521,709	1,297,396	(45,000)	18,774,105
Total capital assets, being depreciated, net	23,672,052	55,467	-	23,727,519
Governmental activities capital assets, net	\$ 26,956,855	\$ 2,041,566	\$ (674,977)	\$ 28,323,444

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 4 - CAPITAL ASSETS *(Continued)***

Depreciation and amortization expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 278,799
Public safety	44,792
Highways and transportation	352,752
Education	621,053
Total depreciation expense - governmental activities	<u>\$ 1,297,396</u>

**NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivable and payable balances at June 30, 2018 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Governmental Funds</b>		
General Fund	Nonmajor Governmental Funds	<u>\$ 127,429</u>
Bonded Capital Projects Fund	General Fund	<u>76,371</u>
Capital and Nonrecurring Expenditures Fund	General Fund	<u>427,272</u>
Nonmajor Governmental Funds	Capital and Nonrecurring Expenditures Fund	65,667
	General Fund	<u>133,126</u>
		<u>198,793</u>
Total interfund receivables/payables		<u>\$ 829,865</u>

The above balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**NOTE 6 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2018 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
<b>Governmental Funds</b>		
Capital and Nonrecurring Expenditures Fund	General Fund	<u>\$ 496,500</u>
Nonmajor Governmental Funds	General Fund	<u>42,500</u>
Total transfers		<u>\$ 539,000</u>



**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 6 - INTERFUND TRANSFERS *(Continued)***

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them, to the fund that statute or budget requires to expand them, and (2) use revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 7 - SHORT-TERM DEBT**

The following is a summary of the changes in short-term debt for the year ended June 30, 2018:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities</b>				
Bond anticipation notes payable	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -

The purpose of the bond anticipation notes was to provide interim financing for authorized capital projects until permanent financing through reimbursement from grants or the issuance of general obligation bonds were obtained. In September 2017, the Town retired the bond anticipation note through the issuance of general obligation bonds (see Note 8).

**NOTE 8 - LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

<b>Governmental Activities</b>	<b>Beginning Balance (As Adjusted)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
General obligation bonds	\$ 7,080,000	\$ 6,000,000	\$ (735,000)	\$ 12,345,000	\$ 730,000
Unamortized bond premium	402,987	519,998	(71,818)	851,167	-
	7,482,987	6,519,998	(806,818)	13,196,167	730,000
Other liabilities:					
Capital leases	83,668	-	(21,732)	61,936	19,625
Compensated absences	108,025	108,795	(110,147)	106,673	-
Net pension liabilities	2,643,001	-	(254,645)	2,388,356	-
Total OPEB liability	1,689,538	-	(15,407)	1,674,131	-
	<u>\$ 12,007,219</u>	<u>\$ 6,628,793</u>	<u>\$ (1,208,749)</u>	<u>\$ 17,427,263</u>	<u>\$ 749,625</u>

The above liabilities have typically been liquidated by the General Fund.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 8 - LONG-TERM LIABILITIES *(Continued)***

**General Obligation Bonds**

A summary of general obligation bonds outstanding at June 30, 2018 is as follows:

<u>Purpose of Bonds</u>	<u>Final Maturity Dates</u>	<u>Interest Rates</u>	<u>Amount Outstanding</u>
<b>Governmental Activities</b>			
<b><i>Bonds Payable</i></b>			
General obligation refunding bonds issued April 2013, original amount of \$7,170,000	8/1/2028	2.125% - 4.0%	\$ 6,345,000
General obligation bonds issued September 2017, original amount of \$6,000,000	9/15/2037	2.00% - 5.00%	6,000,000
			<u>\$ 12,345,000</u>

Annual debt service requirements to maturity on general obligation bonds are as follows as of June 30, 2018:

<u>Year ending June 30:</u>	<u>Governmental Activities</u>		
	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 730,000	\$ 399,431	\$ 1,129,431
2020	960,000	369,281	1,329,281
2021	1,060,000	330,931	1,390,931
2022	1,055,000	292,706	1,347,706
2023	1,010,000	255,231	1,265,231
2024-2028	4,330,000	803,465	5,133,465
2029-2033	1,600,000	358,600	1,958,600
2034-2038	1,600,000	120,000	1,720,000
	<u>\$ 12,345,000</u>	<u>\$ 2,929,645</u>	<u>\$ 15,274,645</u>

**Legal Debt Limit**

Connecticut General Statutes Section 7-374(b) provides that authorized debt of the Town shall not exceed seven times base receipts, as defined in the Statute. Further, the Statute limits the amount of debt that may be authorized by the Town for general purposes, schools, sewers, urban renewal and pension deficit. The Town did not exceed any of the statutory debt limitations at June 30, 2018.

**Authorized, Unissued Bonds**

As of June 30, 2018 the Town had authorized but unissued bonds totaling \$1,414,555.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 8 - LONG-TERM LIABILITIES *(Continued)***

**Overlapping Debt**

The Town of Essex is a member of Regional School District No. 4, which also provides education for the Towns of Chester and Deep River. As of June 30, 2018, the outstanding indebtedness of the District was \$7,075,000. The Town of Essex's share will be approximately 44.45% of the total, or \$3,145,119. Such outstanding indebtedness represents general obligations of the Regional School District No. 4 and its member towns. However, the Town is not required to record its share in the accompanying statement of net position.

**Capital Leases**

A summary of assets acquired through capital leases is as follows as of June 30, 2018:

	<b>Governmental Activities</b>
Vehicles	\$ 189,658
Less: accumulated amortization	90,549
	<u>\$ 99,109</u>

Amortization expense relative to leased property under capital leases totaled \$21,274 for the year ended June 30, 2018 and is included in depreciation and amortization expense disclosed in Note 4.

Future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018 are as follows:

<b>Year ending June 30:</b>	<b>Governmental Activities</b>
2019	\$ 22,508
2020	22,507
2021	22,508
Total minimum lease payments	67,523
Less: amount representing interest	(5,587)
Present value of minimum lease payments	<u>\$ 61,936</u>

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 9 - FUND BALANCE**

The various components of fund balance at June 30, 2018 are as follows:

	<u>General Fund</u>	<u>Capital and Nonrecurring Expenditures Fund</u>	<u>Bonded Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Prepaid items	\$ 58,269	\$ -	\$ -	\$ 65	\$ 58,334
Inventories	-	-	-	3,344	3,344
Restricted for:					
Grant programs	-	-	-	408	408
Debt service - premium received	487,818	-	-	-	487,818
Capital purposes	-	-	113,709	-	113,709
Committed for:					
Municipal property improvements	119,489	-	-	-	119,489
Capital purposes	-	1,471,806	-	-	1,471,806
Harbor commission operations	-	-	-	124,781	124,781
Recreation programs	-	-	-	58,041	58,041
General government programs	-	-	-	62,618	62,618
Public safety programs	-	-	-	12,598	12,598
Assigned to:					
Revaluation	144,126	-	-	-	144,126
Subsequent year's budget	109,838	-	-	-	109,838
Encumbrances - capital outlay	143,830	-	-	-	143,830
Encumbrances - health and welfare	7,900	-	-	-	7,900
Encumbrances - public safety	4,590	-	-	-	4,590
Encumbrances - general government	244,056	-	-	-	244,056
Unassigned	3,329,626	-	-	(38,732)	3,290,894
	<u>\$ 4,649,542</u>	<u>\$ 1,471,806</u>	<u>\$ 113,709</u>	<u>\$ 223,123</u>	<u>\$ 6,458,180</u>

**Deficit Fund Equity**

The following funds have deficit fund balances as of June 30, 2018, none of which constitutes a violation of statutory provisions:

<u>Fund</u>	<u>Amount</u>
School Cafeteria Fund	\$ (27,469)
CVA Pump Out Boat Fund	(7,919)

The deficit in the School Cafeteria Fund and the CVA Pump Out Boat Fund are expected to be eliminated through future revenue sources and or transfers in from the General Fund.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 9 - FUND BALANCE *(Continued)***

**Capital Projects Authorizations**

The following is a summary of capital projects as of June 30, 2018:

<b>Capital Project:</b>	<b>Original Authorization</b>	<b>Revised Authorization</b>	<b>Current Year Expenditures</b>	<b>Cumulative Expenditures</b>	<b>Balance June 30, 2018*</b>
Bridge replacement	\$ 2,845,000	\$ 2,870,000	\$ 1,627,867	\$ 2,406,400	\$ 463,600
Essex Elementary School repairs	2,815,000	2,815,000	-	2,751,561	63,439
Town Hall improvements	1,300,000	1,500,000	299,220	1,482,606	17,394
Town Garage improvements	525,000	325,000	2,877	316,158	8,842
Fire Fighting vehicle	600,000	575,000	-	563,585	11,415
	<u>\$ 8,085,000</u>	<u>\$ 8,085,000</u>	<u>\$ 1,929,964</u>	<u>\$ 7,520,310</u>	<u>\$ 564,690</u>

\* Based on revised authorization

**NOTE 10 - PENSION PLANS**

**Defined Benefit Plans**

**Plan Descriptions**

*Plan administration* - The Town maintains three single-employer, defined benefit pension plans: the Town of Essex, Connecticut Amended and Restated Retirement Plan (the "Employees' Retirement Plan"), the Town of Essex Merit Service Plan (the "Merit Service Plan") and the Town of Essex Employees' Pension Plan (the "Police Retirement Plan"). The plans cover substantially all full time employees except professional personnel at the Board of Education, who are covered by the State of Connecticut Teachers' Retirement System. The plans are administered by a Retirement Board, pursuant to Connecticut General Statutes Section 7-450, composed of three to five members appointed by the First Selectman.

*Plan membership* - At July 1, 2016, the date of the most recent actuarial valuations, pension plan membership consisted of the following:

	<b>Employees' Retirement Plan</b>	<b>Merit Service Plan</b>	<b>Police Retirement Plan</b>
Retirees and beneficiaries receiving benefits	26	20	4
Terminated employees entitled to benefits but not yet receiving them	13	9	1
Active plan members	32	42	3
	<u>71</u>	<u>71</u>	<u>8</u>

*Benefits provided* - The plans provide retirement, death and disability benefits to all eligible members. Benefit provisions are established and may be amended by the Town through Town Meeting. The following is a summary of the provisions for each type of class covered:

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 10 - PENSION PLANS *(Continued)***

**Defined Benefit Plans *(Continued)***

**Plan Descriptions *(Continued)***

Employees' Retirement Plan - All regularly employed employees (elected, appointed or hired) of the Town, excluding part-time employees, temporary employees and teachers eligible for the State of Connecticut Teachers' Retirement System, are eligible to participate in the plan. Employees are eligible to participate provided they have attained age 21. The plan provides retirement benefits as well as death and disability benefits and vested termination benefits. Annual retirement benefits for plan participants who have reached age 65 and have completed 5 years of service are 1.4% of an employees' final average compensation multiplied by the number of years of credited service, to a maximum of 40 years. Early retirement benefits are available for participants who have reached age 65 and have completed 15 years of service. Early retirement benefits consist of regular benefits reduced by 0.5% for each month by which the early retirement precedes normal retirement.

Merit Service Plan - All volunteers of the Town of Essex Fire Engine Company No. 1 become participants in the plan as of July 1<sup>st</sup> following the date at which they have completed one year of eligible service. The plan provides retirement benefits as well as death and disability benefits and vested termination benefits. Annual retirement benefits for plan participants who have reached age 65 and have completed 10 years of service is \$16.65 per month for each year of credited service up to a maximum of 30 years.

Police Retirement Plan - All regular full-time sworn employees of the Essex Police Department are eligible to participate. However, supernumeraries, school guards, dog wardens/animal control officers, auxiliary police, fire police and police boat drivers are not considered "regular members" and are not eligible to participate in this plan. An employee whose regular work week is less than 30 hours or whose regular period of employment is less than 12 months in the year shall not be considered a full-time employee. The normal retirement date will be the first day of the month following the earlier of the date on which the vested employee attains his or her 55<sup>th</sup> birthday or completes 20 years of credited service. Retirement is mandatory for all employees at age 60. The plan provides retirement benefits as well as death and disability benefits and vested termination benefits. The amount of pension for normal retirement is 2.5% of the compensation base of the employee. For credited service beyond the original 20 years, 2% of compensation base of the employee is multiplied by the number of additional full years of the credit service of the employee per year and will be added to the full retirement percentage. Maximum benefits cannot exceed 60% of average annual earnings. Participants are eligible for early retirement after completion of at least 5 years of credited service. Early retirement benefits consist of regular benefits reduced by 0.5% for each month by which the early retirement precedes normal retirement.

Contributions - The Town establishes contribution rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by the plan members during the year, with an additional amount to finance any unfunded accrued liability.

Participant contributions are determined by respective plan documents and may be amended by the Town through Town Meeting. The following is a summary of the contribution requirements for each type of class covered:

Employees' Retirement Plan - No participant contribution is required.

Merit Service Plan - No participant contribution is required.

Police Retirement Plan - Participants must contribute 3.0% of straight-time and overtime as a Town pick-up contribution under Code Section 414(h).

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 10 - PENSION PLANS *(Continued)***

**Defined Benefit Plans *(Continued)***

**Summary of Significant Accounting Policies**

*Basis of Accounting* - The Plans are accounted for using the accrual basis of accounting. Revenues (contributions investment income) are recognized when they are earned and expenses (benefits, administration and refunds) are recognized when due and payable in accordance with the terms of the Plans. Administrative costs of the Plans are funded by the Plans.

*Investments* - Investments are recorded at fair value. Securities traded on national exchanges are valued at the last reported sales price. Investment income is recognized when earned and gains and losses on sales or exchanges are recognized on the transaction date.

*Concentrations* - The Plans' investments consist solely of investments in various equity mutual funds. As of June 30, 2018, more than 10% of each Plans' investments are invested in the following:

<u>Issuer</u>	<u>Investment</u>	<u>% of Employees' Retirement Plan Investment</u>	<u>% of Merit Service Plan Investment</u>	<u>% of Police Retirement Plan Investment</u>
PIMCO	FDS Income Fund I2	15.9%	16.0%	16.0%
Vanguard	500 Index Fund - Admiral Shares	14.0%	14.0%	14.0%

*Rate of return* - The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended June 30, 2018, the annual money-weighted rates of return on pension plan investments, net of pension plan investment expenses, were as follows:

Employees' Retirement Plan	8.17%
Merit Service Plan	8.00%
Police Retirement Plan	7.95%

**Net Pension Liability**

The components of the net pension liability for the plans at June 30, 2018 were as follows:

	<u>Employees' Retirement Plan</u>	<u>Merit Service Plan</u>	<u>Police Retirement Plan</u>
Total pension liability	\$ 4,661,289	\$ 1,489,983	\$ 1,878,637
Plan fiduciary net position	3,591,685	1,043,322	1,006,547
Town's net pension liability	<u>\$ 1,069,604</u>	<u>\$ 446,661</u>	<u>\$ 872,090</u>

Plan fiduciary net position as a percentage of the total pension liability	77.05%	70.02%	53.58%
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**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 10 - PENSION PLANS *(Continued)***

**Defined Benefit Plans *(Continued)***

**Net Pension Liability *(Continued)***

The components of the changes in the net pension liability for each of the Town's Plans for the year ended June 30, 2018, were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Employees Retirement Plan</b>			
Balance as of June 30, 2017	\$ 4,468,029	\$ 3,349,406	\$ 1,118,623
Changes for the year:			
Service cost	135,777	-	135,777
Interest	319,207	-	319,207
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	239,716	(239,716)
Net investment income	-	273,450	(273,450)
Benefit payments, including refunds	(261,724)	(261,724)	-
Administrative expense	-	(9,163)	9,163
Net changes	193,260	242,279	(49,019)
Balance as of June 30, 2018	\$ 4,661,289	\$ 3,591,685	\$ 1,069,604
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Merit Service Plan</b>			
Balance as of June 30, 2017	\$ 1,456,675	\$ 937,958	\$ 518,717
Changes for the year:			
Service cost	15,904	-	15,904
Interest	99,568	-	99,568
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	118,916	(118,916)
Net investment income	-	78,013	(78,013)
Benefit payments, including refunds	(82,164)	(82,164)	-
Administrative expense	-	(9,401)	9,401
Net changes	33,308	105,364	(72,056)
Balance as of June 30, 2018	\$ 1,489,983	\$ 1,043,322	\$ 446,661



**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 10 - PENSION PLANS *(Continued)***

**Defined Benefit Plans *(Continued)***

**Net Pension Liability *(Continued)***

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Police Retirement Plan</b>			
Balance as of June 30, 2017	\$ 1,822,535	\$ 816,875	\$ 1,005,660
Changes for the year:			
Service cost	54,825	-	54,825
Interest	137,032	-	137,032
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	249,087	(249,087)
Contributions - employee	-	8,015	(8,015)
Net investment income	-	76,678	(76,678)
Benefit payments, including refunds	(135,755)	(135,755)	-
Administrative expense	-	(8,353)	8,353
Net changes	56,102	189,672	(133,570)
Balance as of June 30, 2018	\$ 1,878,637	\$ 1,006,547	\$ 872,090

*Actuarial assumptions* - The total pension liability for each of the plans were determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

	Employees' Retirement Plan	Merit Service Plan	Police Retirement Plan
Investment rate of return	7.25%	7.25%	7.25%
Salary increases	2.75%	N/A	2.75%
Inflation	2.75%	2.75%	2.75%

Mortality rates were based on the following:

<b>Employees' Retirement Plan</b>	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016.
<b>Merit Service Plan</b>	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016.
<b>Police Retirement Plan</b>	RP-2014 Adjusted to 2006 Blue Collar Mortality Table projected to valuation date with Scale MP-2016.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 10 - PENSION PLANS *(Continued)***

**Defined Benefit Plans *(Continued)***

**Net Pension Liability *(Continued)***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return for each major asset class included in each pension plan's target asset allocation as of June 30, 2018, which are summarized in the following table:

	<b>Target</b>	<b>Long-term Expected Real</b>	
	<b>Allocation</b>	<b>Rate of Return</b>	<b>Weighting</b>
US Large Cap Equity	22.00%	4.65%	1.02%
US Mid/Small Cap Equity	15.00%	5.50%	0.83%
International Equities (Unhedged)	15.00%	5.50%	0.83%
Emerging International Equities	7.00%	6.50%	0.46%
Core Bonds	20.00%	1.95%	0.39%
High Yield Bonds	8.00%	3.25%	0.26%
TIPS	5.00%	2.00%	0.10%
REITs	2.00%	5.00%	0.10%
Hedge Funds Mod Vol	5.00%	5.00%	0.25%
Cash	1.00%	0.50%	0.00%

*Discount rate* - The discount rate used to measure the total pension liability for each plan was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Town's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, each Plans' fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on each Plans' investments were applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate* - The following presents the net pension liability for each plan, calculated using a discount rate of 7.25%, as well as what the Town's net pension liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate as of June 30, 2018:

	<b>1% Decrease</b>	<b>Current Discount</b>	<b>1% Increase</b>
	<b>6.25%</b>	<b>7.25%</b>	<b>8.25%</b>
Employees' Retirement Plan's net pension liability	\$ 1,558,045	\$ 1,069,604	\$ 651,580
Merit Fire Plan's net pension liability	610,328	446,661	307,435
Police Retirement Plan's net pension liability	1,084,552	872,090	695,794

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 10 - PENSION PLANS *(Continued)***

**Defined Benefit Plans *(Continued)***

**Pension Expense and Deferred Outflows/Inflows of Resources**

For the year ended June 30, 2018, the Town recognized pension expense for each of the Plans as follows:

Employees' Retirement Plan	\$ 284,100
Merit Service Plan	64,908
Police Retirement Plan	223,430

At June 30, 2018, the Town reported deferred outflows and inflows of resources related to each of the Plans from the following sources:

	<b>Deferred Outflows/(Inflows) of Resources</b>		
	<b>Employees' Retirement Plan</b>	<b>Merit Service Plan</b>	<b>Police Retirement Plan</b>
Net difference between projected and actual earnings on pension plan investments	\$ (30,486)	\$ (2,109)	\$ 3,878
Differences between expected and actual experience	108,079	41,751	76,359
Changes of assumptions	(8,299)	7,000	11,497
Total	<u>\$ 69,294</u>	<u>\$ 46,642</u>	<u>\$ 91,734</u>

Amounts reported as deferred outflow/inflows of resources related to the Town Plan will be recognized as a component of pension expense in future years as follows:

	<b>Amortization of Deferred Outflows/(Inflows) of Resources</b>		
	<b>Employees' Retirement Plan</b>	<b>Merit Service Plan</b>	<b>Police Retirement Plan</b>
Year ended June 30,			
2019	\$ 65,054	\$ 13,614	\$ 65,610
2020	57,748	11,375	33,322
2021	(47,838)	(3,950)	(7,178)
2022	(5,670)	6,532	(20)
2023	-	7,420	-
Thereafter	-	11,651	-
Total	<u>\$ 69,294</u>	<u>\$ 46,642</u>	<u>\$ 91,734</u>

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 10 - PENSION PLANS *(Continued)***

**Defined Benefit Plans *(Continued)***

**Plan Financial Statements**

The following presents the statement of fiduciary net position and the statement of changes in fiduciary net position for each of the Town's defined benefit plans as of and for the year ended June 30, 2018:

<b>Statement of Fiduciary Net Position</b>			
	<b>Employees' Retirement Plan</b>	<b>Merit Service Plan</b>	<b>Police Retirement Plan</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 27,292	\$ 9,155	\$ 8,152
Investments	3,564,393	1,034,167	998,395
Total assets	3,591,685	1,043,322	1,006,547
<b>NET POSITION</b>			
Restricted for pension benefits	\$ 3,591,685	\$ 1,043,322	\$ 1,006,547

<b>Statement of Changes in Fiduciary Net Position</b>			
	<b>Employees' Retirement Plan</b>	<b>Merit Service Plan</b>	<b>Police Retirement Plan</b>
<b>ADDITIONS</b>			
Contributions:			
Employers	\$ 239,716	\$ 118,916	\$ 249,087
Plan members	-	-	8,015
Total contributions	239,716	118,916	257,102
Investment earnings:			
Interest and dividends	106,123	30,384	29,758
Net change in the fair value of investments	167,327	47,629	46,920
Total investment earnings, net	273,450	78,013	76,678
Total additions	513,166	196,929	333,780
<b>DEDUCTIONS</b>			
Benefit payments	261,724	82,164	135,755
Administrative expenses	9,163	9,401	8,353
Total deductions	270,887	91,565	144,108
Changes in net position	242,279	105,364	189,672
Net position - beginning	3,349,406	937,958	816,875
Net position - ending	\$ 3,591,685	\$ 1,043,322	\$ 1,006,547

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 10 - PENSION PLANS *(Continued)***

**Connecticut State Teachers' Retirement System**

**Plan Description**

The faculty and professional personnel of the Town's Board of Education participates in the State of Connecticut's Teachers' Retirement System ("TRS"), which is a cost sharing multiple-employer defined benefit pension plan that provides retirement, disability, survivorship and health insurance benefits to plan members and their beneficiaries. The TRS is governed by Connecticut General Statute ("CGS") *Title 10, Chapter 167a* and is administered by the Connecticut State Teachers' Retirement Board (the "Board"). The TRS is included as a fiduciary pension trust fund in the State of Connecticut's Comprehensive Annual Financial Report and the Board issues publicly available financial reports.

**Benefit Provisions**

The plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

*Normal Retirement:* Retirement benefits for the employees are calculated as 2.0% of the average annual salary times the years of credited service (maximum benefit is 75.0% of average annual salary during the 3 years of highest salary). In addition, amounts derived from the accumulation of the 6.0% contributions made prior to July 1, 1989 and voluntary contributions are payable.

*Early Retirement:* Employees are eligible after 25 years of credited service with a minimum of 20 years of Connecticut service, or age 55 with 20 years of credited service with a minimum of 15 years of Connecticut service. Benefit amounts are reduced by 6.0% per year for the first 5 years preceding normal retirement age and 4.0% per year for the next 5 years preceding normal retirement age. Effective July 1, 1999, the reduction for individuals with 30 or more years of service is 3.0% per year by which retirement precedes normal retirement date.

*Minimum Benefit:* Effective January 1, 1999, Public Act 98-251 provides a minimum monthly benefit of \$1,200 to teachers who retire under the normal retirement provisions and who have completed at least 25 years of full time Connecticut service at retirement.

*Disability Retirement:* Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required to be eligible for non-service related disability. Disability benefits are calculated as 2% per year of service times the average of the highest three years of pensionable salary, as defined per the Plan, but not less than 15%, nor more than 50%. In addition, disability benefits under this plan (without regard to cost-of-living adjustments) plus any initial award of Social Security benefits and workers' compensation cannot exceed 75% of average annual salary. A plan member who leaves service and has attained 10 years of service will be entitled to 100% of the accrued benefit as of the date of termination of covered employment. Benefits are payable at age 60, and early retirement reductions are based on the number of years of service the member would have had if they had continued work until age 60.

*Pre-Retirement Death Benefit:* The plan also offers a lump-sum return of contributions with interest or surviving spouse benefit depending on length of service.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 10 - PENSION PLANS *(Continued)***

**Connecticut State Teachers' Retirement System *(Continued)***

**Contributions**

Per CGS 10-183z, contribution requirements of active employees and the State are amended and certified by the Board and appropriated by the General Assembly. The contributions are actuarially determined as an amount that, when combined with employee contributions and investment earnings, is expected to finance the costs of the benefits earned by employees during the year, with any additional amounts to finance any unfunded accrued liability.

In accordance with CGS Section 10-183z, the Town does not and is not legally responsible to contribute to the plan as a special funding situation exists that requires the State to contribute 100% of an employer's contributions on-behalf of its participating municipalities at an actuarially determined rate. Effective January, 1, 2018, active employees are required to contribute 7.0%, previously 6.0%, of their annual earnings to the plan.

**Administrative Expenses**

Administrative costs of the plan are funded by the State.

**Basis of Presentation**

The collective net pension liability, deferred outflows and inflows of resources, and pension expense for the TRS has been measured as of June 30, 2017 based on an actuarial valuation performed as of June 30, 2016. Since the Town does not contribute directly to the TRS, the Town does not recognize its proportionate share of these amounts in its financial statements. The information determined as of the June 30, 2017 measurement date for the TRS has been utilized by the Town for reporting on-behalf revenues, expenditures and expenses for the year ended June 30, 2018 and for reporting the proportionate share of the collective net pension liability that is attributed to the Town as of June 30, 2018.

**Allocation Methodology**

The schedule of employer allocations for the TRS was calculated based upon the fiscal year 2017 expected contribution effort for each participating employer. The employer allocations were then applied to the net pension liability and pension expense to determine the amount applicable to each employer. For fiscal year 2017, the Town's expected contribution effort for allocation purposes totaled \$570,561 or 0.056% of the total expected contribution effort. The Town has recognized this amount as an on-behalf payment into the TRS as intergovernmental revenues and related education expenditures of the General Fund for the year ended June 30, 2018.

The components associated with the collective pension expense and deferred inflows and outflows of resources for the TRS have been determined based on the fiduciary net position as audited by the State of Connecticut Auditors of Public Accounts as part of the State of Connecticut's Comprehensive Annual Financial Report as of and for the year ended June 30, 2017. The portion of the collective pension expense allocated to the Town totaled \$880,409. The Town has recognized this amount as an operating contribution and related education expense of the governmental activities for the year ended June 30, 2018.

The total collective net pension liability of participating employers for the TRS was approximately \$13.502 billion as of the June 30, 2017 measurement date. The portion attributed to the Town totaled \$7,611,332 or approximately 0.056% of the total collective net pension liability.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 10 - PENSION PLANS *(Continued)***

**Connecticut State Teachers' Retirement System *(Continued)***

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increase	3.25-6.50%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale.

Future cost-of-living increases for teachers who retired prior to September 1, 1992, are made in accordance with increases in the Consumer Price Index, with a minimum of 3% and a maximum of 5% per annum. For teachers who were members of the Teachers' Retirement System before July 1, 2007, and retire on or after September 1, 1992, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 6% per annum. If the return on assets in the previous year was less than 8.5%, the maximum increase is 1.5%. For teachers who were members of the Teachers' Retirement System after July 1, 2007, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 5% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3%, and if the return on the assets in the previous year was less than 8.5%, the maximum increase is 1.0%.

**Long-Term Rate of Return**

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Large Cap U.S. Equities	21.0%	5.8%
Developed Non-U.S. Equities	18.0%	6.6%
Emerging Markets (Non-U.S.)	9.0%	8.3%
Real Estate	7.0%	5.1%
Private Equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Fixed Income (Core)	7.0%	1.3%
High Yield Bonds	5.0%	3.9%
Emerging Market Bonds	5.0%	3.7%
Inflation Linked Bonds	3.0%	1.0%
Cash	6.0%	0.4%
	<u>100%</u>	

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 10 - PENSION PLANS *(Continued)***

**Connecticut State Teachers' Retirement System *(Continued)***

**Discount Rate**

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the State contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Proportionate Share of the Collective Net Pension Liability**

The following presents the proportionate share of the collective net pension liability attributed to the Town as of the June 30, 2017 measurement date, calculated using a discount rate of 8.00%, as well as what the proportionate share of the net pension liability attributed to the Town would be if it were calculated using a discount rate that is 1-percentage point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<b>1% Decrease (7.0%)</b>	<b>Current Discount (8.0%)</b>	<b>1% Increase (9.0%)</b>
Proportionate share of the net pension liability attributed to the Town	\$ 9,527,143	\$ 7,611,332	\$ 5,991,634

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**Town Other Post-Employment Benefits Plans**

**Plan Descriptions**

*Employees' OPEB Plan* - The Town offers post-retirement medical benefits to certain employees under a single-employer defined benefit healthcare plan. Benefits provided by the plan include supplemental healthcare insurance benefits for eligible retirees who have reached the age of 65 with 25 years of service. Benefits are provided through the Town's group health insurance plan, which covers both active and retired members. Benefit provisions are established and can be amended by the Town. The plan does not issue a publicly available financial report and is not included in the financial statements of another entity.

*Teachers' OPEB Plan* - The Town offers post-retirement medical and dental benefits to eligible retirees and their spouses through the Board of Education's group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the Town and the union representing Town employees. The Plan does not issue a publicly available financial report and is not included in the financial statements of another entity.



**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Town Other Post-Employment Benefits Plans *(Continued)***

**Funding Policy**

*Employees' OPEB Plan* - Contribution requirements of the Town are established in the plan provisions and may be amended by the Town. Currently, the Town contributes 100% percent of the cost of current-year premiums for eligible retired plan members. Plan members are not required to contribute. The Town finances the cost of these benefits on a pay-as-you-go basis.

*Teachers' OPEB Plan* - Contributions requirements of the plan members are established in the provisions of the program and in accordance with the General Statutes of the State of Connecticut. Currently, plan members are required to contribute 100% of their healthcare premiums to the Town, less any reimbursements received by the Town from the State Retirement Board. The Town finances the plan on a pay-as-you-go-basis.

**Employees Covered by Benefit Terms**

As of June 30, 2018, the measurement date, the following employees were covered by the benefit terms:

Retirees, beneficiaries, and dependents currently receiving benefits	8
Active participants	<u>91</u>
	<u>99</u>

**Total OPEB Liability**

The Town's OPEB liability reported as of June 30, 2018 totaled \$1,674,131. The total OPEB liability was measured as of June 30, 2018 using an actuarial valuation dated July 1, 2016.

*Actuarial Assumptions and Other Inputs* - The total OPEB liability as of June 30, 2018 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation date:	July 1, 2016
Actuarial cost method:	Entry Age Normal
Amortization method:	Level Dollar Amount
Remaining amortization period:	30 years, closed
Asset valuation method:	Market value
Actuarial assumptions:	
Discount rate	4.0%
Healthcare cost trend rate	8.0% initial
	4.0% final

The discount rate was based on the Bond Buyer 20 (GO 20 Index) as of the measurement date, which represents municipal bond trends based on a portfolio of 20 general obligation bonds that mature in 20 years.

Mortality rates were based on the RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Town Other Post-Employment Benefits Plans *(Continued)***

**Total OPEB Liability *(Continued)***

Assumptions regarding participation and coverage election relating to benefits provided to Teachers and Board of Education Administrators are as follows:

- 80% of active Teachers and Board of Education Administrators are assumed to elect retiree coverage
- Of those who elect coverage, if hired before April 1, 1986, 80% of actives and pre-65 retirees are assumed to be on a non-Medicare eligible plan, 20% are assumed to elect coverage through the State of Connecticut State Teachers' Retirement System at age 65

**Changes in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
Balance as of June 30, 2017	<u>\$ 1,689,538</u>
<b>Changes for the year:</b>	
Service cost	47,848
Interest	60,010
Changes in benefit terms	-
Differences between expected and actual experience	67,055
Changes in assumptions or other inputs	(66,975)
Benefit payments	<u>(123,345)</u>
<b>Net changes</b>	<u>(15,407)</u>
Balance as of June 30, 2018	<u><u>\$ 1,674,131</u></u>

Changes of assumptions primarily reflects a change in the discount rate from 3.58% to 3.87%.

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate* - The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current discount rate:

	<b>1% Decrease (2.87%)</b>	<b>Current Discount (3.87%)</b>	<b>1% Increase (4.87%)</b>
Total OPEB Liability	\$ 1,922,153	\$ 1,674,131	\$ 1,469,794

*Sensitivity of the Total OPEB liability to Changes in the Healthcare Cost Trend Rates* - The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>1% Decrease in Trend Rates</b>	<b>Current Trend Rates</b>	<b>1% Increase in Trend Rates</b>
Total OPEB Liability	\$ 1,419,935	\$ 1,674,131	\$ 1,995,145

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Town Other Post-Employment Benefits Plans *(Continued)***

**OPEB Expense and Deferred Outflows and Inflows of Resources**

For the year ended June 30, 2018, the Town recognized OPEB expense of \$86,600. As of June 30, 2018, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 60,788	\$ -
Changes of assumptions	-	(60,716)
	<u>\$ 60,788</u>	<u>\$ (60,716)</u>

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as a component of OPEB expense as follows:

Year ended June 30,		
2019	\$	8
2020		8
2021		8
2022		8
2023		8
Thereafter		32
	<u>\$</u>	<u>72</u>

**Connecticut State Teachers' Retirement System**

**Plan Description**

The faculty and professional personnel of the Town's Board of Education participates in the State of Connecticut's Teachers' Retirement System ("TRS"), which is a cost sharing multiple-employer defined benefit pension plan that provides retirement, disability, survivorship and health insurance benefits to plan members and their beneficiaries. The TRS is governed by Connecticut General Statute ("CGS") *Title 10, Chapter 167a* and is administered by the Connecticut State Teachers' Retirement Board (the "Board"). The OPEB trust fund is included in the TRS, and the TRS is included in the State of Connecticut audit as a pension trust fund.

**Benefit Provisions**

The Plan covers retired teachers and administrators of public schools in the State who are receiving benefits from the Plan. The Plan provides healthcare insurance benefits to eligible retirees and their spouses. Any member that is currently receiving a retirement or disability benefit through the Plan is eligible to participate in the healthcare portion of the Plan. Subsidized Local School District Coverage provides a subsidy paid to members still receiving coverage through their former employer and the TRB Sponsored Medicare Supplemental Plans provide coverage for those participating in Medicare, but not receiving Subsidized Local School District Coverage.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Connecticut State Teachers' Retirement System *(Continued)***

**Benefit Provisions *(Continued)***

Any member that is not currently participating in Medicare Parts A & B is eligible to continue health care coverage with their former employer. A subsidy of up to \$110 per month for a retired member plus an additional \$110 per month for a spouse enrolled in a local school district plan is provided to the school district to first offset the retiree's share of the cost of coverage, any remaining portion is used to offset the district's cost. The subsidy amount is set by statute, and has not increased since July of 1996. A subsidy amount of \$220 per month may be paid for a retired member, spouse or the surviving spouse of a member who has attained the normal retirement age to participate in Medicare, is not eligible for Part A of Medicare without cost, and contributes at least \$220 per month towards coverage under a local school district plan.

Any member that is currently participating in Medicare Parts A & B is eligible to either continue health care coverage with their former employer, if offered, or enroll in the plan sponsored by the System. If they elect to remain in the plan with their former employer, the same subsidies as above will be paid to offset the cost of coverage.

If a member participating in Medicare Parts A & B so elects, they may enroll in one of the CTRB Sponsored Medicare Supplemental Plans. Active members, retirees, and the State pay equally toward the cost of the basic coverage (medical and prescription drug benefits).

Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

**Contributions**

Per CGS 10-183z, which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are amended and certified by the TRB and appropriated by the General Assembly. The State pays for one third of plan costs through and annual appropriation in the General Fund. School district employers are not required to make contributions to the Plan.

The cost of providing plan benefits is financed on a pay-as-you-go basis as follows: active teachers' pay for one third of the Plan costs through a contribution of 1.25% of their pensionable salaries, and retired teachers pay for one third of the Plan costs through monthly premiums, which helps reduce the cost of health insurance for eligible retired members and dependents.

Contributions remitted by the State are recognized when legally due, based upon statutory requirements.

**Administrative Expenses**

Administrative costs of the Plan are to be paid by the General Assembly per Section 10-183r of the Connecticut General Statutes.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Connecticut State Teachers' Retirement System *(Continued)***

**Basis of Presentation**

The collective net OPEB liability, deferred outflows and inflows of resources, and OPEB expense for the TRS has been measured as of June 30, 2017 based on an actuarial valuation performed as of June 30, 2016. Since the Town does not contribute directly to the TRS, the Town does not recognize its proportionate share of these amounts in its financial statements. The information determined as of the June 30, 2017 measurement date for the TRS has been utilized by the Town for reporting on-behalf revenues, expenditures and expenses for the year ended June 30, 2018 and for reporting the proportionate share of the collective net OPEB liability that is attributed to the Town as of June 30, 2018.

The components associated with the OPEB expense and deferred inflows and outflows of resources have been determined using the unrecognized portions of each year's experience and assumption changes for the year ended June 30, 2017.

**Allocation Methodology**

The schedule of allocations have been prepared to provide the total amount of employer contributions from the State and the proportionate share percentages that have been determined based on these contributions. Based on these percentages the proportionate share amounts of the net OPEB liability associated with each participating employer and the employer OPEB expense and revenue for State support for each participating employer for the year ending June 30, 2017.

For fiscal year 2017, the Town's expected contribution effort for allocation purposes totaled \$11,230 or 0.056% of the total expected contribution effort. The Town has recognized this amount as an on-behalf payment into the TRS as intergovernmental revenues and related education expenditures of the General Fund for the year ended June 30, 2018.

The components associated with the collective OPEB expense and deferred inflows and outflows of resources for the TRS have been determined based on the fiduciary net position as audited by the State of Connecticut Auditors of Public Accounts as part of the State of Connecticut's Comprehensive Annual Financial Report as of and for the year ended June 30, 2017. The portion of the collective OPEB expense allocated to the Town totaled \$90,794. The Town has recognized this amount as an operating contribution and related education expense of the governmental activities for the year ended June 30, 2018.

The total collective net OPEB liability of participating employers for the TRS was approximately \$3.475 billion as of the June 30, 2017 measurement date. The portion attributed to the Town totaled \$1,959,086 or approximately 0.056% of the total collective net OPEB liability.

**Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Connecticut State Teachers' Retirement System *(Continued)***

**Actuarial Assumptions *(Continued)***

Inflation	2.75%
Salary increases	3.25% - 6.50%, including inflation
Investment rate of return	2.75%, net of investment related expense
Healthcare cost trend rates:	
Pre-Medicare	7.25% for 2017 decreasing to an ultimate rate of 5.00% by 2022
Medicare	7.25% for 2017 decreasing to an ultimate rate of 5.00% by 2022

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale.

**Long-Term Rate of Return**

The long-term expected rate of return on plan assets is reviewed as part of the actuarial valuation process. Several factors are considered in evaluation the long-term rate of return assumption, including the Plan's current asset allocations and a log-normal distribution analysis using the best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) for each major asset class.

The long-term expected rate of return was determined by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
U.S. Treasuries (Cash Equivalents)	100.0%	0.04%

**Discount Rate**

The discount rate used to measure the total OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate was performed in accordance with the applicable standards. The projection's basis was an actuarial valuation performed as of June 30, 2016. In addition to the actuarial methods and assumptions of the June 30, 2016 actuarial valuation, the following actuarial methods and assumptions were used in the projection of cash flows:

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Connecticut State Teachers' Retirement System *(Continued)***

**Discount Rate *(Continued)***

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annual at a rate of 3.25%.
- Employee contributions were assumed to be made at the current member contribution rate.
- Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- No future employer contributions were assumed to be made.
- For future plan members, contribution inflows were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

Based on those assumptions, the Plan's fiduciary net position was projected to be depleted in 2018 and, as a result, the Municipal Bond Index Rate was used in the determination of the single equivalent rate.

**Proportionate Share of the Collective Net Pension Liability**

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate* - The following presents the proportionate share of the collective net OPEB liability attributed to the Town as of the June 30, 2017 measurement date, calculated using a discount rate of 3.56%, as well as what the proportionate share of the net OPEB liability attributed to the Town would be if it were calculated using a discount rate that is 1-percentage point lower (2.56%) or 1-percentage-point higher (4.56%) than the current rate:

	<b>1.00% Decrease (2.56%)</b>	<b>Current Rate (3.56%)</b>	<b>1.00% Increase (4.56%)</b>
Proportionate share of the net OPEB liability attributed to the Town	\$ 2,361,012	\$ 1,959,086	\$ 1,643,056

*Sensitivity of the Net OPEB liability to Changes in the Healthcare Cost Trend Rates* - The following presents the proportionate share of the collective net OPEB liability attributed to the Town as of the June 30, 2017 measurement date, calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>1% Decrease in Trend Rates</b>	<b>Current Trend Rates</b>	<b>1% Increase in Trend Rates</b>
Proportionate share of the net OPEB liability attributed to the Town	\$ 1,613,035	\$ 1,959,086	\$ 2,425,002

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 13 - DEFERRED COMPENSATION PLAN**

The Town's Board of Education offers all members of the Municipal Employee Union, SEIU Local 506 (paraprofessionals) who are eligible for benefits, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Town's Board of Education is required to match employees' contributions up to a maximum of 5.0% of their base pay only, on a before-tax basis. The Town's Board of Education contribution totaled \$9,029 for the year ended June 30, 2018. Deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for exclusive benefit of the plan participants and their beneficiaries. In addition, it is the opinion of the Town's legal counsel that the Town has no liability for the losses under the plans. Therefore, the accounts of the deferred compensation plan are not reported in the basic financial statements of the Town.

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

There are several lawsuits pending against the Town. The outcome and eventual liability to the Town, if any, in these cases is not known at this time. The Town's management, based upon consultation with legal counsel, estimates that potential claims against the Town, not covered by insurance, resulting from such litigation would not materially affect the financial position of the Town.

The Town has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditure disallowed under terms of the grant. Based on prior experience, Town management believes such disallowances, if any, will not be material.

The Town may be subject to rebate penalties to the federal government relating to various bond issues. The Town expects such amounts, if any, to be immaterial.

As of June 30, 2018, the Town has recorded \$400,376 in encumbrances. Such encumbrances have been included in assigned fund balance in the accompanying balance sheet of governmental funds as of June 30, 2018.

**NOTE 15 - RISK MANAGEMENT**

The Town is a member in Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established for the purpose of administering an interlocal risk management program pursuant to the provisions of Section 7-479a et. eq. of Connecticut General Statutes, for workers compensation and employer liability coverage. The Town pays an annual premium for its coverage. CIRMA is to be self-sustaining through members' premiums but reinsures in excess of \$750,000 for each insured occurrence. Members may be subject to supplemental assessment in the event of deficiencies; however, potential assessments are limited pursuant to the by-laws.

The Town is a member of CIRMA's liability-automobile-property pool, a risk-sharing pool, which was begun on July 1, 1986. The Town pays premiums to CIRMA for the provision of general liability, automobile liability, law enforcement liability, public official's liability, school leaders' liability, auto-physical damage, property, and boiler and machinery coverages. The premium is subject to audit after the close of the coverage period. Various deductibles applied to these coverages and claims and expense payments falling within the deductible amounts are the responsibility of the Town. CIRMA's pool retains \$750,000 for each insured liability/auto occurrence.



**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 15 - RISK MANAGEMENT**

The Town participates in a medical health insurance fund, which is maintained by Regional School District No. 4. The fund accounts for and finances the retained risk of loss for member Town employee medical benefits coverage. A third party administers the plan for which the fund pays a fee. The Town pays an annual contribution for its coverage. The fund is to be self-sustaining through members' premiums, but reinsures in excess of \$150,000 for each insured occurrence. In addition to Regional School District No. 4, the participating members are the Town of Chester Board of Education, the Town of Deep River (including Board of Education) and the Regional Supervision District Board of Education. Members may be subject to additional assessments in the event of a deficiency.

A liability is reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liability includes an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, the claims liability is reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay outs) and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example for salvage or subrogation, are another component of the claims liability estimated. The claims liability included in the accompanying statement of net position totaled \$34,764 as of June 30, 2018.

**NOTE 16 - RECENTLY ISSUED ACCOUNTING STANDARDS**

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations. (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement which (1) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (2) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, and (3) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2019. The Town is currently evaluating the potential impact of adopting this Statement on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2019. The Town is currently evaluating the potential impact of adopting this Statement on its financial statements.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 16 - RECENTLY ISSUED ACCOUNTING STANDARDS *(Continued)***

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2020. The Town is currently evaluating the potential impact of adopting this Statement on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for the Town's reporting period beginning July 1, 2018. The Town is currently evaluating the potential impact of adopting this Statement on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement are (a) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement should be applied prospectively and are effective for the Town's reporting period beginning July 1, 2020. The Town is currently evaluating the potential impact of adopting this Statement on its financial statements.

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## REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF ESSEX, CONNECTICUT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2018**

	<b>Budgeted Amounts</b>			<b>Variance With Final Budget Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>REVENUES</b>				
Property taxes	\$ 22,924,432	\$ 22,924,432	\$ 23,179,381	\$ 254,949
Intergovernmental	403,717	403,717	468,952	65,235
Local	567,700	567,700	911,982	344,282
Interest	7,200	7,200	76,383	69,183
Total revenues	<u>23,903,049</u>	<u>23,903,049</u>	<u>24,636,698</u>	<u>733,649</u>
<b>EXPENDITURES</b>				
Board of Selectmen	7,895,608	8,588,847	8,310,577	(278,270)
Education	<u>16,182,658</u>	<u>16,182,658</u>	<u>16,151,536</u>	<u>(31,122)</u>
Total expenditures	<u>24,078,266</u>	<u>24,771,505</u>	<u>24,462,113</u>	<u>(309,392)</u>
<b>OTHER FINANCING SOURCES</b>				
Premium on bond issuance	-	-	487,818	487,818
Appropriation of fund balance	<u>175,217</u>	<u>868,456</u>	<u>-</u>	<u>(868,456)</u>
	<u>175,217</u>	<u>868,456</u>	<u>487,818</u>	<u>(380,638)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 662,403</u>	<u>\$ 662,403</u>

*See accompanying notes to required supplementary information .*

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2018**

	<b>Budgeted Amounts</b>			<b>Variance With Final Budget Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>PROPERTY TAXES</b>				
Property taxes	\$ 22,874,432	\$ 22,874,432	\$ 23,031,956	\$ 157,524
Interest and lien fees	50,000	50,000	147,425	97,425
Total property taxes	22,924,432	22,924,432	23,179,381	254,949
<b>INTERGOVERNMENTAL</b>				
Veterans tax relief	3,962	3,962	2,640	(1,322)
Education cost sharing grant	19,798	19,798	87,043	67,245
Town aid road grant	214,806	214,806	214,693	(113)
LOCIP	73,525	73,525	74,239	714
PILOT grant	-	-	71	71
Homeowners tax relief	35,000	35,000	-	(35,000)
Transit district	821	821	-	(821)
Pequot grant	-	-	12,209	12,209
Municipal grant-in-aid	50,000	50,000	74,547	24,547
Miscellaneous State and Federal	5,805	5,805	3,510	(2,295)
Total intergovernmental	403,717	403,717	468,952	65,235
<b>LOCAL REVENUES</b>				
Miscellaneous permits	3,500	3,500	4,459	959
Access line tax share	28,000	28,000	20,509	(7,491)
Landfill fees	80,000	80,000	79,036	(964)
Building permit fees	125,000	125,000	261,674	136,674
Circuit court fines	4,000	4,000	2,473	(1,527)
Zoning permits	7,100	7,100	9,204	2,104
Zoning board of appeals	2,160	2,160	2,100	(60)
Planning commission receipts	2,500	2,500	160	(2,340)
Conveyance tax	110,000	110,000	205,066	95,066
Park and recreation	4,500	4,500	-	(4,500)
Miscellaneous receipts	15,000	15,000	105,192	90,192
Town clerk fees	115,000	115,000	137,542	22,542
Inland wetlands permits	1,440	1,440	1,800	360
Regional recycling fees	62,000	62,000	74,517	12,517
Health department fees	7,500	7,500	8,250	750
Total local revenues	567,700	567,700	911,982	344,282
<b>INTEREST INCOME</b>	7,200	7,200	76,383	69,183
<b>Total revenues</b>	23,903,049	23,903,049	24,636,698	733,649
<b>OTHER FINANCING SOURCES</b>				
Premium on bond issuance	-	-	487,818	487,818
Appropriation of fund balance	175,217	868,456	-	(868,456)
	175,217	868,456	487,818	(380,638)
<b>Total revenues and other financing sources</b>	\$ 24,078,266	\$ 24,771,505	\$ 25,124,516	\$ 353,011

*See accompanying notes to required supplementary information.*

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF EXPENDITURES**  
**BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget Over (Under)
BOARD OF SELECTMEN				
GENERAL GOVERNMENT				
Selectmen	\$ 205,966	\$ 205,966	\$ 165,994	\$ (39,972)
Assessor	116,541	117,713	117,713	-
Central services	214,816	231,639	231,639	-
Elections	45,840	45,840	41,775	(4,065)
Probate court	6,460	6,460	3,460	(3,000)
Tax collector	112,271	112,271	106,455	(5,816)
Town clerk	166,835	188,173	188,173	-
Finance department	175,250	175,250	172,100	(3,150)
Zoning enforcement agent	68,846	68,846	68,679	(167)
Fringe benefits	1,019,146	1,244,146	1,212,888	(31,258)
General insurance	190,012	190,012	176,903	(13,109)
Legal services	74,000	74,000	67,487	(6,513)
Public restroom facilities	18,750	18,750	15,538	(3,212)
Technology	202,640	202,640	184,994	(17,646)
Board of assessment appeals	1,430	1,430	1,218	(212)
Board of finance	110,500	79,837	34,483	(45,354)
Conservation commission	11,900	12,475	12,475	-
Economic development commission	14,100	14,100	12,667	(1,433)
IWWC commission	6,680	6,680	5,905	(775)
Land Use - admin	99,410	99,410	95,919	(3,491)
Parks and recreation	181,735	181,735	181,326	(409)
Parks and recreation commission	1,200	1,200	1,140	(60)
Planning commission	62,575	62,616	62,616	-
Tree committee	6,000	6,000	5,987	(13)
Zoning board of appeals	5,450	6,515	6,515	-
Zoning commission	7,020	12,985	12,985	-
Total general government	3,125,373	3,366,689	3,187,034	(179,655)
PUBLIC SAFETY				
Ambulance association	18,407	18,407	18,390	(17)
Animal control	10,000	10,000	10,000	-
Building department	72,866	75,223	75,223	-
Emergency management	21,400	21,400	19,901	(1,499)
Emergency 911	120,894	120,894	120,894	-
Fire department	344,650	344,650	344,650	-
Fire marshal	46,354	49,024	49,024	-
Harbor patrol	30,486	30,486	19,307	(11,179)
Police services	366,987	366,987	355,154	(11,833)
Resident state trooper	197,274	197,274	180,927	(16,347)
Water	182,392	182,392	168,298	(14,094)
Total public safety	1,411,710	1,416,737	1,361,768	(54,969)
(Continued)				

*(Continued)*

*See accompanying notes to required supplementary information.*

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF EXPENDITURES**  
**BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND (UNAUDITED) (Concluded)**  
**YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts			Variance With Final Budget Over (Under)
	Original	Final	Actual	
BOARD OF SELECTMEN (Continued)				
HEALTH AND WELFARE				
Estuary transit	\$ 19,140	\$ 19,140	\$ 19,140	\$ -
Sanitarian	110,950	110,950	102,663	(8,287)
Transfer station	269,965	269,965	264,779	(5,186)
Social services	105,703	105,703	101,364	(4,339)
Visiting nurses	66,874	66,874	66,850	(24)
Water pollution control	2,600	2,600	1,202	(1,398)
Total health and welfare	575,232	575,232	555,998	(19,234)
LIBRARIES				
	398,370	398,370	398,370	-
HIGHWAYS AND TRANSPORTATION				
Highways	852,967	899,863	899,863	-
Town garage	31,700	31,700	22,748	(8,952)
Total highways and transportation	884,667	931,563	922,611	(8,952)
DEBT SERVICE				
Principal payments	735,000	735,000	735,000	-
Interest and fiscal charges	311,256	311,256	301,483	(9,773)
Total debt service	1,046,256	1,046,256	1,036,483	(9,773)
CAPITAL OUTLAYS				
Grants and special appropriations	-	75,000	73,924	(1,076)
Capital and sinking funds	454,000	779,000	774,389	(4,611)
Total capital outlays	454,000	854,000	848,313	(5,687)
Total Board of Selectmen	7,895,608	8,588,847	8,310,577	(278,270)
EDUCATION	16,182,658	16,182,658	16,151,536	(31,122)
Total expenditures	\$ 24,078,266	\$ 24,771,505	\$ 24,462,113	\$ (309,392)
				(Concluded)

See accompanying notes to required supplementary information.

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY**  
**EMPLOYEES' RETIREMENT PLAN (UNAUDITED)**  
**LAST FIVE FISCAL YEARS**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total pension liability</b>					
Service cost	\$ 135,777	\$ 141,113	\$ 136,340	\$ 131,096	\$ 90,333
Interest	319,207	320,641	303,380	264,574	249,910
Differences between expected and actual experience	-	47,123	-	244,339	-
Changes of assumptions	-	(53,428)	-	65,695	-
Benefit payments, including refunds	(261,724)	(238,722)	(190,820)	(196,259)	(175,009)
Net change in total pension liability	193,260	216,727	248,900	509,445	165,234
Total pension liability - beginning	4,468,029	4,251,302	4,002,402	3,492,957	3,327,723
Total pension liability - ending	4,661,289	4,468,029	4,251,302	4,002,402	3,492,957
<b>Plan fiduciary net position</b>					
Contributions - employer	239,716	246,332	231,680	219,040	229,403
Net investment income	273,450	425,897	(50,972)	170,109	374,159
Benefit payments, including refunds	(261,724)	(238,722)	(190,820)	(196,259)	(175,009)
Administrative expense	(9,163)	(5,167)	-	(10,984)	(11,823)
Net change in plan fiduciary net position	242,279	428,340	(10,112)	181,906	416,730
Plan fiduciary net position - beginning	3,349,406	2,921,066	2,931,178	2,749,272	2,332,542
Plan fiduciary net position - ending	3,591,685	3,349,406	2,921,066	2,931,178	2,749,272
<b>Town's net pension liability</b>	<u>\$ 1,069,604</u>	<u>\$ 1,118,623</u>	<u>\$ 1,330,236</u>	<u>\$ 1,071,224</u>	<u>\$ 743,685</u>
Plan fiduciary net position as a percentage of total pension liability	77.05%	74.96%	68.71%	73.20%	78.71%
Covered employee payroll	\$ 1,910,347	\$ 1,841,298	\$ 1,813,057	\$ 1,743,324	\$ 1,178,755
Town's net pension liability as a percentage of covered employee payroll	55.99%	60.75%	73.37%	61.45%	63.09%

*See accompanying notes to required supplementary information.*



**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS**  
**EMPLOYEES' RETIREMENT PLAN (UNAUDITED)**  
**LAST FIVE FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 239,716	\$ 235,969	\$ 230,516	\$ 179,006	\$ 174,839
Contributions in relation to the actuarially determined contribution	<u>239,716</u>	<u>246,332</u>	<u>231,680</u>	<u>219,040</u>	<u>229,403</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (10,363)</u>	<u>\$ (1,164)</u>	<u>\$ (40,034)</u>	<u>\$ (54,564)</u>
Covered employee payroll	\$ 1,910,347	\$ 1,841,298	\$ 1,813,057	\$ 1,743,324	\$ 1,178,755
Contributions as a percentage of covered employee payroll	12.55%	13.38%	12.78%	12.56%	19.46%
Annual money-weighted rate of return, net of investment expense	8.17%	14.63%	-1.71%	6.06%	15.72%

*See accompanying notes to required supplementary information.*

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY**  
**MERIT SERVICE PLAN (UNAUDITED)**  
**LAST FIVE FISCAL YEARS**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total pension liability</b>					
Service cost	\$ 15,904	\$ 15,499	\$ 15,499	\$ 15,499	\$ 32,446
Interest	99,568	104,572	101,719	93,835	92,015
Differences between expected and actual experience	-	(4,767)	-	73,132	-
Changes of assumptions	-	2,880	-	7,574	-
Benefit payments, including refunds	(82,164)	(79,183)	(79,183)	(90,423)	(76,336)
Net change in total pension liability	33,308	39,001	38,035	99,617	48,125
Total pension liability - beginning	1,456,675	1,417,674	1,379,639	1,280,022	1,231,897
Total pension liability - ending	1,489,983	1,456,675	1,417,674	1,379,639	1,280,022
<b>Plan fiduciary net position</b>					
Contributions - employer	118,916	118,378	67,899	84,999	75,741
Net investment income	78,013	113,036	(15,570)	47,264	108,825
Benefit payments, including refunds	(82,164)	(79,183)	(79,183)	(90,423)	(76,335)
Administrative expense	(9,401)	(6,384)	(1,258)	(7,555)	(5,714)
Net change in plan fiduciary net position	105,364	145,847	(28,112)	34,285	102,517
Plan fiduciary net position - beginning	937,958	792,111	820,223	785,938	683,421
Plan fiduciary net position - ending	1,043,322	937,958	792,111	820,223	785,938
<b>Town's net pension liability</b>	<b>\$ 446,661</b>	<b>\$ 518,717</b>	<b>\$ 625,563</b>	<b>\$ 559,416</b>	<b>\$ 494,084</b>
Plan fiduciary net position as a percentage of total pension liability	70.02%	64.39%	55.87%	59.45%	61.40%
Covered employee payroll	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Town's net pension liability as a percentage of covered employee payroll	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

*See accompanying notes to required supplementary information.*

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS**  
**MERIT SERVICE PLAN (UNAUDITED)**  
**LAST FIVE FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 68,916	\$ 68,378	\$ 67,899	\$ 60,756	\$ 59,726
Contributions in relation to the actuarially determined contribution	<u>118,916</u>	<u>118,378</u>	<u>67,899</u>	<u>84,999</u>	<u>75,741</u>
Contribution deficiency (excess)	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	<u>\$ -</u>	<u>\$ (24,243)</u>	<u>\$ (16,015)</u>
Covered employee payroll	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Contributions as a percentage of covered employee payroll	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Annual money-weighted rate of return, net of investment expense	8.00%	14.24%	-1.88%	5.90%	15.79%

*See accompanying notes to required supplementary information.*

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY**  
**POLICE RETIREMENT PLAN (UNAUDITED)**  
**LAST FIVE FISCAL YEARS**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total pension liability</b>					
Service cost	\$ 54,825	\$ 51,698	\$ 49,949	\$ 48,028	\$ 35,294
Interest	137,032	121,047	117,813	95,417	91,312
Differences between expected and actual experience	-	123,832	-	278,987	-
Changes of assumptions	-	28,016	-	(19,695)	-
Benefit payments, including refunds	(135,755)	(126,384)	(126,384)	(86,433)	(82,829)
Net change in total pension liability	56,102	198,209	41,378	316,304	43,777
Total pension liability - beginning	1,822,535	1,624,326	1,582,948	1,266,644	1,222,867
Total pension liability - ending	1,878,637	1,822,535	1,624,326	1,582,948	1,266,644
<b>Plan fiduciary net position</b>					
Contributions - employer	249,087	225,535	123,060	71,977	70,872
Contributions - members	8,015	3,279	5,102	6,542	6,985
Net investment income	76,678	86,911	(10,525)	36,624	85,628
Benefit payments, including refunds	(135,755)	(126,384)	(126,384)	(86,433)	(82,829)
Administrative expense	(8,353)	(7,167)	(402)	(5,426)	(4,481)
Net change in plan fiduciary net position	189,672	182,174	(9,149)	23,284	76,175
Plan fiduciary net position - beginning	816,875	634,701	643,850	620,566	544,391
Plan fiduciary net position - ending	1,006,547	816,875	634,701	643,850	620,566
Town's net pension liability	<u>\$ 872,090</u>	<u>\$ 1,005,660</u>	<u>\$ 989,625</u>	<u>\$ 939,098</u>	<u>\$ 646,078</u>
Plan fiduciary net position as a percentage of total pension liability	53.58%	44.82%	39.07%	40.67%	48.99%
Covered employee payroll	\$ 235,591	\$ 227,076	\$ 261,743	\$ 251,676	\$ 265,484
Town's net pension liability as a percentage of covered employee payroll	370.17%	442.87%	378.09%	373.14%	243.36%

*See accompanying notes to required supplementary information.*

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS**  
**POLICE RETIREMENT PLAN (UNAUDITED)**  
**LAST FIVE FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 149,087	\$ 124,744	\$ 123,060	\$ 58,426	\$ 57,942
Contributions in relation to the actuarially determined contribution	<u>249,087</u>	<u>225,535</u>	<u>123,060</u>	<u>71,977</u>	<u>70,872</u>
Contribution deficiency (excess)	<u>\$ (100,000)</u>	<u>\$ (100,791)</u>	<u>\$ -</u>	<u>\$ (13,551)</u>	<u>\$ (12,930)</u>
Covered employee payroll	\$ 235,591	\$ 227,076	\$ 261,743	\$ 251,676	\$ 265,484
Contributions as a percentage of covered employee payroll	105.73%	99.32%	47.02%	28.60%	26.70%
Annual money-weighted rate of return, net of investment expense	7.95%	13.49%	-1.57%	5.80%	15.64%

*See accompanying notes to required supplementary information.*

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM (UNAUDITED)**  
**LAST FOUR FISCAL YEARS**  
(Rounded to nearest thousand)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability attributed to the Town	0.056%	0.056%	0.065%	0.065%
Town's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>7,611,000</u>	<u>7,977,000</u>	<u>7,112,000</u>	<u>6,574,000</u>
Total	<u>\$ 7,611,000</u>	<u>\$ 7,977,000</u>	<u>\$ 7,112,000</u>	<u>\$ 6,574,000</u>
Town's covered payroll	\$ 2,050,000	\$ 2,251,000	\$ 2,042,000	\$ 2,381,000
Town's proportionate share of the net pension liability as a percentage of its covered payroll	0.0%	0.0%	0.0%	0.0%
Plan fiduciary net position as a percentage of the total pension liability	55.93%	52.26%	61.50%	59.50%

*See accompanying notes to required supplementary information.*

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULES OF CHANGES IN OPEB LIABILITY**  
**OTHER POST-EMPLOYMENT BENEFIT PLANS (UNAUDITED)**  
**LAST FISCAL YEAR**

	<b>2018</b>
<b>Total OPEB Liability</b>	
Service Cost	\$ 47,848
Interest	60,010
Changes in benefit terms	-
Differences between expected and actual experience	67,055
Changes of assumptions	(66,975)
Benefit payments, including refunds	(123,345)
Net change in total pension liability	(15,407)
Total OPEB liability - beginning	1,689,538
Total OPEB liability - ending	<u>\$ 1,674,131</u>

*See accompanying notes to required supplementary information.*

**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**  
**CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM (UNAUDITED)**  
**LAST FISCAL YEARS**  
**(Rounded to the Nearest Thousand)**

	<b>2018</b>
Proportion of the net OPEB liability attributed to the Town	0.056%
Town's proportionate share of the net OPEB liability	\$ -
State's proportionate share of the net OPEB liability attributed to the Town	1,959,000
Total	<u>\$ 1,959,000</u>
Town's covered payroll	\$ 2,050,000
Town's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.0%
Plan fiduciary net position as a percentage of the total OPEB liability	1.79%

*See accompanying notes to required supplementary information.*



**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 1 - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL – BUDGETARY BASIS - GENERAL FUND**

**BUDGETARY INFORMATION**

The Town adheres to the following procedures in establishing the budgetary data included in the General Fund financial statements, in accordance with provision of its Town Charter.

- The Board of Selectmen and the Board of Finance prepare an operating budget for the fiscal year commencing July 1 which is presented at the annual Town meeting for approval or submitted to referendum. The operating budget includes proposed expenditures and the means of financing them.
- Expenditures are budgeted by function, department and object. The legal level of budget control is the department level. The Board of Finance is authorized to transfer budgeted amounts within and between departments and objects for amounts not exceeding \$20,000 or representing a second transfer to a department. Additional appropriations in excess of \$20,000 must be approved at a Town meeting. During the year, the Board of Finance and Town meetings approved additional appropriations from fund balance of \$693,239.
- Formal budgetary integration is employed as a management control device during the year.
- The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America, except for intergovernmental revenues and encumbrances. Intergovernmental revenues and other reimbursement for certain special education costs are recorded as reductions to expenditures for budgetary purposes and “on-behalf” payments made by the State of Connecticut into the State Teachers’ Retirement System are not recorded for budgetary purposes. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year-end are reported in budgetary reports as expenditures of the current year.
- All unexpended appropriations lapse at year-end, except those for capital projects funds. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one fiscal year.

As described above, accounting principles applied for purposes of developing data on a budgetary basis differ from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP basis”).

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE 1 - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND *(Continued)***

**BUDGETARY INFORMATION *(Continued)***

A reconciliation of General Fund amounts presented on the budgetary basis to amounts presented on the GAAP basis is as follows for the year ended June 30, 2018:

	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Net Change In Fund Balance</u>
Budgetary basis	\$ 24,636,698	\$ 23,983,111	\$ 8,818	\$ 662,405
On-behalf payments - State Teachers' Retirement System	581,791	581,791	-	-
Change in encumbrances	-	(157,058)	-	157,058
Reserve for capital improvements	80,000	-	-	80,000
Reserve for revaluation	-	(12,740)	-	12,740
Reimbursement for certain revenues recorded as a reduction to expenditures for budgetary purposes	27,276	27,276	-	-
Premium netted against interest expense for budgetary purposes	-	32,180	32,180	-
Certain transfers recorded as expenditures for budgetary purposes	-	(60,000)	(60,000)	-
GAAP basis	<u>\$ 25,325,765</u>	<u>\$ 24,394,560</u>	<u>\$ (19,002)</u>	<u>\$ 912,203</u>

**NOTE 2 - SCHEDULE OF CHANGES IN NET PENSION LIABILITY - TOWN EMPLOYEE RETIREMENT PLAN**

The Town began to report the schedule of net pension liability when it implemented GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, in fiscal year 2014. GASB Statement No. 67 requires the information within this schedule to be presented for the ten most recent fiscal years.

Actuarial valuations are prepared every two years with the most recent available actuarial valuation performed as of July 1, 2016. The July 1, 2016 actuarial valuation was rolled forward to the most recent measurement date of June 30, 2018.

*Benefit Changes* - There have been no changes in benefit terms that have had a significant effect on the measurement of the total pension liability.

*Assumption Changes* - There have been no changes in assumptions that have had a significant effect on the measurement of the total pension liability.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 3 - SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS - TOWN EMPLOYEE RETIREMENT PLAN**

The Town began to report the schedule of net pension liability when it implemented GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, in fiscal year 2014. GASB Statement No. 67 requires the information within this schedule to be presented for the ten most recent fiscal years.

Actuarial determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates for 2018 are as follows:

Actuarial cost method:	Entry age actuarial cost method
Amortization method:	Level percent of payroll
Remaining amortization period:	20 years, open
Asset valuation method:	Market value
Investment rate of return:	7.25%
Salary increases:	2.75% plus merit increases
Retirement age:	Age 60 and 5 years of service

Mortality RP-2014 Adjusted to 2006 Blue Collar Mortality Table projected to valuation date with Scale MP-2016.

**NOTE 4 - SCHEDULE OF CHANGES IN NET PENSION LIABILITY - MERIT SERVICE PLAN**

The Town began to report the schedule of net pension liability when it implemented GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, in fiscal year 2014. GASB Statement No. 67 requires the information within this schedule to be presented for the ten most recent fiscal years.

Actuarial valuations are prepared every two years with the most recent available actuarial valuation performed as of July 1, 2016. The July 1, 2016 actuarial valuation was rolled forward to the most recent measurement date of June 30, 2018.

*Benefit Changes* - There have been no changes in benefit terms that have had a significant effect on the measurement of the total pension liability.

*Assumption Changes* - There have been no changes in assumptions that have had a significant effect on the measurement of the total pension liability.

**NOTE 5 - SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS - MERIT SERVICE PLAN**

The Town began to report the schedule of net pension liability when it implemented GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, in fiscal year 2014. GASB Statement No. 67 requires the information within this schedule to be presented for the ten most recent fiscal years.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 5 - SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS - MERIT SERVICE PLAN *(Continued)***

Actuarial determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates for 2018 are as follows:

Actuarial cost method:	Entry age actuarial cost method
Amortization method:	Level percent of payroll
Remaining amortization period:	20 years, open
Asset valuation method:	Market value
Investment rate of return:	7.25%
Inflation:	3.00%
Retirement age:	Age 60 and 10 years of service

Mortality RP-2014 Adjusted to 2006 Blue Collar Mortality Table projected to valuation date with Scale MP-2016.

**NOTE 6 - SCHEDULE OF CHANGES IN NET PENSION LIABILITY - POLICE RETIREMENT PLAN**

The Town began to report the schedule of net pension liability when it implemented GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, in fiscal year 2014. GASB Statement No. 67 requires the information within this schedule to be presented for the ten most recent fiscal years.

Actuarial valuations are prepared every two years with the most recent available actuarial valuation performed as of July 1, 2016. The July 1, 2016 actuarial valuation was rolled forward to the most recent measurement date of June 30, 2018.

*Benefit Changes* - There have been no changes in benefit terms that have had a significant effect on the measurement of the total pension liability.

*Assumption Changes* - There have been no changes in assumptions that have had a significant effect on the measurement of the total pension liability.

**NOTE 7 - SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS - POLICE RETIREMENT PLAN**

The Town began to report the schedule of net pension liability when it implemented GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, in fiscal year 2014. GASB Statement No. 67 requires the information within this schedule to be presented for the ten most recent fiscal years.

Actuarial determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 7 - SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS - POLICE RETIREMENT PLAN *(Continued)***

Methods and assumptions used to determine contribution rates for 2018 are as follows:

Actuarial cost method:	Entry age actuarial cost method
Amortization method:	Level percent of payroll
Remaining amortization period:	20 years, open
Asset valuation method:	Market value
Investment rate of return:	7.25%
Salary increases:	3.75% plus merit increases
Retirement age:	Age 60 and 5 years of service

Mortality RP-2014 Adjusted to 2006 Blue Collar Mortality Table projected to valuation date with Scale MP-2016.

**NOTE 8 - SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM**

The Town began to report this schedule when it implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, in fiscal year 2015. GASB Statement No. 68 requires the information within this schedule to be presented for the ten most recent fiscal years.

Actuarial valuations are prepared every two years with the most recent available actuarial valuation performed as of June 30, 2016. The June 30, 2016 actuarial valuation was rolled forward to the most recent measurement date of June 30, 2017. This information is utilized by the Town for reporting as of June 30, 2018.

*Benefit changes* - There have been no changes in benefit terms that have had a significant effect on the measurement of the total pension liability.

*Assumption changes* - The following significant assumption changes had a significant effect on the measurement of the total pension liability reported as of June 30, 2017.

- the inflation assumption was reduced from 3.00% to 2.75%,
- the real rate of return assumption was reduced from 5.50% to 5.25%, which when combined with the inflation assumption change, resulted in a decrease in the investment rate of return assumption from 8.50% to 8.00%,
- the payroll growth assumption was reduced from 3.75% to 3.25%, and
- various demographic assumption changes including the utilization of the RPH-2014 mortality tables.

**NOTE 9 - SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY - OTHER POST-EMPLOYMENT BENEFITS PLAN**

The Town began to report this schedule when it implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, in fiscal year 2018. GASB Statement No. 75 requires the information within this schedule to be presented for the ten most recent fiscal years.

**TOWN OF ESSEX, CONNECTICUT**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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**NOTE 9 - SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY - OTHER POST-EMPLOYMENT BENEFITS PLAN *(Continued)***

Actuarial valuations are prepared every two years with the most recent available actuarial valuation performed as of July 1, 2016. The July 1, 2016 actuarial valuation was rolled forward to the most recent measurement date of June 30, 2018.

*Benefit Changes* - There have been no changes in benefit terms that have had a significant effect on the measurement of the total OPEB liability.

*Assumption Changes* - The discount rate was increased from 3.58% as of July 1, 2014 to 3.87% as of July 1, 2016.

**NOTE 10 - SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY - CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM**

The Town began to report this schedule when it implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, in fiscal year 2018. GASB Statement No. 75 requires the information within this schedule to be presented for the ten most recent fiscal years.

Actuarial valuations are prepared every two years with the most recent available actuarial valuation performed as of June 30, 2016. The June 30, 2016 actuarial valuation was rolled forward to the most recent measurement date of June 30, 2017. This information is utilized by the Town for reporting as of June 30, 2018.

*Benefit Changes* - There have been no changes in benefit terms that have had a significant effect on the measurement of the total OPEB liability.

*Assumption Changes* - There have been no changes in assumptions that have had a significant effect on the measurement of the total OPEB liability.

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**COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**

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**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF PROPERTY TAXES LEVIED, COLLECTED AND OUTSTANDING**  
**YEAR END JUNE 30, 2018**

Grand List Year	Balance Uncollected June 30, 2017	Current Levy	Lawful Corrections		Transfers to Suspense	Balance To Be Collected	Collections				Balance Uncollected June 30, 2018
			Additions	Deductions			Taxes	Interest	Lien Fees	Total	
2016	\$ -	\$ 23,056,203	\$ 17,772	\$ 50,948	\$ -	\$ 23,023,027	\$ 22,803,848	\$ 48,515	\$ 240	\$ 22,852,603	\$ 219,179
2015	250,325		4,634	6,910	-	248,049	111,525	24,664	384	136,573	136,524
2014	134,385	-	3,947	1,779	37,719	98,834	46,814	21,890	288	68,992	52,020
2013	61,582		-	-	-	61,582	32,177	17,142	288	49,607	29,405
2012	37,439	-	-	-	-	37,439	12,775	9,897	144	22,816	24,664
2011	26,261	-	-	-	-	26,261	10,560	9,296	72	19,928	15,701
2010	10,134	-	-	-	-	10,134	2,239	3,038	72	5,349	7,895
2009	5,969	-	-	-	-	5,969	1,525	1,922	24	3,471	4,444
2008	7,607	-	-	-	-	7,607	1,466	2,111	24	3,601	6,141
2007	5,157	-	-	-	-	5,157	1,168	1,753	24	2,945	3,989
2006	744	-	-	-	-	744	-	-	-	-	744
2005	713	-	-	-	-	713	-	-	-	-	713
2004	682	-	-	-	-	682	-	-	-	-	682
2003	164	-	-	-	-	164	-	-	-	-	164
	<u>\$ 541,162</u>	<u>\$ 23,056,203</u>	<u>\$ 26,353</u>	<u>\$ 59,637</u>	<u>\$ 37,719</u>	<u>\$ 23,526,362</u>	<u>\$ 23,024,097</u>	<u>\$ 140,228</u>	<u>\$ 1,560</u>	<u>\$ 23,165,885</u>	<u>\$ 502,265</u>

*See accompanying Independent Auditor's Report.*



**TOWN OF ESSEX, CONNECTICUT**  
**SCHEDULE OF DEBT LIMITATION**  
**CONNECTICUT GENERAL STATUTES, SECTION 7-374(b)**  
**YEAR ENDED JUNE 30, 2018**

Total cash collections for the year ended  
June 30, 2018:

Taxes	\$ 23,024,099
Interest and lien fees	141,788
	<u>23,165,887</u>

Reimbursement for revenue loss:

Tax relief (CGS 12-129d)	2,640
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Base

\$ 23,168,527

	<b>General Purposes</b>	<b>Schools</b>	<b>Sewers</b>	<b>Urban Renewal</b>	<b>Pension Deficit</b>
Debt limitation:					
2-1/4 times base	\$ 52,129,186	\$ -	\$ -	\$ -	\$ -
4-1/2 times base	-	104,258,372	-	-	-
3-3/4 times base	-	-	86,881,976	-	-
3-1/4 times base	-	-	-	75,297,713	-
3 times base	-	-	-	-	69,505,581
	<u>52,129,186</u>	<u>104,258,372</u>	<u>86,881,976</u>	<u>75,297,713</u>	<u>69,505,581</u>
Total debt limitation					
	<u>52,129,186</u>	<u>104,258,372</u>	<u>86,881,976</u>	<u>75,297,713</u>	<u>69,505,581</u>
Indebtedness:					
Bonds payable	3,888,000	8,457,000	-	-	-
Shared debt - Regional School District No. 4	-	3,145,119 *	-	-	-
Authorized, unissued bonds	1,414,555	-	-	-	-
Total indebtedness	<u>5,302,555</u>	<u>11,602,119</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt limitation in excess of outstanding and authorized debt	<u>\$ 46,826,631</u>	<u>\$ 92,656,253</u>	<u>\$ 86,881,976</u>	<u>\$ 75,297,713</u>	<u>\$ 69,505,581</u>
Total capacity of borrowing (7 times base)	162,179,689				
Total present indebtedness	<u>16,904,674</u>				
Margin for additional borrowing	<u>\$ 145,275,015</u>				

\* The Town of Essex is a member of Regional School District No. 4. This amount represents the Town's proportional share of the District's outstanding bonds payable as of June 30, 2018.

*See accompanying Independent Auditor's Report.*

**TOWN OF ESSEX, CONNECTICUT**  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BY PROJECT  
CAPITAL AND NONRECURRING EXPENDITURES FUND  
YEAR ENDED JUNE 30, 2018

	Capital and Nonrecurring Expenditures Fund										
	Fire Truck	Truck and Equipment	Constable Cars	Harbor Patrol	Wastewater Study	Parks and Recreation	Veterans Memorial	Open Space	Essex Elementary	Other	Total
REVENUES											
Other	\$ -	\$ -	\$ -	\$ 105,118	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,118
Interest	5,568	29	274	485	1,331	1,221	-	855	2,327	1,476	13,566
Total revenues	5,568	29	274	105,603	1,331	1,221	-	855	2,327	1,476	118,684
EXPENDITURES											
Current:											
General government	-	-	-	186,312	-	32,238	-	50,000	80,274	35,000	383,824
Capital outlays	-	-	60,249	-	-	-	-	-	-	-	60,249
Total expenditures	-	-	60,249	186,312	-	32,238	-	50,000	80,274	35,000	444,073
Excess (deficiency) of revenues over expenditures	5,568	29	(59,975)	(80,709)	1,331	(31,017)	-	(49,145)	(77,947)	(33,524)	(325,389)
OTHER FINANCING SOURCES											
Transfers in	225,000	-	45,000	10,000	-	36,500	-	45,000	60,000	75,000	496,500
Net change in fund balances	230,568	29	(14,975)	(70,709)	1,331	5,483	-	(4,145)	(17,947)	41,476	171,111
Fund balances - beginning	376,425	2,809	66,194	117,073	125,996	111,304	20	110,903	240,395	149,576	1,300,695
Fund balances - ending	\$ 606,993	\$ 2,838	\$ 51,219	\$ 46,364	\$ 127,327	\$ 116,787	\$ 20	\$ 106,758	\$ 222,448	\$ 191,052	\$ 1,471,806

See accompanying Independent Auditor's Report.

**TOWN OF ESSEX, CONNECTICUT**  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2018

	Nonmajor Special Revenue Funds									
	Dog Fund	School Cafeteria Fund	Harbor Commission Fund	Constable Private Duty Fund	Historic Documents Fund	Recreational Programs Fund	Education Grants Fund	CVA Pump Out Boat Fund	Tree Committee Fund	Total
<b>ASSETS</b>										
Cash and cash equivalents	\$ 62,468	\$ 13,985	\$ 60,008	\$ 99,824	\$ 925	\$ 12,610	\$ -	\$ -	\$ -	\$ 249,820
Receivables:										
Grants and contracts	-	6,340	-	-	-	-	43,389	-	-	49,729
Other	-	5,674	-	-	-	-	-	-	-	5,674
Due from other funds	-	-	65,667	-	1,537	85,559	42,109	-	3,921	198,793
Other	-	3,344	-	-	-	65	-	-	-	3,409
Total assets	<u>\$ 62,468</u>	<u>\$ 29,343</u>	<u>\$ 125,675</u>	<u>\$ 99,824</u>	<u>\$ 2,462</u>	<u>\$ 98,234</u>	<u>\$ 85,498</u>	<u>\$ -</u>	<u>\$ 3,921</u>	<u>\$ 507,425</u>
<b>LIABILITIES</b>										
Accounts payable	\$ 3,113	\$ 3,255	\$ -	\$ -	\$ -	\$ 2,119	\$ 5,459	\$ 2,145	\$ -	\$ 16,091
Due to other funds	3,120	30,415	894	87,226	-	-	-	5,774	-	127,429
Unearned revenue	-	-	-	-	-	38,009	38,500	-	-	76,509
Due to others	-	23,142	-	-	-	-	41,131	-	-	64,273
Total liabilities	<u>6,233</u>	<u>56,812</u>	<u>894</u>	<u>87,226</u>	<u>-</u>	<u>40,128</u>	<u>85,090</u>	<u>7,919</u>	<u>-</u>	<u>284,302</u>
<b>FUND BALANCES</b>										
Nonspendable	-	3,344	-	-	-	65	-	-	-	3,409
Restricted	-	-	-	-	-	-	408	-	-	408
Committed	56,235	-	124,781	12,598	2,462	58,041	-	-	3,921	258,038
Unassigned	-	(30,813)	-	-	-	-	-	(7,919)	-	(38,732)
Total fund balances	<u>56,235</u>	<u>(27,469)</u>	<u>124,781</u>	<u>12,598</u>	<u>2,462</u>	<u>58,106</u>	<u>408</u>	<u>(7,919)</u>	<u>3,921</u>	<u>223,123</u>
Total liabilities and fund balances	<u>\$ 62,468</u>	<u>\$ 29,343</u>	<u>\$ 125,675</u>	<u>\$ 99,824</u>	<u>\$ 2,462</u>	<u>\$ 98,234</u>	<u>\$ 85,498</u>	<u>\$ -</u>	<u>\$ 3,921</u>	<u>\$ 507,425</u>

See accompanying Independent Auditor's Report.

**TOWN OF ESSEX, CONNECTICUT**  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2018

	Nonmajor Special Revenue Funds									
	Dog Fund	School Cafeteria Fund	Harbor Commission Fund	Constable Private Duty Fund	Historic Documents Fund	Recreational Programs Fund	Education Grants Fund	CVA Pump Out Boat Fund	Tree Committee Fund	Total
<b>REVENUES</b>										
Intergovernmental	\$ -	\$ 41,896	\$ -	\$ -	\$ 4,000	\$ -	\$ 186,463	\$ 90,027	\$ -	\$ 322,386
Local	23,918	91,993	17,814	96,737	3,272	93,099	-	-	700	327,533
Interest	-	-	104	-	-	-	-	-	-	104
Total revenues	<u>23,918</u>	<u>133,889</u>	<u>17,918</u>	<u>96,737</u>	<u>7,272</u>	<u>93,099</u>	<u>186,463</u>	<u>90,027</u>	<u>700</u>	<u>650,023</u>
<b>EXPENDITURES</b>										
Current:										
General government	22,842	-	21,069	-	15,075	80,666	-	-	250	139,902
Public safety	-	-	6,427	75,695	-	-	-	-	-	82,122
Health and welfare	-	-	-	-	-	371	104,818	79,408	-	184,597
Education	-	146,411	-	-	-	-	81,445	-	-	227,856
Capital outlays	-	-	-	-	-	-	-	25,712	-	25,712
Total expenditures	<u>22,842</u>	<u>146,411</u>	<u>27,496</u>	<u>75,695</u>	<u>15,075</u>	<u>81,037</u>	<u>186,263</u>	<u>105,120</u>	<u>250</u>	<u>660,189</u>
Excess (deficiency) of revenues over expenditures	1,076	(12,522)	(9,578)	21,042	(7,803)	12,062	200	(15,093)	450	(10,166)
<b>OTHER FINANCING SOURCES</b>										
Transfers in	-	12,500	30,000	-	-	-	-	-	-	42,500
Net change in fund balances	1,076	(22)	20,422	21,042	(7,803)	12,062	200	(15,093)	450	32,334
Fund balances - beginning	<u>55,159</u>	<u>(27,447)</u>	<u>104,359</u>	<u>(8,444)</u>	<u>10,265</u>	<u>46,044</u>	<u>208</u>	<u>7,174</u>	<u>3,471</u>	<u>190,789</u>
Fund balances - ending	<u>\$ 56,235</u>	<u>\$ (27,469)</u>	<u>\$ 124,781</u>	<u>\$ 12,598</u>	<u>\$ 2,462</u>	<u>\$ 58,106</u>	<u>\$ 408</u>	<u>\$ (7,919)</u>	<u>\$ 3,921</u>	<u>\$ 223,123</u>

See accompanying Independent Auditor's Report.

**TOWN OF ESSEX, CONNECTICUT**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**PENSION TRUST FUNDS**  
**JUNE 30, 2018**

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	<b>Employees' Retirement Plan</b>	<b>Merit Service Plan</b>	<b>Police Retirement Plan</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 27,292	\$ 9,155	\$ 8,152	\$ 44,599
Investments	3,564,393	1,034,167	998,395	5,596,955
Total assets	<u>3,591,685</u>	<u>1,043,322</u>	<u>1,006,547</u>	<u>5,641,554</u>
<b>NET POSITION</b>				
Restricted for pension benefits	<u>\$ 3,591,685</u>	<u>\$ 1,043,322</u>	<u>\$ 1,006,547</u>	<u>\$ 5,641,554</u>

*See accompanying Independent Auditor's Report.*

**TOWN OF ESSEX, CONNECTICUT**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**PENSION TRUST FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	<b>Employees' Retirement Plan</b>	<b>Merit Service Plan</b>	<b>Police Retirement Plan</b>	<b>Total</b>
<b>ADDITIONS</b>				
Contributions:				
Employer	\$ 239,716	\$ 118,916	\$ 249,087	\$ 607,719
Plan members	-	-	8,015	8,015
Total contributions	<u>239,716</u>	<u>118,916</u>	<u>257,102</u>	<u>615,734</u>
Investment earnings:				
Net change in the fair value of investments	167,327	47,629	46,920	261,876
Interest and dividends	<u>106,123</u>	<u>30,384</u>	<u>29,758</u>	<u>166,265</u>
Total investment earnings	<u>273,450</u>	<u>78,013</u>	<u>76,678</u>	<u>428,141</u>
Total additions	<u>513,166</u>	<u>196,929</u>	<u>333,780</u>	<u>1,043,875</u>
<b>DEDUCTIONS</b>				
Benefit payments	261,724	82,164	135,755	479,643
Administrative expenses	<u>9,163</u>	<u>9,401</u>	<u>8,353</u>	<u>26,917</u>
Total deductions	<u>270,887</u>	<u>91,565</u>	<u>144,108</u>	<u>506,560</u>
Change in net position	242,279	105,364	189,672	537,315
<b>NET POSITION</b>				
Restricted for pension benefits				
Beginning of year	<u>3,349,406</u>	<u>937,958</u>	<u>816,875</u>	<u>5,104,239</u>
Ending of year	<u>\$ 3,591,685</u>	<u>\$ 1,043,322</u>	<u>\$ 1,006,547</u>	<u>\$ 5,641,554</u>

*See accompanying Independent Auditor's Report.*

**TOWN OF ESSEX, CONNECTICUT**  
**COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**JUNE 30, 2018**

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	<b>Elementary School Activity Fund</b>	<b>Performance Bond Fund</b>	<b>Special Project Escrow Fund</b>	<b>DARE of Essex Fund</b>	<b>Total Agency Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 19,543	\$ 20,886	\$ -	\$ 3,263	\$ 43,692
Investments	-	111,626	-	-	111,626
Receivable	-	83,449	-	49,756	133,205
Total assets	<u>\$ 19,543</u>	<u>\$ 215,961</u>	<u>\$ -</u>	<u>\$ 53,019</u>	<u>\$ 288,523</u>
<b>LIABILITIES</b>					
Due to others	\$ -	\$ 215,961	\$ -	\$ 53,019	\$ 268,980
Due to student groups	19,543	-	-	-	19,543
Total liabilities	<u>\$ 19,543</u>	<u>\$ 215,961</u>	<u>\$ -</u>	<u>\$ 53,019</u>	<u>\$ 288,523</u>

*See accompanying Independent Auditor's Report.*

**TOWN OF ESSEX, CONNECTICUT**  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
YEAR ENDED JUNE 30, 2018

	Balance, July 1, 2017	Additions	Deletions	Balance, June 30, 2018
<b>Elementary School Activity Fund</b>				
Assets				
Cash and cash equivalents	\$ 15,355	\$ 14,807	\$ 10,619	\$ 19,543
Total assets	<u>\$ 15,355</u>	<u>\$ 14,807</u>	<u>\$ 10,619</u>	<u>\$ 19,543</u>
Liabilities				
Due to student groups	\$ 15,355	\$ 14,807	\$ 10,619	\$ 19,543
Total liabilities	<u>\$ 15,355</u>	<u>\$ 14,807</u>	<u>\$ 10,619</u>	<u>\$ 19,543</u>
<b>Performance Bond Fund</b>				
Assets				
Cash and cash equivalents	\$ 103,408	\$ -	\$ 82,522	\$ 20,886
Investments	111,414	212	-	111,626
Receivable	-	83,449	-	83,449
Total assets	<u>\$ 214,822</u>	<u>\$ 83,661</u>	<u>\$ 82,522</u>	<u>\$ 215,961</u>
Liabilities				
Due to others	\$ 214,822	\$ 83,661	\$ 82,522	\$ 215,961
Total liabilities	<u>\$ 214,822</u>	<u>\$ 83,661</u>	<u>\$ 82,522</u>	<u>\$ 215,961</u>
<b>Special Project Escrow Fund</b>				
Assets				
Cash and cash equivalents	\$ 45,421	\$ -	\$ 45,421	\$ -
Total assets	<u>\$ 45,421</u>	<u>\$ -</u>	<u>\$ 45,421</u>	<u>\$ -</u>
Liabilities				
Due to others	\$ 45,421	\$ -	\$ 45,421	\$ -
Total liabilities	<u>\$ 45,421</u>	<u>\$ -</u>	<u>\$ 45,421</u>	<u>\$ -</u>
<b>DARE of Essex Fund</b>				
Assets				
Cash and cash equivalents	\$ 3,013	\$ 250	\$ -	\$ 3,263
Receivable	-	49,756	-	49,756
Total assets	<u>\$ 3,013</u>	<u>\$ 50,006</u>	<u>\$ -</u>	<u>\$ 53,019</u>
Liabilities				
Due to others	\$ 3,013	\$ 50,006	\$ -	\$ 53,019
Total liabilities	<u>\$ 3,013</u>	<u>\$ 50,006</u>	<u>\$ -</u>	<u>\$ 53,019</u>
<b>Total All Agency Funds</b>				
Assets				
Cash and cash equivalents	\$ 167,197	\$ 15,057	\$ 138,562	\$ 43,692
Investments	111,414	212	-	111,626
Receivable	-	133,205	-	133,205
Total assets	<u>\$ 278,611</u>	<u>\$ 148,474</u>	<u>\$ 138,562</u>	<u>\$ 288,523</u>
Liabilities				
Due to others	\$ 263,256	\$ 133,667	\$ 127,943	\$ 268,980
Due to student groups	15,355	14,807	10,619	19,543
Total liabilities	<u>\$ 278,611</u>	<u>\$ 148,474</u>	<u>\$ 138,562</u>	<u>\$ 288,523</u>

See accompanying Independent Auditor's Report.