

TOWN OF ESSEX, CONNECTICUT

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEAR ENDED
JUNE 30, 2020**

TOWN OF ESSEX, CONNECTICUT
TABLE OF CONTENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to the Government-wide Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Government-wide Statement of Activities	19
Statement of Fiduciary Net Position	20
Statement of Changes in Fiduciary Net Position	21
Notes to the Financial Statements	22
Required Supplementary Information (Unaudited):	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Budgetary Basis - General Fund	69
Schedule of Changes in Net Pension Liability - Employees' Retirement Plan	70
Schedule of Contributions and Investment Returns - Employees' Retirement Plan	71
Schedule of Changes in Net Pension Liability - Merit Service Plan	72
Schedule of Contributions and Investment Returns - Merit Service Plan	73
Schedule of Changes in Net Pension Liability - Police Retirement Plan	74
Schedule of Contributions and Investment Returns - Police Retirement Plan	75
Schedule of the Town's Proportionate Share of the Net Pension Liability - Connecticut Municipal Employees' Retirement System	76
Schedule of Contributions - Connecticut Municipal Employees' Retirement System	77
Schedule of the Town's Proportionate Share of the Net Pension Liability - Connecticut Teachers' Retirement System	78
Schedules of Changes in the Net OPEB Liability - Other Post-Employment Benefits Plan	79
Schedules of Contributions and Investment Returns - Other Post-Employment Benefits Plan	80
Schedule of the Town's Proportionate Share of the Net OPEB Liability - Connecticut Teachers' Retirement System	81
Notes to Required Supplementary Information	82

TOWN OF ESSEX, CONNECTICUT
TABLE OF CONTENTS *(Concluded)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

	Page
Combining and Individual Fund Statements and Schedules:	
General Fund:	
Schedule of Revenues and Other Financing Sources - Budget and Actual - Budgetary Basis	89
Schedule of Expenditures and Other Financing Uses - Budget and Actual - Budgetary Basis	90
Schedule of Property Taxes Levied, Collected and Outstanding	92
Schedule of Debt Limitation	93
Capital and Non-Recurring Expenditures Fund:	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - by Project	94
Nonmajor Governmental Funds:	
Combining Balance Sheet	96
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	97
Fiduciary Funds:	
Pension Trust Funds and Agency Funds:	
Combining Statement of Fiduciary Net Position - Pension Trust Funds	98
Combining Statement of Changes in Fiduciary Net Position - Pension Trust Funds	99
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	100
Combining Statement of Changes in Fiduciary Assets and Liabilities - Agency Funds	101

INDEPENDENT AUDITOR'S REPORT

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, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and the information on pages 69 through 88 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 89 through 101 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 23, 2020, 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 23, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF ESSEX, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

As management of the Town of Essex, Connecticut (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, 2020.

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 \$20,226,778 (net position). Of this amount, \$3,500,522 represents the Town's unrestricted net position.
- The Town's total net position increased by \$1,017,117 during the current fiscal year.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$7,550,093, an increase of \$362,817 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,723,978 or 15.1% of the Town's General Fund budgetary expenditure appropriation for fiscal year 2021. Expressed another way, unassigned fund balance for the General Fund was sufficient to cover 1.8 months of General Fund budgetary expenditures.
- The Town's total capital assets decreased by \$564,516 or 2.0%.
- The Town's total long-term debt decreased by \$980,628 or 8.4%.

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 and 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, 2020

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 19 of this report.

TOWN OF ESSEX, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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 20 and 21 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 22 through 68 of this report.

Other Information

Required supplementary information and combining and individual fund statements and schedules and can be found on pages 69 through 101 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

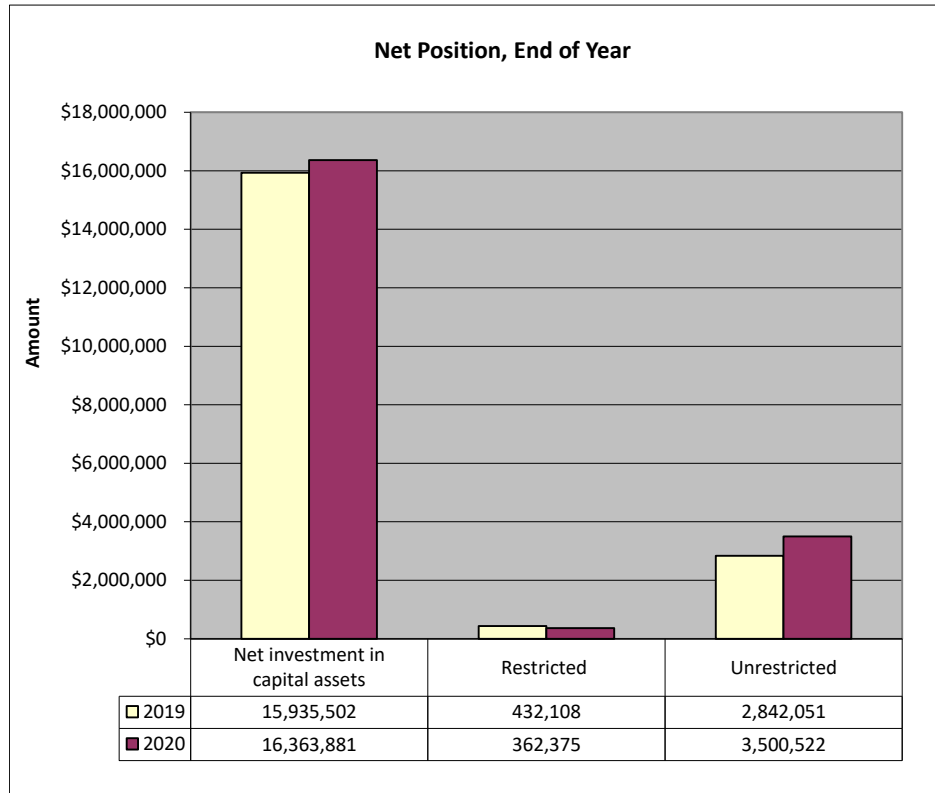
Over time, net position may serve as one measure of a government's financial position. The net position of the Town totaled \$20,226,778 as of June 30, 2020 and \$19,209,661 as of June 30, 2019 and is summarized as follows.

	2020	2019	\$ Change	% Change
Current and other assets	\$ 8,924,787	\$ 8,715,585	\$ 209,202	2.4%
Capital assets, net	27,022,754	27,587,270	(564,516)	-2.0%
Total assets	<u>35,947,541</u>	<u>36,302,855</u>	<u>(355,314)</u>	-1.0%
Deferred outflows of resources	<u>1,365,189</u>	<u>1,167,399</u>	<u>197,790</u>	16.9%
Long-term liabilities	15,988,356	16,933,488	(945,132)	-5.6%
Other liabilities	934,377	1,154,737	(220,360)	-19.1%
Total liabilities	<u>16,922,733</u>	<u>18,088,225</u>	<u>(1,165,492)</u>	-6.4%
Deferred inflows of resources	<u>163,219</u>	<u>172,368</u>	<u>(9,149)</u>	-5.3%
Net position:				
Net investment in capital assets	16,363,881	15,935,502	428,379	2.7%
Restricted	362,375	432,108	(69,733)	-16.1%
Unrestricted	3,500,522	2,842,051	658,471	23.2%
Total net position	<u>\$ 20,226,778</u>	<u>\$ 19,209,661</u>	<u>\$ 1,017,117</u>	5.3%

TOWN OF ESSEX, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Net Position (Continued)



Of the Town's net position, 81.0% 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, 2020, 1.8% 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 \$1,017,117.

TOWN OF ESSEX, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Net Position

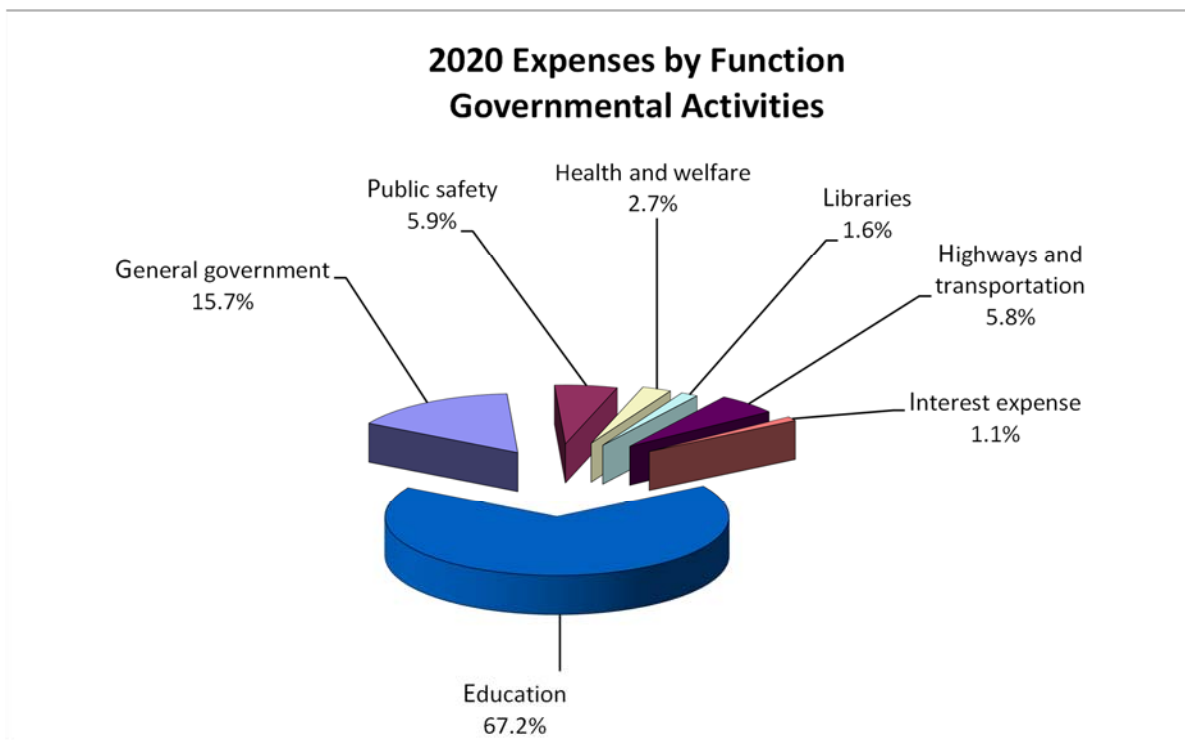
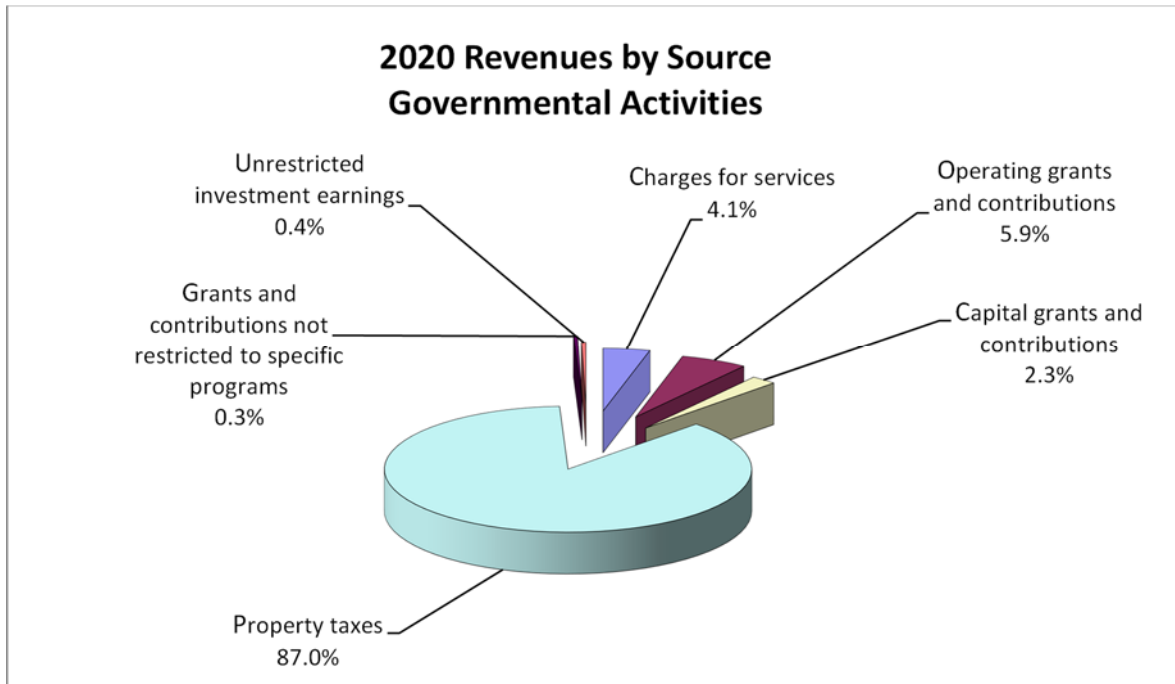
Changes in net position for the years ended June 30, 2020 and 2019 are as follows.

	2020	2019	\$ Change	% Change
Program revenues:				
Charges for services	\$ 1,100,599	\$ 1,133,447	\$ (32,848)	-2.9%
Operating grants and contributions	1,576,797	905,286	671,511	74.2%
Capital grants and contributions	606,857	432,201	174,656	40.4%
General revenues:				
Property taxes	23,232,130	23,137,965	94,165	0.4%
Grants and contributions not restricted to specific programs	92,585	89,696	2,889	3.2%
Unrestricted investment earnings	104,843	167,857	(63,014)	-37.5%
Total revenues	<u>26,713,811</u>	<u>25,866,452</u>	<u>847,359</u>	3.3%
Program expenses:				
General government	4,022,768	3,804,216	218,552	5.7%
Public safety	1,512,740	1,550,569	(37,829)	-2.4%
Health and welfare	706,440	681,989	24,451	3.6%
Libraries	412,434	404,347	8,087	2.0%
Highways and transportation	1,489,066	1,380,180	108,886	7.9%
Interest expense	292,084	203,972	88,112	43.2%
Education	17,261,162	17,054,318	206,844	1.2%
Total expenses	<u>25,696,694</u>	<u>25,079,591</u>	<u>617,103</u>	2.5%
Change in net position	<u>\$ 1,017,117</u>	<u>\$ 786,861</u>	<u>\$ 230,256</u>	29.3%

TOWN OF ESSEX, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS *(Continued)*

Governmental Activities

Governmental activities increased the Town's net position by \$1,017,117. Revenues generated by the Town increased by \$847,359 or 3.3% in comparison to the prior year. The increase in revenues is driven by an increase in capital grants and contributions of \$174,656 and an increase in operating grants and contributions of \$671,511. The increase in capital grants and contributions is due to the recognition of grant revenues in connection with the Town's Centerbook Village Main Street improvement project and a Town-wide sidewalk connectivity project. The increase in operating grants and contributions was due to an increase in the amount of pension and OPEB expense recognized by the Town in connection with its participation in the Connecticut State Teachers' Retirement System.

Expenses for the Town increased by \$617,103 or 2.5% in comparison to the prior year. The increase in expenses is attributed to an increase in general government and education expenses. The increase in education expenses is directly attributed to the changes in pension and OPEB expense in connection with the Town's participation in the Connecticut Teachers' Retirement System. The increase in general government expenditures is directly attributed to the current year recognition of appropriations carried forward.

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 \$7,550,093, an increase of \$362,817 in comparison with the prior year. Of this amount, \$3,723,978 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 \$3,723,978, while total fund balance was \$5,086,832. 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 represented 15.1% of the Town's General Fund budgetary expenditure appropriation for fiscal year 2021. Expressed another way, unassigned fund balance for the General Fund was sufficient to cover 1.8 months of General Fund budgetary expenditures.

The fund balance of the Town's General Fund increased by \$213,252 during the current fiscal year due to favorable budgetary results outlined below.

TOWN OF ESSEX, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

Capital and Nonrecurring Expenditures Fund

The fund balance of the Capital and Nonrecurring Expenditures Fund increased by \$143,197 during the current fiscal year to \$2,012,363. This increase was due primarily to transfers in from the General Fund offset by current year capital outlays.

Bonded Capital Projects Fund

The Bonded Capital Projects Fund has a fund balance of \$200,401 as of June 30, 2020, a decrease of \$31,921 from the prior year. This fund accounts for the costs associated with the Town's approved capital projects funded by general obligation bond authorizations.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget provided for the use of fund balance in the amount of \$99,869. In addition, supplemental appropriations of \$602,178 were authorized, resulting in a planned use of fund balance in the amount of \$702,047.

The actual change in fund balance for the General Fund on a budgetary basis amounted to \$299,993. Revenues exceeded budgetary estimates by \$514,773, primarily due to favorable property tax collections and revenues from local sources. Expenditures were \$487,267 less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2020 totaled \$27,022,754 (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 decreased by \$564,516 or 2.0%. This decrease can be attributed to various capital additions as outlined in further detail below, offset by current year depreciation expense.

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

- An increase of approximately \$115 thousand in construction in progress primarily for expenditures incurred in connection with the Town-wide sidewalk connectivity project.
- An increase of approximately \$532 thousand in infrastructure due to the completion of various road and sidewalk reconstruction projects and the Centerbook Village Main Street improvement project.
- Depreciation expense of approximately \$1.4 million.

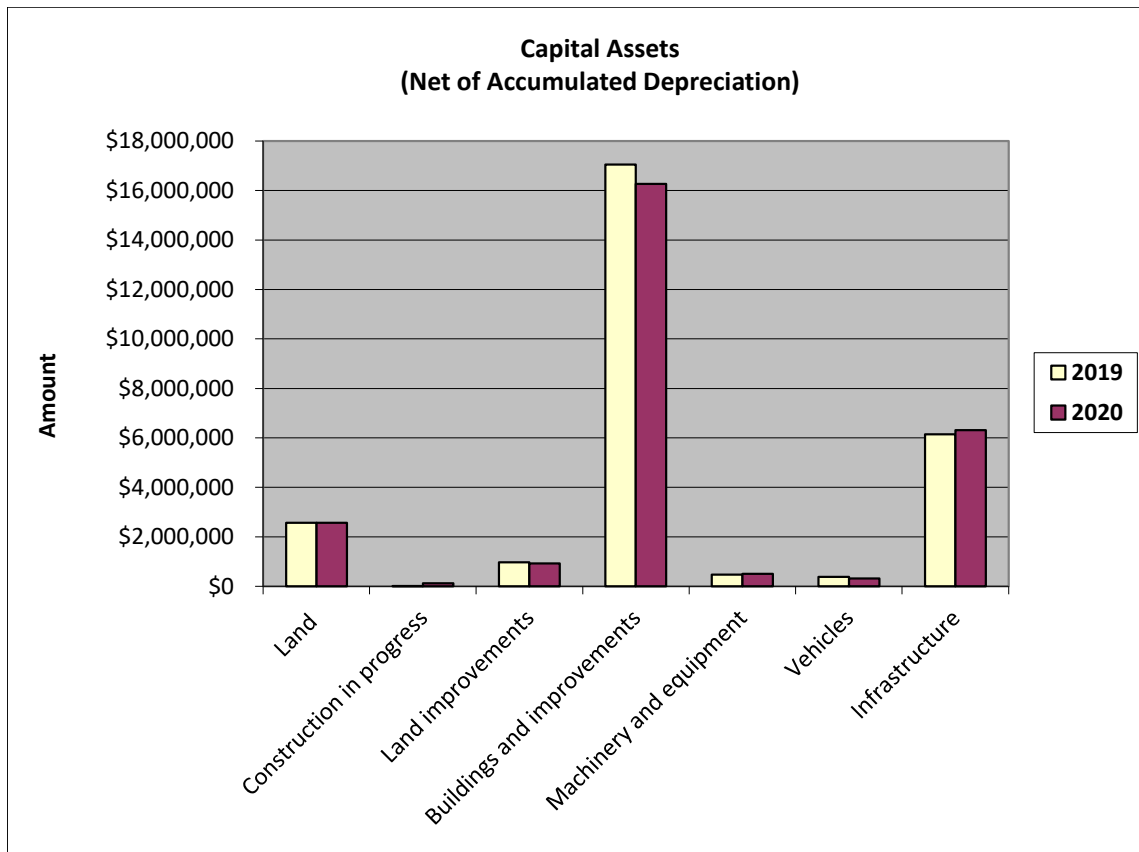
TOWN OF ESSEX, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

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

	2020	2019	\$ Change	% Change
Land	\$ 2,563,245	\$ 2,563,245	\$ -	0.0%
Construction in progress	126,704	12,902	113,802	882.0%
Land improvements	925,530	968,176	(42,646)	-4.4%
Buildings and improvements	16,275,408	17,053,627	(778,219)	-4.6%
Machinery and equipment	507,928	473,348	34,580	7.3%
Vehicles	309,661	374,892	(65,231)	-17.4%
Infrastructure	6,314,278	6,141,080	173,198	2.8%
Totals	<u>\$ 27,022,754</u>	<u>\$ 27,587,270</u>	<u>\$ (564,516)</u>	-2.0%



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, 2020

CAPITAL ASSET AND DEBT ADMINISTRATION *(Continued)*

Long-term Debt

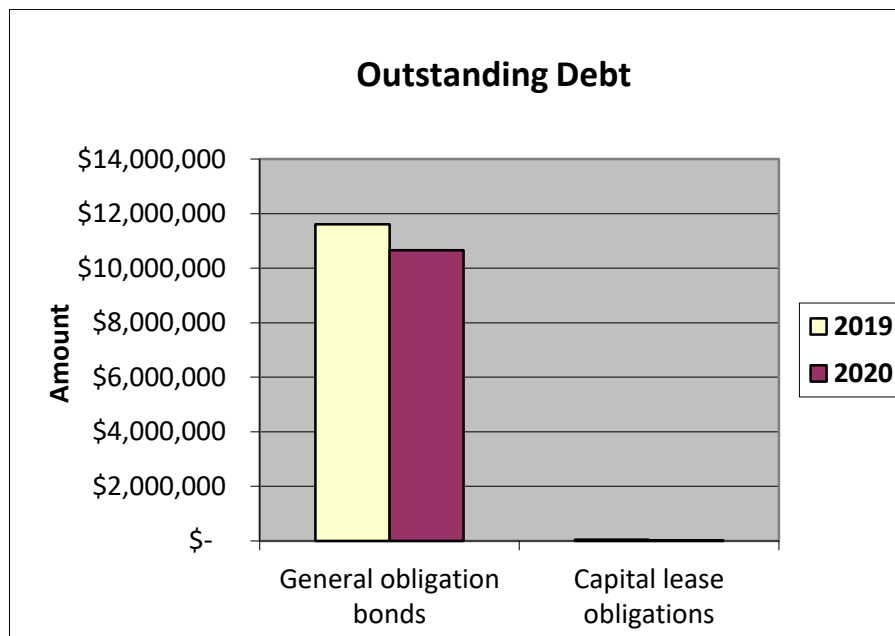
At the end of the current fiscal year, the Town had total long-term debt, consisting of bonds and capital lease obligations outstanding of \$10,676,683, all of which is backed by the full faith and credit of the Town. The Town's total long-term debt decreased by \$980,628 during the current fiscal year due to scheduled debt service repayments.

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:

	2020	2019	\$ Change	% Change
General obligation bonds	\$ 10,655,000	\$ 11,615,000	\$ (960,000)	-8.3%
Capital lease obligations	21,683	42,311	(20,628)	-48.8%
Totals	<u>\$ 10,676,683</u>	<u>\$ 11,657,311</u>	<u>\$ (980,628)</u>	-8.4%



Additional information on the Town's long-term debt can be found in Note 7 of this report.

TOWN OF ESSEX, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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. Connecticut's economy moves in the same general cycle as the national economy, which from time to time will affect the amount of intergovernmental revenues the Town will receive.
- Significant estimates affecting next year's budget that are subject to change in the near term consist of the following:
 - For purposes of calculating property tax revenues for fiscal year 2021, the assessor's grand list was used along with an estimated tax rate, and an estimated rate of collection, with deductions for taxes to be paid by the State on behalf of certain taxpayers.
 - Intergovernmental grants were based on estimates from the State.
 - It is unknown how changes in market interest rates will impact real estate activity and related revenues collected by the Town Clerk and the amount of conveyance taxes and interest income.
- In early March 2020, there was a global outbreak of COVID-19 that was declared a Public Health Emergency of International Concern by the World Health Organization and was subsequently declared a state of emergency by the Governor of Connecticut and a national emergency by the President of the United States. The outbreak of the virus has affected travel, commerce and financial markets globally, and is widely expected to affect economic growth worldwide. The Town has received and continues to apply for additional funding from federal and state agencies to assist in covering certain costs associated with the response to the pandemic. However, the extent to which COVID-19 will impact the Town's tax base, operations and its financial condition will ultimately depend on future developments that are uncertain and cannot be fully predicted with confidence at this time.

All of these factors were considered in preparing the Town's budget for fiscal year 2021. The Town's fiscal year 2021 budget was adopted by the Town in accordance with the Governor's executive orders. The fiscal year 2021 budget contemplated expenditures of \$24,653,577, an increase of \$458,427 or 1.89% over the original fiscal year 2020 budgeted expenditures. The approved mill rate for the fiscal year 2021 budget is 21.81, an increase of 0.16% over the prior year. Fund balance in the amount of \$168,933 has been assigned for use in the fiscal year 2021 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.

BASIC FINANCIAL STATEMENTS

TOWN OF ESSEX, CONNECTICUT
STATEMENT OF NET POSITION
AS OF JUNE 30, 2020

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 7,981,640
Receivables:	
Property taxes, net	486,439
Interest on property taxes, net	160,986
Grants and contracts	154,515
Other	63,240
Other	77,967
Capital assets:	
Non-depreciable	2,689,949
Depreciable, net	24,332,805
Total assets	<u>35,947,541</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	452,351
Deferred charges on OPEB expense	618,607
Deferred charges on pension expense	294,231
Total deferred outflows of resources	<u>1,365,189</u>
LIABILITIES	
Accounts payable	490,198
Accrued interest payable	108,529
Accrued liabilities	291,619
Unearned revenue	34,074
Due to others	9,957
Noncurrent liabilities:	
Due within one year	1,093,431
Due in more than one year	14,894,925
Total liabilities	<u>16,922,733</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred charges on OPEB expense	133,716
Deferred charges on pension expenses	29,503
Total deferred inflows of resources	<u>163,219</u>
NET POSITION	
Net investment in capital assets	16,363,881
Restricted	362,375
Unrestricted	3,500,522
Total net position	<u>\$ 20,226,778</u>

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

TOWN OF ESSEX, CONNECTICUT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

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	\$ 4,022,768	\$ 963,425	\$ 12,262	\$ 446,915	\$ (2,600,166)
Public safety	1,512,740	84,345	-	-	(1,428,395)
Health and welfare	706,440	-	117,496	-	(588,944)
Libraries	412,434	-	-	-	(412,434)
Highways and transportation	1,489,066	-	223,820	159,942	(1,105,304)
Education	17,261,162	52,829	1,223,219	-	(15,985,114)
Interest expense	292,084	-	-	-	(292,084)
Total governmental activities	<u>\$ 25,696,694</u>	<u>\$ 1,100,599</u>	<u>\$ 1,576,797</u>	<u>\$ 606,857</u>	<u>(22,412,441)</u>
General revenues:					
Property taxes, levied for general purposes					23,232,130
Grants and contributions not restricted to specific programs					92,585
Unrestricted investment earnings					104,843
Total general revenues					<u>23,429,558</u>
		Change in net position			1,017,117
		Net position - beginning			<u>19,209,661</u>
		Net position - ending			<u>\$ 20,226,778</u>

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

TOWN OF ESSEX, CONNECTICUT

BALANCE SHEET

GOVERNMENTAL FUNDS

AS OF JUNE 30, 2020

	General Fund	Capital and Nonrecurring Expenditures Fund	Bonded Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 5,716,627	\$ 2,152,328	\$ -	\$ 112,685	\$ 7,981,640
Receivables:					
Property taxes, net	486,439	-	-	-	486,439
Interest on property taxes, net	160,986	-	-	-	160,986
Grants and contracts	-	-	10,158	144,357	154,515
Other	35,241	-	-	27,999	63,240
Due from other funds	233,637	-	190,243	135,947	559,827
Other	68,643	-	-	9,324	77,967
Total assets	<u>\$ 6,701,573</u>	<u>\$ 2,152,328</u>	<u>\$ 200,401</u>	<u>\$ 430,312</u>	<u>\$ 9,484,614</u>
LIABILITIES					
Accounts payable	398,514	\$ 4,126	\$ -	\$ 14,007	\$ 416,647
Accrued liabilities	257,949	-	-	-	257,949
Due to other funds	354,924	135,839	-	142,615	633,378
Unearned revenue	20,838	-	-	13,236	34,074
Due to others	-	-	-	9,957	9,957
Total liabilities	<u>1,032,225</u>	<u>139,965</u>	<u>-</u>	<u>179,815</u>	<u>1,352,005</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes and interest	<u>582,516</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>582,516</u>
FUND BALANCES					
Nonspendable	68,643	-	-	9,324	77,967
Restricted	350,869	-	200,401	11,506	562,776
Committed	540,249	2,012,363	-	229,667	2,782,279
Assigned	403,093	-	-	-	403,093
Unassigned	3,723,978	-	-	-	3,723,978
Total fund balances	<u>5,086,832</u>	<u>2,012,363</u>	<u>200,401</u>	<u>250,497</u>	<u>7,550,093</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 6,701,573</u>	<u>\$ 2,152,328</u>	<u>\$ 200,401</u>	<u>\$ 430,312</u>	<u>\$ 9,484,614</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
AS OF JUNE 30, 2020

Total fund balances for governmental funds		\$ 7,550,093
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. Those assets consist of:		
Non-depreciable	\$ 2,689,949	
Depreciable, net	<u>24,332,805</u>	
		27,022,754
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.		582,516
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	(10,655,000)	
Unamortized bond premium	(634,942)	
Deferred charges on refunding	452,351	
Obligations under capital lease	(21,683)	
Accrued interest payable	(108,529)	
Other long-term liabilities:		
Compensated absences	(117,479)	
Claims payable	(33,670)	
Net pension liabilities	(2,211,138)	
Net OPEB liability	<u>(2,348,114)</u>	
Total long-term liabilities		(15,678,204)
Deferred outflows and inflows of resources resulting from changes in the components of the net pension and net OPEB liabilities are reported in the statement of net position.		<u>749,619</u>
Net position of governmental activities		<u><u>\$ 20,226,778</u></u>

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
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund	Capital and Nonrecurring Expenditures Fund	Bonded Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 23,232,130	\$ -	\$ -	\$ -	\$ 23,232,130
Intergovernmental	1,198,046	-	18,220	755,971	1,972,237
Local	833,384	-	-	267,215	1,100,599
Interest	87,515	17,187	-	141	104,843
Total revenues	<u>25,351,075</u>	<u>17,187</u>	<u>18,220</u>	<u>1,023,327</u>	<u>26,409,809</u>
EXPENDITURES					
Current:					
General government	3,536,856	-	-	122,499	3,659,355
Public safety	1,454,070	-	-	94,347	1,548,417
Health and welfare	603,601	-	-	85,171	688,772
Libraries	412,434	-	-	-	412,434
Highways and transportation	1,004,632	-	-	-	1,004,632
Education	16,115,418	-	-	199,458	16,314,876
Debt service:					
Principal payments	910,000	-	50,000	20,628	980,628
Interest and fiscal charges	369,281	-	-	1,879	371,160
Capital outlays	280,643	233,990	141	551,944	1,066,718
Total expenditures	<u>24,686,935</u>	<u>233,990</u>	<u>50,141</u>	<u>1,075,926</u>	<u>26,046,992</u>
Excess (deficiency) of revenues over expenditures	664,140	(216,803)	(31,921)	(52,599)	362,817
OTHER FINANCING SOURCES (USES)					
Transfers in	-	360,000	-	90,888	450,888
Transfers out	(450,888)	-	-	-	(450,888)
Total other financing sources (uses)	<u>(450,888)</u>	<u>360,000</u>	<u>-</u>	<u>90,888</u>	<u>-</u>
Net change in fund balances	213,252	143,197	(31,921)	38,289	362,817
Fund balances - beginning	<u>4,873,580</u>	<u>1,869,166</u>	<u>232,322</u>	<u>212,208</u>	<u>7,187,276</u>
Fund balances - ending	<u>\$ 5,086,832</u>	<u>\$ 2,012,363</u>	<u>\$ 200,401</u>	<u>\$ 250,497</u>	<u>\$ 7,550,093</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
FOR THE YEAR ENDED JUNE 30, 2020

Net change in fund balances for governmental funds \$ 362,817

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	\$ 878,029	
Depreciation and amortization expense	(1,442,545)	
Net adjustment		(564,516)

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:

Principal repayments:		
Bonds payable	960,000	
Capital lease financing	20,628	
Net adjustment		980,628

Deferred outflows and inflows of resources resulting from changes in the components of the net pension and net OPEB liabilities are amortized as a component of pension and OPEB expense in the statement of activities. 270,058

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	\$ 34,888	
Amortization of bond premium	107,307	
Amortization of deferred charges on refunding	(63,119)	
Compensated absences	(6,079)	
Claims payable	31,857	
Net pension liabilities	205,369	
Net OPEB liability	(342,093)	
		(31,870)

Change in net position of governmental activities \$ 1,017,117
(Concluded)

TOWN OF ESSEX, CONNECTICUT
STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2020

	Pension and OPEB Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 181,623	\$ 50,483
Investments		
Mutual funds	6,522,596	-
Certificates of deposit	-	111,182
Receivables	-	73,551
Total assets	<u>6,704,219</u>	<u>\$ 235,216</u>
LIABILITIES		
Due to others	-	209,365
Due to student groups	-	25,851
Total liabilities	<u>-</u>	<u>\$ 235,216</u>
NET POSITION		
Restricted for pension and OPEB benefits	<u>\$ 6,704,219</u>	

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

TOWN OF ESSEX, CONNECTICUT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

	Pension and OPEB Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 826,285
Plan members	6,770
Total contributions	<u>833,055</u>
Investment earnings:	
Net change in the fair value of investments	68,873
Interest and dividends	193,417
Total investment earnings	<u>262,290</u>
Total additions	<u>1,095,345</u>
DEDUCTIONS	
Benefit payments	532,677
Administrative expenses	29,787
Total deductions	<u>562,464</u>
Change in net position	532,881
Net position - beginning	<u>6,171,338</u>
Net position - ending	<u><u>\$ 6,704,219</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, 2020

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.

Related Organizations

The Town is a member of the Lower Connecticut River Valley Council of Governments, which provides its member towns with access to transportation and land use planning services. The First Selectman of the Town serves on the Board of Directors of this organization.

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, 2020

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 primarily funded through the issuance of general obligation bonds.

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

Pension and Other Post-Employment Benefits 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 and other post-employment benefit plans.

Agency Funds - These funds are used to account for resources held by the Town in a purely custodial capacity.

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.

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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

Measurement Focus and Basis of Accounting *(Continued)*

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 and other post-employment benefits 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 New Accounting Standards

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this statement was to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective was accomplished by postponing the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. As such, no new accounting standards were implemented by the Town for the year ended June 30, 2020.

Assets, Liabilities, Deferred Outflows and 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, 2020.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

Assets, Liabilities, Deferred Outflows and 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 acquisition 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 and Inflows of Resources

Deferred outflows and inflows of resources represent a consumption or 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, 2020

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

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

Deferred Outflows and 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 Balance

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.

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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

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

Net Position and Fund Balance *(Continued)*

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. The Town's adopted policy states that the Town shall endeavor to maintain an unassigned fund balance in the General Fund between 12% and 16% of budgeted expenditures. If the unassigned fund balance exceeds the 16% target, the use of such excess funds could be for capital projects and other onetime uses, to avoid creating a gap in the subsequent fiscal year budget. If the fund balance goes below the 12% minimum, then the Board of Finance will endeavor to replenish reserves during the budget process to minimum levels within 3 years. As of June 30, 2020, unassigned fund balance in the General Fund represented 14.8% of the Town's approved budgeted operating revenues for the fiscal year 2019-2020 General Fund budget.

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, 2020

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

Assets, Liabilities, Deferred Outflows and Inflows of Resources and Net Position/Fund Balance *(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, 2020

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

Cash Deposits

A reconciliation of the Town's cash deposits, as of June 30, 2020 is as follows:

Government-Wide Statement of Net Position:	
Cash and cash equivalents	\$ 7,981,640
Statement of Fiduciary Net Position	
Cash and cash equivalents	<u>232,106</u>
	8,213,746
Add: certificates of deposit considered cash deposits	
for disclosure purposes	111,182
Less: cash equivalents considered investments	
for disclosure purposes	<u>(134,356)</u>
	<u><u>\$ 8,190,572</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, 2020, \$7,957,144 of the Town's bank balance of \$8,715,102 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>7,957,144</u>
	<u><u>\$ 7,957,144</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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

Investments

A reconciliation of the Town's investments as of June 30, 2020 is as follows:

Government-wide statement of net position:	
Investments	\$ -
Statement of fiduciary net position	
Investments	6,633,778
	<u>6,633,778</u>
Add: cash equivalents considered investments for disclosure purposes	134,356
Less: certificates of deposit considered cash deposits for disclosure purposes	(111,182)
	<u>\$ 6,656,952</u>

As of June 30, 2020, the Town's investments consist of the following:

Investment Type	Valuation Basis	Value	Investment Maturities (In Years) Less Than 1
Debt Securities:			
<i>Fiduciary Funds:</i>			
Money Market Mutual Funds	Net asset value	\$ 64,356	\$ 64,356
Repurchase Agreement	Amortized Cost	70,000	70,000
		<u>134,356</u>	<u>\$ 134,356</u>
Other Investments:			
<i>Fiduciary Funds:</i>			
Mutual Funds	Fair Value	6,522,596	
Total		<u>\$ 6,656,952</u>	

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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

Investments *(Continued)*

Credit Risk *(Continued)*

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, 2020, more than 10% of the Town's fiduciary investments are invested in the following:

Issuer	Investment	Value	% of Fiduciary Investments
Vanguard Index Funds	Vanguard 500 Index Fund Admiral Shares	\$ 796,065	12.0%

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.

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, 2020, by level within the fair value hierarchy are presented in the table below:

Financial Assets Measured at Fair Value	Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Fiduciary Funds:</i>			
Mutual Funds	\$ 6,522,595	-	-

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 3 - FAIR VALUE MEASUREMENTS *(Continued)*

Mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 consisted of the following:

Governmental Activities	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 2,563,245	\$ -	\$ -	\$ -	\$ 2,563,245
Construction in progress	12,902	114,507	-	(705)	126,704
Total capital assets, not being depreciated	<u>2,576,147</u>	<u>114,507</u>	<u>-</u>	<u>(705)</u>	<u>2,689,949</u>
Capital assets, being depreciated:					
Land improvements	1,510,581	51,409	-	-	1,561,990
Buildings and improvements	27,391,802	56,004	-	-	27,447,806
Machinery and equipment	2,352,817	121,929	-	-	2,474,746
Vehicles	1,222,805	-	-	-	1,222,805
Infrastructure	<u>12,520,438</u>	<u>534,180</u>	<u>(2,538)</u>	<u>705</u>	<u>13,052,785</u>
Total capital assets, being depreciated	<u>44,998,443</u>	<u>763,522</u>	<u>(2,538)</u>	<u>705</u>	<u>45,760,132</u>
Less accumulated depreciation and amortization for:					
Land improvements	542,405	94,055	-	-	636,460
Buildings and improvements	10,338,175	834,223	-	-	11,172,398
Machinery and equipment	1,879,469	87,349	-	-	1,966,818
Vehicles	847,913	65,231	-	-	913,144
Infrastructure	<u>6,379,358</u>	<u>361,687</u>	<u>(2,538)</u>	<u>-</u>	<u>6,738,507</u>
Total accumulated depreciation and amortization	<u>19,987,320</u>	<u>1,442,545</u>	<u>(2,538)</u>	<u>-</u>	<u>21,427,327</u>
Total capital assets, being depreciated, net	<u>25,011,123</u>	<u>(679,023)</u>	<u>-</u>	<u>705</u>	<u>24,332,805</u>
Governmental activities capital assets, net	<u>\$ 27,587,270</u>	<u>\$ (564,516)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,022,754</u>

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

Governmental Activities:	
General government	\$ 306,569
Public safety	56,658
Highways and transportation	449,585
Education	629,733
Total depreciation expense - governmental activities	<u>\$ 1,442,545</u>

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2020 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental Funds		
General Fund	Nonmajor Governmental Funds	\$ 142,615
	Capital and Nonrecurring Expenditures Fund	<u>91,022</u>
		<u>233,637</u>
Bonded Capital Projects Fund	General Fund	<u>190,243</u>
Nonmajor Governmental Funds	Capital and Nonrecurring Expenditures Fund	44,817
	General Fund	<u>91,130</u>
		<u>135,947</u>
Fiduciary Funds		
Agency Funds	General Fund	<u>73,551</u>
Total interfund receivables/payables		<u><u>\$ 633,378</u></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, 2020 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Governmental Funds		
Capital and Nonrecurring Expenditures Fund	General Fund	<u>\$ 360,000</u>
Nonmajor Governmental Funds	General Fund	<u>90,888</u>
Total transfers		<u><u>\$ 450,888</u></u>

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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 7 - LONG-TERM DEBT

The applicable accounting standards define debt as a liability that arises from a contractual obligation to pay cash, or other assets that may be used in lieu of cash, in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. For disclosure purposes, debt does not include accounts payable or leases, except for contracts reported as financed purchase of the underlying asset.

Changes in long-term debt for the year ended June 30, 2020, are as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Direct Placements:					
General obligation bonds	\$ 11,615,000	\$ -	\$ (960,000)	\$ 10,655,000	\$ 1,060,000
Unamortized bond premium	742,249	-	(107,307)	634,942	-
Total bonds payable	12,357,249	-	(1,067,307)	11,289,942	1,060,000
Capital leases from direct borrowings	42,311	-	(20,628)	21,683	21,683
	<u>\$ 12,399,560</u>	<u>\$ -</u>	<u>\$ (1,087,935)</u>	<u>\$ 11,311,625</u>	<u>\$ 1,081,683</u>

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

Direct Placements - General Obligation Bonds

A summary of general obligation bonds outstanding at June 30, 2020 is as follows:

Purpose of Bonds	Final Maturity Dates	Interest Rates	Amount Outstanding
Governmental Activities			
Bonds Payable			
General obligation refunding bonds issued April 2013, original amount of \$7,170,000	8/1/2027	2.125% - 4.000%	\$ 4,875,000
General obligation bonds issued September 2017, original amount of \$6,000,000	9/15/2037	2.0% - 5.0%	5,780,000
			<u>\$ 10,655,000</u>

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 7 - LONG-TERM DEBT *(Continued)*

Direct Placements - General Obligation Bonds *(Continued)*

Annual debt service requirements to maturity on general obligation bonds are as follows as of June 30, 2020:

Year ending June 30:	Governmental Activities		
	General Obligation Bonds		
	Principal	Interest	Total
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	930,000	219,632	1,149,632
2025	865,000	188,300	1,053,300
2026-2030	3,175,000	566,934	3,741,934
2031-2035	1,600,000	264,000	1,864,000
2036-2040	960,000	43,200	1,003,200
	<u>\$ 10,655,000</u>	<u>\$ 2,160,934</u>	<u>\$ 12,815,934</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, 2020.

Authorized, Unissued Bonds

As of June 30, 2020, the Town had authorized but unissued bonds totaling \$1,414,555.

Refundings

The Town has advanced refunded general obligation bonds in prior years. The difference between the reacquisition prices (the amounts placed in escrow) and the net carrying amounts of the refunded bonds have resulted in deferred charges on refundings in the amount of \$904,704. This amount, net of accumulated amortization of \$452,353 has been presented as deferred outflows of resources in the government-wide financial statements and is being amortized to interest expense using the effective-interest method over the life of the new bonds. Amortization of deferred charges on refundings totaled \$63,119 for the year ended June 30, 2020.

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, 2020, the outstanding indebtedness of the District was \$4,230,000. The Town of Essex's share will be approximately 41.01% or \$1,734,723 of the total outstanding indebtedness. 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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 7 - LONG-TERM DEBT *(Continued)*

Capital Leases from Direct Borrowings

Capital leases from direct borrowings include non-appropriation clauses and provide the obligor with a security interest in the underlying equipment in the event of a default.

A summary of assets acquired through capital leases is as follows as of June 30, 2020:

	Governmental Activities
Vehicles	\$ 98,365
Less: accumulated amortization	41,805
	<u>\$ 56,560</u>

Amortization expense relative to leased property under capital leases totaled \$9,836 for the year ended June 30, 2020 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, 2020 are as follows:

Year ending June 30:	Governmental Activities
2021	\$ 22,507
Total minimum lease payments	22,507
Less: amount representing interest	(824)
Present value of minimum lease payments	<u>\$ 21,683</u>

NOTE 8 - OTHER LONG-TERM LIABILITIES

Changes in other long-term liabilities for the year ended June 30, 2020 are as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 111,400	\$ 146,113	\$ (140,034)	\$ 117,479	\$ 11,748
Net pension liabilities <i>(see Note 10)</i>	2,416,507	90,755	(296,124)	2,211,138	-
Net OPEB liability <i>(see Note 11)</i>	2,006,021	342,093	-	2,348,114	-
	<u>\$ 4,533,928</u>	<u>\$ 578,961</u>	<u>\$ (436,158)</u>	<u>\$ 4,676,731</u>	<u>\$ 11,748</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, 2020

NOTE 9 - FUND BALANCE

The various components of fund balance at June 30, 2020 are as follows:

	General Fund	Capital and Nonrecurring Expenditures Fund	Bonded Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Prepaid items	\$ 68,643	\$ -	\$ -	\$ -	\$ 68,643
Inventories	-	-	-	9,324	9,324
Restricted for:					
Grant programs	-	-	-	8,467	8,467
Debt service - premium received	350,869	-	-	-	350,869
Cafeteria operations	-	-	-	3,039	3,039
Capital purposes	-	-	200,401	-	200,401
Committed for:					
Municipal property improvements	15,249	-	-	-	15,249
Employee retirement benefits	275,000	-	-	-	275,000
Capital purposes	250,000	2,012,363	-	-	2,262,363
Harbor commission operations	-	-	-	69,150	69,150
Recreation programs	-	-	-	63,067	63,067
General government programs	-	-	-	57,652	57,652
Pump out boat operations	-	-	-	13,393	13,393
Public safety programs	-	-	-	26,405	26,405
Assigned to:					
Revaluation	108,187	-	-	-	108,187
Subsequent year's budget	168,933	-	-	-	168,933
Encumbrances - capital outlay	113,218	-	-	-	113,218
Encumbrances - general government	12,755	-	-	-	12,755
Unassigned	3,723,978	-	-	-	3,723,978
	<u>\$ 5,086,832</u>	<u>\$ 2,012,363</u>	<u>\$ 200,401</u>	<u>\$ 250,497</u>	<u>\$ 7,550,093</u>

Capital Projects Authorizations

The following is a summary of capital projects as of June 30, 2020:

Capital Project:	Original Authorization	Revised Authorization	Current Year Expenditures	Cumulative Expenditures	Balance June 30, 2020*
Bridge replacement	\$ 2,845,000	\$ 2,800,000	\$ 141	\$ 2,611,532	\$ 188,468
Essex Elementary School repairs	2,815,000	2,815,000	-	2,751,561	63,439
Town Hall improvements	1,300,000	1,570,000	-	1,524,048	45,952
Town Garage improvements	525,000	325,000	-	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>\$ 141</u>	<u>\$ 7,766,884</u>	<u>\$ 318,116</u>

* Based on revised authorization

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT 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, 2018, the date of the most recent actuarial valuations, pension plan membership consisted of the following:

	Employees' Retirement Plan	Merit Service Plan	Police Retirement Plan
Retirees and beneficiaries receiving benefits	31	25	5
Terminated employees entitled to benefits but not yet receiving them	10	7	-
Active plan members	33	44	3
	<u>74</u>	<u>76</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:

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 1st 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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Defined Benefit Plans *(Continued)*

Plan Descriptions *(Continued)*

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 55th 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 - For fiscal year 2020, participants hired after July 1, 2019 are required to contribute 5.0% and participants hired prior to this date are required to contribute 3.0%.

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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Defined Benefit Plans *(Continued)*

Summary of Significant Accounting Policies *(Continued)*

Concentrations - The Plans' investments consist solely of investments in various equity mutual funds. As of June 30, 2020, 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>
Vanguard Index Funds	Vanguard 500 Index Fund Admiral Shares	12.2%	12.2%	12.2%

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, 2020, the annual money-weighted rates of return on pension plan investments, net of pension plan investment expenses, were as follows:

Employees' Retirement Plan	3.68%
Merit Service Plan	3.56%
Police Retirement Plan	3.72%

Net Pension Liability

The components of the net pension liability for each of the plans at June 30, 2020 were as follows:

	<u>Employees' Retirement Plan</u>	<u>Merit Service Plan</u>	<u>Police Retirement Plan</u>
Total pension liability	\$ 5,157,989	\$ 1,577,531	\$ 2,037,228
Plan fiduciary net position	3,903,370	1,186,706	1,544,143
Town's net pension liability	<u>\$ 1,254,619</u>	<u>\$ 390,825</u>	<u>\$ 493,085</u>

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT 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, 2020, were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Employees Retirement Plan			
Balance as of June 30, 2019	\$ 4,950,962	\$ 3,787,098	\$ 1,163,864
Changes for the year:			
Service cost	147,038	-	147,038
Interest	359,112	-	359,112
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	268,122	(268,122)
Net investment income	-	149,206	(149,206)
Benefit payments, including refunds	(299,123)	(299,123)	-
Administrative expense	-	(1,933)	1,933
Net changes	207,027	116,272	90,755
Balance as of June 30, 2020	\$ 5,157,989	\$ 3,903,370	\$ 1,254,619
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Merit Service Plan			
Balance as of June 30, 2019	\$ 1,551,086	\$ 1,129,670	\$ 421,416
Changes for the year:			
Service cost	17,695	-	17,695
Interest	108,291	-	108,291
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	116,872	(116,872)
Net investment income	-	41,639	(41,639)
Benefit payments, including refunds	(99,541)	(99,541)	-
Administrative expense	-	(1,934)	1,934
Net changes	26,445	57,036	(30,591)
Balance as of June 30, 2020	\$ 1,577,531	\$ 1,186,706	\$ 390,825

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Defined Benefit Plans *(Continued)*

Net Pension Liability *(Continued)*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Police Retirement Plan			
Balance as of June 30, 2019	\$ 1,974,811	\$ 1,254,570	\$ 720,241
Changes for the year:			
Service cost	62,332	-	62,332
Interest	134,101	-	134,101
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	369,642	(369,642)
Contributions - employee	-	8,420	(8,420)
Net investment income	-	47,460	(47,460)
Benefit payments, including refunds	(134,016)	(134,016)	-
Administrative expense	-	(1,933)	1,933
Net changes	62,417	289,573	(227,156)
Balance as of June 30, 2020	\$ 2,037,228	\$ 1,544,143	\$ 493,085

Actuarial assumptions - The total pension liability for each of the plans were determined by an actuarial valuation as of July 1, 2018, 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	7.125%	7.125%	7.125%
Salary increases	2.60%	N/A	2.60%
Inflation	2.60%	2.60%	2.60%

Mortality rates were based on the following:

Employees' Retirement Plan	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2017.
Merit Service Plan	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2017.
Police Retirement Plan	Retiree: RP-2014 Adjusted to 2006 Blue Collar Mortality Table projected to valuation date with Scale MP-2017. Survivor: RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2017.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT 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, 2020, which are summarized in the following table:

	Target	Long-term Expected Real	
	Allocation	Rate of Return*	Weighting
US Large Cap	32.00%	4.50%	1.44%
US Mid/Small Cap	12.00%	5.00%	0.60%
Developed International Equities	13.00%	5.25%	0.68%
Emerging Market Equities	4.00%	6.25%	0.25%
Intermed Corporate	35.00%	2.50%	0.88%
Money Market, Short Term Bonds	2.00%	0.25%	0.01%
Real Estate (Core)	2.00%	4.50%	0.09%
	<u>100.00%</u>		3.95%
Long-Term Inflation Expectation			<u>2.60%</u>
Long-Term Expected Nominal Return			<u>6.55%</u>

*Long-Term Real Returns are provided by Hooker & Holcombe Investment Advisors, Inc. The reutns are geometric means.

Discount rate - The discount rate used to measure the total pension liability for each plan was 7.125%. 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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Defined Benefit Plans *(Continued)*

Net Pension Liability *(Continued)*

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 7.125%, 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, 2020:

	1% Decrease 6.125%	Current Discount 7.125%	1% Increase 8.125%
Employees' Retirement Plan's net pension liability	\$ 1,791,191	\$ 1,254,619	\$ 795,866
Merit Fire Plan's net pension liability	559,621	390,825	247,236
Police Retirement Plan's net pension liability	720,295	493,085	303,462

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2020, the Town recognized pension expense related to the Employee's Retirement Plan of \$340,249. At June 30, 2020, the Town reported deferred outflows and inflows of resources related to the Employee's Retirement Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 55,048	\$ -	\$ 55,048
Differences between expected and actual experience	61,902	-	61,902
Changes of assumptions	5,636	(6,968)	(1,332)
Total	<u>\$ 122,586</u>	<u>\$ (6,968)</u>	<u>\$ 115,618</u>

For the year ended June 30, 2020, the Town recognized pension expense related to the Merit Service Plan of \$70,945. At June 30, 2020, the Town reported deferred outflows and inflows of resources related to the Merit Service Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 21,220	\$ -	\$ 21,220
Differences between expected and actual experience	56,073	(2,803)	53,270
Changes of assumptions	12,552	-	12,552
Total	<u>\$ 89,845</u>	<u>\$ (2,803)</u>	<u>\$ 87,042</u>

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Defined Benefit Plans *(Continued)*

Pension Expense and Deferred Outflows and Inflows of Resources *(Continued)*

For the year ended June 30, 2020, the Town recognized pension expense related to the Police Retirement Plan of \$153,783. At June 30, 2020, the Town reported deferred outflows and inflows of resources related to the Police Retirement Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 28,595	\$ -	\$ 28,595
Differences between expected and actual experience	7,692	-	7,692
Changes of assumptions	5,342	-	5,342
Total	<u>\$ 41,629</u>	<u>\$ -</u>	<u>\$ 41,629</u>

Amounts reported as deferred outflows and inflows of resources related to the plans will be recognized as a component of pension expense in future years as follows:

	<u>Amortization of Pension Expense</u>		
	<u>Employees' Retirement Plan</u>	<u>Merit Service Plan</u>	<u>Police Retirement Plan</u>
Year ended June 30,			
2021	\$ 1,611	\$ 8,728	\$ 14,849
2022	43,779	19,210	8,973
2023	45,063	20,100	8,995
2024	25,165	19,442	8,812
2025	-	8,517	-
Thereafter	-	11,045	-
Total	<u>\$ 115,618</u>	<u>\$ 87,042</u>	<u>\$ 41,629</u>

Plan Financial Statements

The following presents the statement of fiduciary net position for each of the Town's defined benefit pension plans as June 30, 2020:

	<u>Statement of Fiduciary Net Position</u>		
	<u>Employees' Retirement Plan</u>	<u>Merit Service Plan</u>	<u>Police Retirement Plan</u>
ASSETS			
Cash and cash equivalents	\$ 64,849	\$ 21,120	\$ 25,654
Investments	3,838,521	1,165,586	1,518,489
Total assets	<u>3,903,370</u>	<u>1,186,706</u>	<u>1,544,143</u>
NET POSITION			
Restricted for pension benefits	<u>\$ 3,903,370</u>	<u>\$ 1,186,706</u>	<u>\$ 1,544,143</u>

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Defined Benefit Plans *(Continued)*

Plan Financial Statements *(Continued)*

The following presents the statement of changes in fiduciary net position for each of the Town's defined benefit pension plans for the year ended June 30, 2020:

Statement of Changes in Fiduciary Net Position			
	Employees' Retirement Plan	Merit Service Plan	Police Retirement Plan
ADDITIONS			
Contributions:			
Employers	\$ 268,122	\$ 116,872	\$ 371,291
Plan members	-	-	6,770
Total contributions	<u>268,122</u>	<u>116,872</u>	<u>378,061</u>
Investment earnings:			
Interest and dividends	117,109	34,584	41,724
Net change in the fair value of investments	<u>46,978</u>	<u>11,926</u>	<u>9,969</u>
Total investment earnings, net	<u>164,087</u>	<u>46,510</u>	<u>51,693</u>
Total additions	<u>432,209</u>	<u>163,382</u>	<u>429,754</u>
 DEDUCTIONS			
Benefit payments	299,123	99,541	134,013
Administrative expenses	<u>16,814</u>	<u>6,805</u>	<u>6,168</u>
Total deductions	<u>315,937</u>	<u>106,346</u>	<u>140,181</u>
 Changes in net position	116,272	57,036	289,573
 Net position - beginning	<u>3,787,098</u>	<u>1,129,670</u>	<u>1,254,570</u>
 Net position - ending	<u><u>\$ 3,903,370</u></u>	<u><u>\$ 1,186,706</u></u>	<u><u>\$ 1,544,143</u></u>

Connecticut Municipal Employees' Retirement System

The Town participates in the Connecticut's Municipal Employees' Retirement System (CMERS). CMERS is the public pension plan offered by the State of Connecticut for municipal employees in participating municipalities. The plan was established in 1947 and is governed by Connecticut Statute Title 7, Chapter 113. Chapter 113, Part II of the General Statutes of Connecticut, which can be amended by legislative action, establishes PERS benefits, member contribution rates, and other plan provisions.

Municipalities may designate which departments are to be covered under the CMERS. Only employees covered under the State Teachers' Retirement System may not be included. There are no minimum age or service requirements. Membership is mandatory for all regular full time employees of participating departments except Police and Fire hired after age 60.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Connecticut Municipal Employees' Retirement System *(Continued)*

The plan has 4 sub plans as follows:

- General employees with social security
- General employees without social security
- Policemen and firemen with social security
- Policemen and firemen without social security

Plan Description

Plan administration - CMERS is a multiemployer pension plan administered by the Connecticut State Retirement Commission. The State Retirement Commission is responsible for the administration of the CMERS. The State Treasurer is responsible for investing CMERS funds for the exclusive benefit of CMERS members.

Plan membership - All full-time employees of the Town, except for certified Board of Education personnel who are eligible for the State Teachers' Retirement System, who are age 55 or younger at the date of hire, participate in the CMERS plan for general employees with social security.

Benefits provided - General employees are eligible to retire at age 55 with 5 years of continuous service, or 15 years of active non-continuous service. Employees under the age of 55 are eligible to retire with 25 years of service. Police are eligible at the compulsory retirement age for police and fire members are eligible at the age of 65.

For members not covered by social security, the benefit is 2% of average final compensation times years of service. For members covered by social security, the benefit is 1.5% of the average final compensation not in excess of the year's breakpoint plus 2% of average final compensation in excess of the year's breakpoint, times years of service.

The maximum benefit is 100% of average final compensation and the minimum benefit is \$1,000 annually. Both the minimum and the maximum include workers' compensation and social security benefits. If any member covered by social security retires before age 62, the benefit until age 62 is reached or a social security disability award is received, is computed as if the member is not under social security.

Employees are eligible for early retirement after 5 years of active continuous or 15 years of active non-continuous service. The benefit is calculated on the basis of average final compensation and service to date of termination. Deferred to normal retirement age, or an actuarially reduced allowance may begin at the time of separation.

Employees are eligible for service-related disability benefits from being permanently or totally disabled from engaging in the service of the municipality provided such disability has arisen out of and in the course of employment with the municipality. Disability due to hypertension or heart disease, in the case of firemen and policemen, is presumed to have been suffered in the line of duty. Disability benefits are calculated based on compensation and service to the date of the disability with a minimum benefit (including workers' compensation benefits) of 50% of compensation at the time of disability.

Employees are eligible for non-service-related disability benefits with 10 years of service and being permanently or totally disabled from engaging in gainful employment in the service of the municipality. Disability benefits are calculated based on compensation and service to the date of the disability. The plan also offers a pre-retirement death benefit in the form of 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, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Connecticut Municipal Employees' Retirement System *(Continued)*

Plan Description *(Continued)*

Contributions - The contribution requirements of plan members are established and may be amended by the State Retirement Commission. The Town is required to contribute annual contributions consisting of a normal cost contribution, a contribution for the amortization of the net unfunded accrued liability and a prior service amortization payment which covers the liabilities of the system not met by member contributions. There is also an administrative fee per active and retired member. The current rate is 13.73% of the annual Town employees' covered payroll. The contribution requirements of the Town are established and may be amended by the State Retirement Commission. The Town's contributions to the CMERS for the year ended June 30, 2020 was \$7,423 and was equal to the required contributions for each year.

For employees not covered by social security, each person is required to contribute 5.50% of compensation. For employees covered by social security, each person is required to contribute 2.75% of compensation up to the social security taxable wage base plus 5% of compensation, if any, in excess of such base.

Summary of Significant Accounting Policies

Pensions - For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions and pension expense, information about the fiduciary net position of CMERS and additions and deletions from CMERS' net position are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Investment policy - The CMERS' policy in regard to the allocation of invested assets is established and may be amended by the State Retirement Commission. It is the policy of the State to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The State Treasurer is responsible for investing CMERS funds for the exclusive benefit of CMERS members.

Collective Net Pension Liability

The total estimated net pension liability of the CMERS as of June 30, 2019 was \$1.033 billion, the most recent available reporting provided by the Board. The portion that was associated with the Town totaled \$72,609 or approximately 0.020% of the total estimated net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The portion of the net pension liability associated with the Town was based on the 2019 actuarial (expected) payroll amounts reported by participating employers. Expected payroll adjusts actual payroll for known changes in the status of employees, annualized salaries for partial year employees and anticipated salary increases.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Connecticut Municipal Employees' Retirement System *(Continued)*

Net Pension Liability *(Continued)*

Actuarial assumptions - The total pension liability for the CMERS was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.50% - 10.00%, including inflation
Long-term investment rate of return	7.00%, net of pension plan investment expense, including inflation
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

For the period after retirement and for dependent beneficiaries, mortality rates were based on the RP-2014 Combined Mortality Table adjusted to 2006 and projected to 2015 with Scale MP-2017 and projected to 2022 with Scale BB for General Employees and the RP-2014 Blue Collar Mortality Table adjusted to 2006 and projected to 2015 with Scale MP-2017 and projected to 2022 with Scale BB for Police and Fire. For disabled retirees, the RP-2014 Disabled Mortality Table projected with Scale BB to 2020 was used.

The long-term expected rate of return on pension plan investments was determined using a statistical analysis 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Target Expected Real Rate of Return
Domestic Equity	20.0%	5.3%
Developed Market International	11.0%	5.1%
Emerging Market International	9.0%	7.4%
Core Fixed Income	16.0%	1.6%
Inflation Linked Bond	5.0%	1.3%
Emerging Market Debt	5.0%	2.9%
High Yield Bond	6.0%	3.4%
Real Estate	10.0%	4.7%
Private Equity	10.0%	7.3%
Alternative Investments	7.0%	3.2%
Liquidity Fund	1.0%	0.9%
	<u>100.0%</u>	

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Connecticut Municipal Employees' Retirement System *(Continued)*

Net Pension Liability *(Continued)*

Discount rate - The discount rate used to measure the CMERS' total pension liability was 7.00%. 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 State contributions will be made at the actuarially determined rates in future years. 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.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
Proportionate share of the collective net pension liability	\$ 103,468	\$ 72,609	\$ 46,618

Pension plan fiduciary net position - Detailed information about the CMERS plan's fiduciary net position is included in the State of Connecticut's basic financial statements.

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2020, the Town recognized pension expense related to the CMERS of \$18,286. At June 30, 2020, the Town reported its proportionate share of deferred outflows and inflows of resources related to the CMERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources, net</u>
Differences between expected and actual experience	\$ 7,907	\$ (6,544)	\$ 1,363
Net difference between projected and actual earnings on pension plan investments	2,956	-	2,956
Change of assumptions	19,177	-	19,177
Contributions paid to the CMERS subsequent to the measurement date	7,423	-	7,423
Other	2,708	(13,188)	(10,480)
Total	<u>\$ 40,171</u>	<u>\$ (19,732)</u>	<u>\$ 20,439</u>

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Connecticut Municipal Employees' Retirement System *(Continued)*

Pension Expense and Deferred Outflows and Inflows of Resources *(Continued)*

Amounts reported as deferred outflows and inflows of resources related to the CMERS will be recognized as a component of pension expense in future years as follows:

Year ended June 30,	
2021	\$ 8,668
2022	6,388
2023	7,661
2024	(2,278)
	<u>\$ 20,439</u>

Connecticut Teachers' Retirement System

Plan Description

The Connecticut Teachers' Retirement System ("TRS" or the "Plan") is the public pension plan offered by the State of Connecticut (the "State") to provide retirement, disability, survivorship and health insurance benefits for Connecticut public school teachers and their beneficiaries. The Plan is governed by Connecticut Statute Title 10, Chapter 167a of the Connecticut General Statutes. TRS is a multiemployer pension plan administered by the Connecticut State Teachers' Retirement Board ("TRB"). The State Treasurer is responsible for investing TRS funds for the exclusive benefit of TRS members.

Teachers, principals, superintendents or supervisors engaged in the service of public schools are provided with pensions through the Connecticut Teachers' Retirement System - a cost sharing multi-employer defined benefit pension plan administered by the TRB. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the TRB. TRS issues a publicly available financial report that can be obtained at www.ct.gov.

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% per year by which retirement precedes normal retirement date.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Connecticut Teachers' Retirement System *(Continued)*

Benefit Provisions *(Continued)*

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 2.0% per year of service times the average of the highest three years of pensionable salary, but not less than 15.0%, nor more than 50.0%. 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 75.0% of average annual salary. A plan member who leaves service and has attained 10 years of service will be entitled to 100.0% 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.

Contributions

State of Connecticut - Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State are amended and certified by the TRB 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.

Employers - School District employers are not required to make contributions to the Plan, as contributions are required only from employees and the State.

Employees - Effective July 1, 1992, each teacher was required to contribute 6.0% of pensionable salary for the pension benefit. Effective January 1, 2018, the required contribution increased to 7.0% of pensionable salary.

Administrative Expenses

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

Basis of Presentation

The components associated with pension expense and deferred outflows and inflows of resources have been determined based on fiduciary net position as audited by the State of Connecticut Auditors of Public Accounts as part of the State of Connecticut Comprehensive Annual Financial Report as of and for the year ended June 30, 2019. The net pension liability at June 30, 2019 has been calculated using the audited amounts. TRS is included in the State of Connecticut audit as a pension trust fund. The State of Connecticut's Comprehensive Annual Financial Report can be obtained at www.ct.gov.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Connecticut Teachers' Retirement System *(Continued)*

Basis of Presentation *(Continued)*

The accounting standards require participating employers to recognize their proportional share of the collective net pension liability, deferred outflows and inflows of resources and pension expense. Contributions remitted by the State are recognized when legally due, based upon statutory requirements.

Allocation Methodology

The allocations for participating employers are based on the expected contribution effort as measured June 30, 2018, the date of the latest biennial valuation. The liabilities of the June 30, 2018 actuarial valuation were rolled forward to the measurement date of June 30, 2019. The employer allocations were then applied to the net pension liability and pension expense to determine the amount applicable to each employer. Based upon the employee contributions made by the employees of each employer, as compared to the total employee contributions, an employer allocation percentage is calculated to six decimal places and is used to allocate the elements noted above. The employer allocation applied to Town totaled 0.053% as of the most recent measurement date.

Collective Net Pension Liability

The following summarizes the collective net pension liability of the State for the TRS as of June 30, 2019, the measurement date, in addition to the Town's and State's proportionate shares of the collective net pension liability that is attributed to the Town:

Collective Net Pension Liability of the State for the TRS		<u>\$ 17,072,720,000</u>
	<u>Proportion</u>	<u>Proportionate Share</u>
Town's proportionate share of the Collective Net Pension Liability	0.000%	<u>\$ -</u>
State's proportionate share of the Collective Net Pension Liability attributed to the Town	0.053%	<u>\$ 9,037,000</u>

Collective Pension Expense

The Town's expected contribution effort for allocation purposes totaled \$648,021 or 0.053% 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 in the General Fund for the year ended June 30, 2020.

The collective pension expense includes certain current period changes in the collective net pension liability, projected earnings on pension plan investments and the amortization of deferred outflows of resources and deferred inflows of resources for the current period. The portion of the collective pension expense attributed to the Town totaled \$1,109,846 or 0.053% of the total collective pension expense and has been recognized as an operating contribution and related education expenses in the statement of activities for the year ended June 30, 2020.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Connecticut Teachers' Retirement System *(Continued)*

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, and a measurement date of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% - 6.50%, including inflation
Investment rate of return	6.90%, net of pension plan investment expense, including inflation
Administrative expenses	\$0 assumption as expenses are paid for by the General Assembly

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 5.0% 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 6.0% 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 5.0% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3.0%, 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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)*

Connecticut Teachers' Retirement System *(Continued)*

Long-Term Rate of Return *(Continued)*

The current capital market assumptions and the target asset allocation as provided by the Treasurer's Office are summarized in the following table:

Asset Class	Target Allocation	Expected Return	Standard Deviation
Public Equity - US Equity	20.0%	8.1%	17.0%
Public Equity - International Developed Equity	11.0%	8.5%	19.0%
Public Equity - Emerging Markets Equity	9.0%	10.4%	24.0%
Fixed Income - Core Fixed Income	16.0%	4.6%	7.0%
Fixed Income - Inflation Linked Bonds	5.0%	3.6%	7.0%
Fixed Income - High Yield	6.0%	6.5%	11.0%
Fixed Income - Emerging Market Debt	5.0%	5.2%	11.0%
Private Equity	10.0%	9.8%	23.0%
Real Estate	10.0%	7.0%	15.0%
Alternative Investments - Real Assets	4.0%	8.2%	17.0%
Alternative Investments - Hedge Funds	3.0%	5.4%	7.0%
Liquidity Fund	1.0%	2.9%	1.0%
	<u>100%</u>		

The geometric rates of expected return shown in the table above are nominal returns net of investment expenses.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. 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 the actuarially determined rates in future years. 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.

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.

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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

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

Plan Descriptions *(Continued)*

During fiscal year 2020, the Town established an OPEB trust to begin accumulating resources for the purpose of funding future OPEB benefits. The OPEB Plan is considered to be part of the Town's financial reporting entity and is included in the Town's financial statements as an Other Post-Employment Benefits Trust Fund. The Plan does not issue stand-alone financial reports.

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 currently 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 currently finances the plan on a pay-as-you-go-basis.

For the year ended June 30, 2020, the Town contributed \$70,000 directly into the OPEB Trust.

Employees Covered by Benefit Terms

As of June 30, 2020, the measurement date, the following employees were covered by the benefit terms:

Retirees, beneficiaries, and dependents currently receiving benefits	11
Active participants	74
	<u>85</u>

Summary of Significant Accounting Policies

The OPEB Plan is accounted for using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Town contributions are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits and refunds are recognized when they are due and payable in accordance with terms of the OPEB Plan.

Investments - Investments are generally measured at fair value. Investment income is recognized when earned and gains and losses on sales or exchanges are recognized on the transaction date.

Investment policy - The OPEB Plan's investment policy in regard to the allocation of invested assets is established and may be amended by the members of the Essex Retirement Board. The Essex Retirement Board pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes, discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

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

Summary of Significant Accounting Policies *(Continued)*

Rate of return - For the year ended June 30, 2020, the annual money-weighted rate of return on OPEB plan investments, net of investment expense, was 0.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The Town's net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018.

The components of the Town's net OPEB liability for the OPEB Plan at June 30, 2020 were as follows:

Total OPEB liability	\$ 2,418,114
Plan fiduciary net position	<u>70,000</u>
Net OPEB liability	<u><u>\$ 2,348,114</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.98%

The components of the change in the Town's net OPEB liability for the OPEB Plan for the year ended June 30, 2020 were as follows:

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance as of June 30, 2019	\$ 2,006,021	\$ -	\$ 2,006,021
Changes for the year:			
Service cost	45,957	-	45,957
Interest	71,217	-	71,217
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(42,569)	-	(42,569)
Changes in assumptions or other inputs	383,853	-	383,853
Contributions - employer	-	70,000	(70,000)
Contributions - members	-	-	-
Benefit payments	(46,365)	-	(46,365)
Net changes	<u>412,093</u>	<u>70,000</u>	<u>342,093</u>
Balance as of June 30, 2020	<u><u>\$ 2,418,114</u></u>	<u><u>\$ 70,000</u></u>	<u><u>\$ 2,348,114</u></u>

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

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

Net OPEB Liability *(Continued)*

Actuarial Assumptions and Other Inputs - The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	2.21%
Inflation	2.60%
Rate of compensation increase:	
Town	7.60% initial 3.10% ultimate
Board of Education	3.60%
Healthcare cost trend rate	7.00% initial 4.60% ultimate

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-2017.

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
- 100% of current active Town members will elect medical coverage at retirement

The long-term expected rate of returns on OPEB Plan investments were determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 OPEB Plan's target asset allocation as of June 30, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Allocation</u>	<u>Long-term Expected Rate of Return</u>
Cash equivalents	100.0%	0.41%

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

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

Net OPEB Liability *(Continued)*

Discount rate - The discount rate used to measure the total OPEB liability was 2.21%. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rates and that the Town's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the OPEB 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 rates of return on the OPEB Plan's investments were applied to all periods of projected benefit payments to determine the OPEB Plan's total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.21%) or 1-percentage-point higher (3.21%) than the current discount rate:

	1% Decrease (1.21%)	Current Discount (2.21%)	1% Increase (3.21%)
Net OPEB Liability	\$ 2,720,820	\$ 2,348,114	\$ 2,045,285

Sensitivity of the Net OPEB liability to Changes in the Healthcare Cost Trend Rates - The following presents the net OPEB liability of the Town, as well as what the Town's net 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:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
Net OPEB Liability	\$ 1,974,957	\$ 2,348,114	\$ 2,830,381

OPEB Plan Financial Statements

The following presents the statements of fiduciary net position and the statement of changes in fiduciary net position for the Town's OPEB Plan as of and for the year ended June 30, 2020.

	Other Post-Employment Benefit Plan
ASSETS	
Cash and cash equivalents	\$ 70,000
Total assets	<u>70,000</u>
NET POSITION	
Restricted for OPEB benefits	<u><u>\$ 70,000</u></u>

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

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

OPEB Plan Financial Statements *(Continued)*

	Other Post-Employment Benefit Plan
ADDITIONS	
Contributions:	
Employer	\$ 70,000
Total additions	<u>70,000</u>
Change in net position	70,000
Net position - beginning	<u>-</u>
Net position - ending	<u><u>\$ 70,000</u></u>

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2020, the Town recognized OPEB expense of \$153,621. As of June 30, 2020, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 48,254	\$ (85,518)	\$ (37,264)
Changes of assumptions	<u>570,353</u>	<u>(48,198)</u>	<u>522,155</u>
	<u><u>\$ 618,607</u></u>	<u><u>\$ (133,716)</u></u>	<u><u>\$ 484,891</u></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,	Amortization of OPEB Expense
2021	\$ 50,967
2022	50,967
2023	50,967
2024	50,967
2025	50,967
Thereafter	<u>230,056</u>
	<u><u>\$ 484,891</u></u>

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

Connecticut Teachers' Retirement System

Plan Description

The Connecticut Teachers' Retirement System ("TRS" or the "Plan") is the public pension plan offered by the State of Connecticut (the State) to provide retirement, disability, survivorship and health insurance benefits for Connecticut public school teachers and their beneficiaries. The Plan is governed by Connecticut Statute Title 10, Chapter 167a of the Connecticut General Statutes. TRS is a multiemployer pension plan administered by the Connecticut State Teachers' Retirement Board ("TRB"). The State Treasurer is responsible for investing TRS funds for the exclusive benefit of TRS members.

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with benefits, including retiree health insurance, through the Connecticut Teachers' Retirement System - a cost sharing multi employer defined benefit pension plan administered by the TRB. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the TRB. TRS issues a publicly available financial report that can be obtained at www.ct.gov.

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.

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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

Connecticut Teachers' Retirement System *(Continued)*

Contributions

State of Connecticut - Per Connecticut General Statutes Section 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 an annual appropriation in the General Fund.

Employers - School District employers are not required to make contributions to the Plan.

Employees/Retirees - 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.

Administrative Expenses

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

Basis of Presentation

The components associated with the other postemployment benefits (OPEB) expense and deferred inflows and outflows of resources have been determined using the unrecognized portions of each year's experience and assumption changes as audited by the State of Connecticut Auditors of Public Accounts as part of the State of Connecticut Comprehensive Annual Financial Report as of and for the year ended June 30, 2019. The net OPEB liability at June 30, 2019 has been calculated using the audited amounts. 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. The State of Connecticut's Comprehensive Annual Financial Report can be obtained at www.ct.gov.

The accounting standards require participating employers to recognize their proportional share of the collective net OPEB liability, deferred outflows and inflows of resources and OPEB expense. Contributions remitted by the State are recognized when legally due, based upon statutory requirements.

Allocation Methodology

The allocations for participating employers are based on the expected contribution effort as measured June 30, 2018, the date of the latest biennial valuation. The allocations for participating employers are based on the expected contribution effort as measured June 30, 2018, the date of the latest biennial valuation. The liabilities of the June 30, 2018 actuarial valuation were rolled forward to the measurement date of June 30, 2019. The employer allocations were then applied to the net OPEB liability and OPEB expense to determine the amount applicable to each employer. Based upon the employee contributions made by the employees of each employer, as compared to the total employee contributions, an employer allocation percentage is calculated to six decimal places and is used to allocate the elements noted above. The employer allocation applied to Town totaled 0.053% as of the most recent measurement date.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

Connecticut Teachers' Retirement System *(Continued)*

Collective Net OPEB Liability

The following summarizes the collective net OPEB liability of the State for the TRS as of June 30, 2019, the measurement date, in addition to the Town's and State's proportionate shares of the collective net OPEB liability that is attributed to the Town:

Collective Net OPEB Liability of the State for the TRS		<u>\$ 2,662,587,000</u>
	<u>Proportion</u>	<u>Proportionate Share</u>
Town's proportionate share of the Collective Net OPEB Liability	0.000%	<u>\$ -</u>
State's proportionate share of the Collective Net OPEB Liability attributed to the Town	0.053%	<u>\$ 1,409,000</u>

Collective OPEB Expense

The Town's expected contribution effort for allocation purposes totaled \$18,695 or 0.053% 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 in the General Fund for the year ended June 30, 2020.

The collective OPEB expense includes certain current period changes in the collective net OPEB liability, projected earnings on OPEB plan investments and the amortization of deferred outflows of resources and deferred inflows of resources for the current period. The portion of the collective OPEB expense attributed to the Town totaled a negative \$(103,128) or 0.053% of the total collective OPEB expense and has been recognized as a reduction in operating contributions and related education expenses in the statement of activities for the year ended June 30, 2020.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Real Wage Growth	0.75%
Wage Inflation	3.25%
Salary increases	3.25% - 6.50%, including inflation
Investment rate of return	3.00%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates:	
Pre-Medicare	5.95% for 2018 decreasing to an ultimate rate of 4.75% by 2025
Medicare	5.00% for 2018 decreasing to an ultimate rate of 4.75% by 2028

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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

Connecticut Teachers' Retirement System *(Continued)*

Actuarial Assumptions *(Continued)*

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:

Asset Class	Target Allocation	Expected 10-Year Geometric Real Rate of Return	Standard Deviation
U.S. Treasuries (Cash Equivalents)	100.0%	0.41%	2.31%

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50%. 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, 2018.

In addition to the actuarial methods and assumptions of the June 30, 2018 actuarial valuation, the following actuarial methods and assumptions were used in the projection of cash flows:

- 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.

Based on those assumptions, the Plan's fiduciary net position was projected to be depleted in 2019 and, as a result, the Municipal Bond Index Rate of 3.87% was used in the determination of the single equivalent rate.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 12 - 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 \$14,774 for the year ended June 30, 2020. 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 13 - 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, 2020, the Town has recorded \$125,973 in encumbrances. Such encumbrances have been included in assigned fund balance in the accompanying balance sheet of governmental funds as of June 30, 2020.

NOTE 14 - RISK MANAGEMENT AND UNCERTAINTIES

Risk Management

The Town is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees or acts of God. The Town purchases commercial insurance for all risks of loss except workers' compensation and liability-automobile-property insurance for which it participates in risk sharing pools. During the year ended June 30, 2020, deductibles paid by the Town were insignificant. Neither the Town nor its insurers have settled any claims that exceeded the Town's insurance coverage during the past three years. In addition, there have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

The Town is a member of the Connecticut Interlocal Risk Management Agency (CIRMA), an unincorporated association of Connecticut local public agencies that was formed in 1980 by the Connecticut Conference of Municipalities for the purpose of establishing and administering an interlocal risk management program.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 14 - RISK MANAGEMENT AND UNCERTAINTIES *(Continued)*

Risk Management *(Continued)*

Workers' Compensation Pool

The Town is a member of CIRMA's Workers' Compensation Pool, a risk-sharing pool. The Workers' Compensation Pool provides statutory benefits pursuant to the provisions of the Connecticut Workers' Compensation Act. The coverage is subject to an incurred loss retrospective rating plan, and losses incurred in the coverage period will be evaluated at 18, 30 and 42 months after the effective date of coverage. The premium is subject to payroll audit at the close of the coverage period. CIRMA's Workers' Compensation Pool retains \$1,000,000 per occurrence.

Liability-Automobile-Property Pool

The Town is a member of CIRMA's Liability-Automobile-Property Pool, a risk-sharing pool. The Liability-Automobile-Property Pool provides general liability, automobile liability, employee benefit liability, law enforcement liability, public officials and property coverage. The premium is subject to these coverages, and claims and expense payments falling within the deductible amounts are the responsibility of the Town. CIRMA's Liability-Automobile-Property Pool retains \$1,000,000 per occurrence for each line of liability coverage.

Medical Health Insurance Fund

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 \$33,670 as of June 30, 2020.

Uncertainties - Pandemic

In early March 2020, there was a global outbreak of COVID-19 that was declared a Public Health Emergency of International Concern by the World Health Organization and was subsequently declared a state of emergency by the Governor of Connecticut and a national emergency by the President of the United States. The outbreak of the virus has affected travel, commerce and financial markets globally, and is widely expected to affect economic growth worldwide.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 14 - RISK MANAGEMENT AND UNCERTAINTIES *(Continued)*

Uncertainties - Pandemic *(Continued)*

On March 27, 2020, the United States Congress enacted the Coronavirus Aid, Relief, and Economic Stabilization Act (the "CARES Act") that provides in excess of \$2 trillion of relief to industries and entities throughout the country, including state and local governments. On March 28, 2020, the President of the United States approved the Governor of Connecticut's request for a disaster declaration for the State. On April 24, 2020, the United States Congress enacted legislation that provided an additional \$484 billion to replenish a small business loan program, support hospitals and expand COVID-19 testing.

The Town has received and continues to apply for additional funding from federal and state agencies to assist in covering certain costs associated with the response to the pandemic. However, the extent to which COVID-19 will impact the Town's tax base, operations and its financial condition will ultimately depend on future developments that are uncertain and cannot be fully predicted with confidence at this time.

NOTE 15 - IMPACT OF NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

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. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2020, which reflects the one year postponement pursuant to GASB Statement No. 95 issued in May 2020. The Town is currently evaluating the potential impact of adopting this Statement on its financial statements.

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, 2021, which reflects the eighteen month postponement pursuant to GASB Statement No. 95 issued in May 2020. 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, 2021, which reflects the one year postponement pursuant to GASB Statement No. 95 issued in May 2020. The Town does not expect this statement to have a material effect on its financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61*. The objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2020, which reflects the one year postponement pursuant to GASB Statement No. 95 issued in May 2020. The Town does not expect this statement to have a material effect on its financial statements.

TOWN OF ESSEX, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 15 - IMPACT OF NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE *(Continued)*

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2022, which reflects the one year postponement pursuant to GASB Statement No. 95 issued in May 2020. The Town does not expect this statement to have a material effect on its financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and the requirements of this statement are effective for the Town's reporting period beginning July 1, 2021, which reflects the one year postponement pursuant to GASB Statement No. 95 issued in May 2020. The Town does not expect this statement to have a material effect on its financial statements.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)— most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2020. The Town does not expect this statement to have a material effect on its financial statements.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this statement are effective for the Town's reporting period beginning July 1, 2022. The Town does not expect this statement to have a material effect on its financial statements.

In May 2020, the GASB issued Statement 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this statement are effective for the Town's reporting period beginning July 1, 2022. The Town does not expect this statement to have a material effect on its financial statements.

In June 2020, the GASB issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statement No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2021. The Town is currently evaluating the potential impact of adopting this Statement on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF ESSEX, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020

	Budgeted Amounts			Variance With Final Budget Over (Under)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 22,996,179	\$ 22,996,179	\$ 23,232,130	\$ 235,951
Intergovernmental	449,402	449,402	452,639	3,237
Local	574,700	574,700	837,770	263,070
Interest	75,000	75,000	87,515	12,515
Total revenues	<u>24,095,281</u>	<u>24,095,281</u>	<u>24,610,054</u>	<u>514,773</u>
EXPENDITURES				
Board of Selectmen	8,396,635	8,573,813	8,377,276	(196,537)
Education	<u>15,798,515</u>	<u>15,798,515</u>	<u>15,507,785</u>	<u>(290,730)</u>
Total expenditures	<u>24,195,150</u>	<u>24,372,328</u>	<u>23,885,061</u>	<u>(487,267)</u>
Excess (deficiency) of revenues over expenditures	(99,869)	(277,047)	724,993	1,002,040
OTHER FINANCING SOURCES (USES)				
Appropriation of fund balance	99,869	702,047	-	(702,047)
Appropriations carried forward	<u>-</u>	<u>(425,000)</u>	<u>(425,000)</u>	<u>-</u>
	<u>99,869</u>	<u>277,047</u>	<u>(425,000)</u>	<u>(702,047)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 299,993</u>	<u>\$ 299,993</u>

See accompanying notes to required supplementary information .

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

	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 147,038	\$ 137,763	\$ 135,777	\$ 141,113	\$ 136,340	\$ 131,096	\$ 90,333
Interest	359,112	337,570	319,207	320,641	303,380	264,574	249,910
Differences between expected and actual experience	-	95,581	-	47,123	-	244,339	-
Changes of assumptions	-	9,662	-	(53,428)	-	65,695	-
Benefit payments, including refunds	(299,123)	(290,903)	(261,724)	(238,722)	(190,820)	(196,259)	(175,009)
Net change in total pension liability	207,027	289,673	193,260	216,727	248,900	509,445	165,234
Total pension liability - beginning	4,950,962	4,661,289	4,468,029	4,251,302	4,002,402	3,492,957	3,327,723
Total pension liability - ending	5,157,989	4,950,962	4,661,289	4,468,029	4,251,302	4,002,402	3,492,957
Plan fiduciary net position							
Contributions - employer	268,122	244,807	239,716	246,332	231,680	219,040	229,403
Net investment income	149,206	246,776	273,450	425,897	(50,972)	170,109	374,159
Benefit payments, including refunds	(299,123)	(290,903)	(261,724)	(238,722)	(190,820)	(196,259)	(175,009)
Administrative expense	(1,933)	(5,267)	(9,163)	(5,167)	-	(10,984)	(11,823)
Net change in plan fiduciary net position	116,272	195,413	242,279	428,340	(10,112)	181,906	416,730
Plan fiduciary net position - beginning	3,787,098	3,591,685	3,349,406	2,921,066	2,931,178	2,749,272	2,332,542
Plan fiduciary net position - ending	3,903,370	3,787,098	3,591,685	3,349,406	2,921,066	2,931,178	2,749,272
Town's net pension liability	<u>\$ 1,254,619</u>	<u>\$ 1,163,864</u>	<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	75.68%	76.49%	77.05%	74.96%	68.71%	73.24%	78.71%
Covered payroll	\$ 1,954,292	\$ 1,904,768	\$ 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 payroll	64.20%	61.10%	55.99%	60.75%	73.37%	61.45%	63.09%

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

See accompanying notes to required supplementary information.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 268,122	\$ 244,807	\$ 239,716	\$ 235,969	\$ 230,516	\$ 179,006	\$ 174,839
Contributions in relation to the actuarially determined contribution	<u>268,122</u>	<u>244,807</u>	<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>\$ -</u>	<u>\$ -</u>	<u>\$ (10,363)</u>	<u>\$ (1,164)</u>	<u>\$ (40,034)</u>	<u>\$ (54,564)</u>
Covered payroll	\$ 1,954,292	\$ 1,904,768	\$ 1,910,347	\$ 1,841,298	\$ 1,813,057	\$ 1,743,324	\$ 1,178,755
Contributions as a percentage of covered payroll	13.72%	12.85%	12.55%	13.38%	12.78%	12.56%	19.46%
Annual money-weighted rate of return, net of investment expense	3.68%	6.79%	8.17%	14.63%	-1.71%	6.06%	15.72%

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

See accompanying notes to required supplementary information.

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

	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 17,695	\$ 15,904	\$ 15,904	\$ 15,499	\$ 15,499	\$ 15,499	\$ 32,446
Interest	108,291	105,594	99,568	104,572	101,719	93,835	92,015
Differences between expected and actual experience	-	30,657	-	(4,767)	-	73,132	-
Changes of assumptions	-	9,544	-	2,880	-	7,574	-
Benefit payments, including refunds	(99,541)	(100,596)	(82,164)	(79,183)	(79,183)	(90,423)	(76,336)
Net change in total pension liability	26,445	61,103	33,308	39,001	38,035	99,617	48,125
Total pension liability - beginning	1,551,086	1,489,983	1,456,675	1,417,674	1,379,639	1,280,022	1,231,897
Total pension liability - ending	1,577,531	1,551,086	1,489,983	1,456,675	1,417,674	1,379,639	1,280,022
Plan fiduciary net position							
Contributions - employer	116,872	119,366	118,916	118,378	67,899	84,999	75,741
Net investment income	41,639	72,844	78,013	113,036	(15,570)	47,264	108,825
Benefit payments, including refunds	(99,541)	(100,596)	(82,164)	(79,183)	(79,183)	(90,423)	(76,335)
Administrative expense	(1,934)	(5,266)	(9,401)	(6,384)	(1,258)	(7,555)	(5,714)
Net change in plan fiduciary net position	57,036	86,348	105,364	145,847	(28,112)	34,285	102,517
Plan fiduciary net position - beginning	1,129,670	1,043,322	937,958	792,111	820,223	785,938	683,421
Plan fiduciary net position - ending	1,186,706	1,129,670	1,043,322	937,958	792,111	820,223	785,938
Town's net pension liability	\$ 390,825	\$ 421,416	\$ 446,661	\$ 518,717	\$ 625,563	\$ 559,416	\$ 494,084
Plan fiduciary net position as a percentage of total pension liability	75.23%	72.83%	70.02%	64.39%	55.87%	59.45%	61.40%
Covered employee payroll	Not applicable	Not applicable	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	Not applicable	Not applicable

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

See accompanying notes to required supplementary information.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 66,872	\$ 69,366	\$ 68,916	\$ 68,378	\$ 67,899	\$ 60,756	\$ 59,726
Contributions in relation to the actuarially determined contribution	<u>116,872</u>	<u>119,366</u>	<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>\$ (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	Not applicable	Not applicable
Contributions as a percentage of covered employee payroll	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Annual money-weighted rate of return, net of investment expense	3.56%	6.77%	8.00%	14.24%	-1.88%	5.90%	15.79%

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

See accompanying notes to required supplementary information.

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

	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 62,332	\$ 55,627	\$ 54,825	\$ 51,698	\$ 49,949	\$ 48,028	\$ 35,294
Interest	134,101	135,461	137,032	121,047	117,813	95,417	91,312
Differences between expected and actual experience	-	23,076	-	123,832	-	278,987	-
Changes of assumptions	-	16,026	-	28,016	-	(19,695)	-
Benefit payments, including refunds	(134,016)	(134,016)	(135,755)	(126,384)	(126,384)	(86,433)	(82,829)
Net change in total pension liability	62,417	96,174	56,102	198,209	41,378	316,304	43,777
Total pension liability - beginning	1,974,811	1,878,637	1,822,535	1,624,326	1,582,948	1,266,644	1,222,867
Total pension liability - ending	2,037,228	1,974,811	1,878,637	1,822,535	1,624,326	1,582,948	1,266,644
Plan fiduciary net position							
Contributions - employer	369,642	300,859	249,087	225,535	123,060	71,977	70,872
Contributions - members	8,420	8,338	8,015	3,279	5,102	6,542	6,985
Net investment income	47,460	78,109	76,678	86,911	(10,525)	36,624	85,628
Benefit payments, including refunds	(134,016)	(134,016)	(135,755)	(126,384)	(126,384)	(86,433)	(82,829)
Administrative expense	(1,933)	(5,267)	(8,353)	(7,167)	(402)	(5,426)	(4,481)
Net change in plan fiduciary net position	289,573	248,023	189,672	182,174	(9,149)	23,284	76,175
Plan fiduciary net position - beginning	1,254,570	1,006,547	816,875	634,701	643,850	620,566	544,391
Plan fiduciary net position - ending	1,544,143	1,254,570	1,006,547	816,875	634,701	643,850	620,566
Town's net pension liability	<u>\$ 493,085</u>	<u>\$ 720,241</u>	<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	75.80%	63.53%	53.58%	44.82%	39.07%	40.67%	48.99%
Covered payroll	\$ 268,597	\$ 261,790	\$ 235,591	\$ 227,076	\$ 261,743	\$ 251,676	\$ 264,484
Town's net pension liability as a percentage of covered payroll	183.58%	275.12%	370.17%	442.87%	378.09%	373.14%	243.36%

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

See accompanying notes to required supplementary information.

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

	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 144,642	\$ 150,859	\$ 149,087	\$ 124,744	\$ 123,060	\$ 58,426	\$ 57,942
Contributions in relation to the actuarially determined contribution	369,642	300,859	249,087	225,535	123,060	71,977	70,872
Contribution deficiency (excess)	<u>\$ (225,000)</u>	<u>\$ (150,000)</u>	<u>\$ (100,000)</u>	<u>\$ (100,791)</u>	<u>\$ -</u>	<u>\$ (13,551)</u>	<u>\$ (12,930)</u>
Covered payroll	\$ 268,597	\$ 261,790	\$ 235,591	\$ 227,076	\$ 261,743	\$ 251,676	\$ 265,484
Contributions as a percentage of covered payroll	137.62%	114.92%	105.73%	99.32%	47.02%	28.60%	26.70%
Annual money-weighted rate of return, net of investment expense	3.72%	6.81%	7.95%	13.49%	-1.57%	5.80%	15.64%

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

See accompanying notes to required supplementary information.

TOWN OF ESSEX, CONNECTICUT
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM (UNAUDITED)
LAST TWO FISCAL YEARS*

	<u>2020</u>	<u>2019</u>
Town's proportion of the net pension liability	0.020%	0.029%
Town's proportionate share of the net pension liability	<u>\$ 72,609</u>	<u>\$ 110,986</u>
Town's covered payroll	\$ 50,575	\$ 81,683
Town's proportionate share of the net pension liability as a percentage of its covered employee payroll	143.6%	135.9%
Plan fiduciary net position as a percentage of the total pension liability	72.69%	73.60%

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

TOWN OF ESSEX, CONNECTICUT
SCHEDULE OF CONTRIBUTIONS
CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM (UNAUDITED)
LAST TWO FISCAL YEARS*

	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 6,156	\$ 8,718
Contributions in relation to the contractually required contribution	<u>6,156</u>	<u>8,718</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Covered payroll	\$ 50,575	\$ 81,683
Contributions as a percentage of covered payroll	12.17%	10.67%

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

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

	2020	2019	2018	2017	2016	2015
Town's proportion of the collective net pension liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Town's proportionate share of the collective net pension liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the collective net pension liability attributed to the Town	9,037,000	6,968,000	7,611,000	7,977,000	7,112,000	6,574,000
Total	<u>\$ 9,037,000</u>	<u>\$ 6,968,000</u>	<u>\$ 7,611,000</u>	<u>\$ 7,977,000</u>	<u>\$ 7,112,000</u>	<u>\$ 6,574,000</u>
Town's covered payroll	\$ 2,324,000	\$ 2,287,000	\$ 2,397,000	\$ 2,310,000	\$ 2,651,000	\$ 2,555,000
Town's proportionate share of the collective net pension liability as a percentage of its covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total collective pension liability	52.00%	57.69%	55.93%	52.26%	59.50%	61.51%

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

See accompanying notes to required supplementary information.

TOWN OF ESSEX, CONNECTICUT
SCHEDULES OF CHANGES IN NET OPEB LIABILITY
OTHER POST-EMPLOYMENT BENEFIT PLAN (UNAUDITED)
LAST THREE FISCAL YEARS*

	2020**	2019	2018
Total OPEB Liability			
Service Cost	\$ 45,957	\$ 47,184	\$ 47,848
Interest	71,217	66,689	60,010
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(42,569)	(57,382)	67,055
Changes of assumptions	383,853	271,540	(66,975)
Benefit payments, including refunds	(46,365)	3,859	(123,345)
Net change in total OPEB liability	412,093	331,890	(15,407)
Total OPEB liability - beginning	2,006,021	1,674,131	1,689,538
Total OPEB liability - ending	<u>\$ 2,418,114</u>	<u>\$ 2,006,021</u>	<u>\$ 1,674,131</u>
Plan fiduciary net position			
Contributions - employer	70,000	-	-
Contributions - members	-	-	-
Net investment income	-	-	-
Benefit payments, including refunds	-	-	-
Administrative expense	-	-	-
Net change in plan fiduciary net position	70,000	-	-
Plan fiduciary net position - beginning	-	-	-
Plan fiduciary net position - ending	<u>70,000</u>	<u>-</u>	<u>-</u>
Town's net OPEB liability	<u>\$ 2,348,114</u>	<u>\$ -</u>	<u>\$ -</u>
Plan fiduciary net position as a percentage of total OPEB liability	2.89%	-	-
Covered employee payroll	\$ 5,230,662	\$ 5,098,111	\$ 4,968,919
Town's net OPEB liability as a percentage of covered employee payroll	44.89%	-	-

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

**OPEB Trust established during fiscal year 2020.

TOWN OF ESSEX, CONNECTICUT
SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS
OTHER POST-EMPLOYMENT BENEFIT PLAN (UNAUDITED)
LAST FISCAL YEAR*

	<u>2020 **</u>
Actuarially determined contribution	\$ 129,683
Contributions in relation to the actuarially determined contribution	<u>70,000</u>
Excess (deficiency) of contribution	<u><u>\$ (59,683)</u></u>
Covered payroll	\$ 5,230,662
Contributions as a percentage of covered payroll	1.34%
Annual money-weighted rate of return, net of investment expense	0.0%

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

**OPEB Trust established during fiscal year 2020.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Town's proportion of the collective net OPEB liability	0.00%	0.00%	0.00%
Town's proportionate share of the collective net OPEB liability	\$ -	\$ -	\$ -
State's proportionate share of the collective net OPEB liability attributed to the Town	<u>\$ 1,409,000</u>	<u>1,393,000</u>	<u>1,959,000</u>
Total	<u><u>\$ 1,409,000</u></u>	<u><u>\$ 1,393,000</u></u>	<u><u>\$ 1,959,000</u></u>
Town's covered employee payroll	\$ 2,324,000	\$ 2,287,000	\$ 2,397,000
Town's proportionate share of the collective net OPEB liability as a percentage of its covered employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total collective OPEB liability	2.08%	1.49%	1.79%

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

TOWN OF ESSEX, CONNECTICUT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

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 State Statutes.

- 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.
- 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, 2020

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, 2020:

	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Net Change In Fund Balance</u>
Budgetary basis	\$ 24,610,054	\$ 23,885,061	\$ (425,000)	\$ 299,993
On-behalf payments - State Teachers' Retirement System	702,716	702,716	-	-
Change in encumbrances	-	100,357	-	(100,357)
Reserve for capital improvements	-	8,715	-	(8,715)
Reserve for revaluation	-	-	15,000	15,000
Use of restricted fund balance for debt service	-	67,669	-	(67,669)
Appropriations carried forward	-	350,000	425,000	75,000
Reimbursement for certain revenues recorded as a reduction to expenditures for budgetary purposes	38,305	38,305	-	-
Certain transfers recorded as expenditures for budgetary purposes	-	(465,888)	(465,888)	-
GAAP basis	<u>\$ 25,351,075</u>	<u>\$ 24,686,935</u>	<u>\$ (450,888)</u>	<u>\$ 213,252</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, 2018. The July 1, 2018 Actuarial Valuation directly calculated the July 1, 2018 Total Pension Liability (TPL). The July 1, 2018 TPL was increased by service cost and interest and decreased by benefit payments to estimate the TPL as of June 30, 2020. The TPL as of June 30, 2019 was also adjusted to reflect any material plan changes after the valuation, if applicable.

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 assumption changes 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, 2020

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 2020 are as follows:

Actuarial cost method:	Entry age normal actuarial cost method
Amortization method:	Level percent of payroll
Remaining amortization period:	16 years, closed
Asset valuation method:	Market value
Investment rate of return:	7.125%
Salary increases:	2.60% plus merit increases
Retirement age:	Age 65 and 5 years of service

Mortality RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2017.

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, 2018. The July 1, 2018 Actuarial Valuation directly calculated the July 1, 2018 Total Pension Liability (TPL). The July 1, 2018 TPL was increased by service cost and interest and decreased by benefit payments to estimate the TPL as of June 30, 2020. The TPL as of June 30, 2020 was also adjusted to reflect any material plan changes after the valuation, if applicable.

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 assumption changes 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, 2020

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 2020 are as follows:

Actuarial cost method:	Entry age normal actuarial cost method
Amortization method:	Level percent of payroll
Remaining amortization period:	16 years, closed
Asset valuation method:	Market value
Investment rate of return:	7.125%
Inflation:	2.60%
Retirement age:	Age 65 and 10 years of service

RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2017.

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, 2018. The July 1, 2018 Actuarial Valuation directly calculated the July 1, 2018 Total Pension Liability (TPL). The July 1, 2018 TPL was increased by service cost and interest and decreased by benefit payments to estimate the TPL as of June 30, 2019. The TPL as of June 30, 2019 was also adjusted to reflect any material plan changes after the valuation, if applicable.

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 assumption changes 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.

TOWN OF ESSEX, CONNECTICUT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 7 - SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS - POLICE RETIREMENT 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 2020 are as follows:

Actuarial cost method:	Entry age normal actuarial cost method
Amortization method:	Level percent of payroll
Remaining amortization period:	16 years, closed
Asset valuation method:	Market value
Investment rate of return:	7.125%
Salary increases:	Inflation of 2.60% plus merit increases
Retirement age:	Age 60 and 5 years of service

For Retirees, Mortality RP-2014 Adjusted to 2006 Blue Collar Mortality Table projected to valuation date with Scale MP-2017. For Survivors, RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2017.

NOTE 8 - SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

The Town began to report this schedule in fiscal year 2019. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* 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, 2018. This information is utilized by the Town for reporting as of June 30, 2020.

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 collective total pension liability.

NOTE 9 - SCHEDULE OF CONTRIBUTIONS - CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

The Town began to report the schedule of contributions and investment returns in fiscal year 2019. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* requires the information within this schedule to be presented for the ten most recent fiscal years.

Actuarially determined contribution rates are calculated as of June 30, 2018, 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, 2020

NOTE 9 - SCHEDULE OF CONTRIBUTIONS - CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
(Continued)

Methods and Assumptions Utilized

- Actuarial cost method: Entry Age Actuarial Cost Method;
- Amortization method: Level dollar, closed;
- Remaining amortization period: 21 years;
- Asset valuation method: Smoothed market with 20% recognition of investment gains and losses;
- Inflation: 3.25%;
- Investment rate of return: 7.00%, net of investment related expenses;
- Salary increases: Varies 3.50% to 10.00%;
- Cost of living adjustments: 2.50% for those retiring on or after January 1, 2002, for retirements prior to January 1, 2002 2.50% up to age 65, 3.25% afterwards;
- Social Security Wage Base: 3.00%;
- Mortality rates - For the period after retirement and for dependent beneficiaries, mortality rates were based on the RP-2014 Combined Mortality Table adjusted to 2006 and projected to 2015 with Scale MP-2017 and projected to 2022 with Scale BB for General Employees and the RP-2014 Blue Collar Mortality Table adjusted to 2006 and projected to 2015 with Scale MP-2017 and projected to 2022 with Scale BB for Police and Fire. For disabled retirees, the RP-2014 Disabled Mortality Table projected with Scale BB to 2020 was used. The static projection produces sufficient margin in the mortality rates to reflect future improvement in our judgement; and
- Future Cost-of-Living adjustments for members who retire on or after January 1, 2002 are 60% of the annual increase in the CPI up to 6%. The minimum annual COLA is 2.5%; the maximum is 6%.

NOTE 10 - SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CONNECTICUT 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. Information prior to fiscal year 2015 is not available. Actuarial valuations are prepared every two years with the most recent available actuarial valuation performed as of June 30, 2018. This information is utilized by the Town for reporting as of June 30, 2020, using a measurement date of June 30, 2019.

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 assumption changes had a significant effect on the measurement of the total pension liability.

- the inflation assumption was reduced from 2.75% to 2.50%;
- the real rate of return assumption was reduced from 5.25% to 4.40%, which when combined with the inflation assumption change, results in a decrease in the investment rate of return assumption from 8.00% to 6.90%; and
- the annual rate of wage increase assumption was increased from 0.50% to 0.75%.

TOWN OF ESSEX, CONNECTICUT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) *(Continued)*
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

NOTE 11 - SCHEDULE OF CHANGES IN THE TOWN'S NET OPEB LIABILITY - OTHER POST-EMPLOYMENT BENEFITS PLAN

The Town began to report this schedule when established an OPEB Trust in fiscal year 2020 and subsequently implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 74 requires the information within this schedule to be presented for the ten most recent fiscal years. Additional years' information will be displayed as it becomes available. Actuarial valuations are prepared every two years with the most recent available actuarial valuation performed as of July 1, 2018. The July 1, 2018 was utilized to calculate the total OPEB liability as of July 1, 2018, which was rolled forward to the most recent measurement date of June 30, 2020.

Benefit Changes - There have been no benefit term changes that have had a significant effect on the measurement of the Town's total OPEB liability.

Assumption Changes - The following assumption changes collectively had a significant effect on the measurement of the total pension liability.

- The discount rate was decreased from 3.51% as of July 1, 2016 to 2.21 % as of July 1, 2018;
- The rate of compensation increase, including inflation, for the Board of Education was decreased from 3.75% as of July 1, 2016 to 3.60 as of July 1, 2018;
- The rate of compensation increase, including inflation, for the Town was decreased from 7.75% initial, 3.25% ultimate as of July 1, 2016 to 7.60% initial, 3.10% ultimate as of July 1, 2018;
- The inflation assumption was decreased from 2.75% as of July 1, 2016 to 2.60% as of July 1, 2018. This assumption is consistent with the Social Security Administration's current best estimate of the ultimate long-term (75-year horizon) annual percentage increase in CPI, as published in the 2018 OASDI Trustees Report. The assumption was changed to better reflect expected experience; and
- The mortality and mortality improvement projection scales were updated from MP-2016 to MP-2017.

NOTE 12 - SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY - CONNECTICUT 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, 2018. This information is utilized by the Town for reporting as of June 30, 2020, using a measurement date of June 30, 2019.

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 following assumption changes collectively had a significant effect on the measurement of the net OPEB liability reported as of June 30, 2019:

- The discount rate used to measure plan obligations for financial accounting purposes as of June 30, 2019 was updated to equal the Municipal Bond Index Rate of 3.50% as of June 30, 2019;
- Expected annual per capita claims costs were updated to better reflect anticipated medical and prescription drug claim experience both before and after the plan change that became effective on January 1, 2019; and
- The expected rate of inflation was decreased and the Real Wage Growth assumption was increased.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

GENERAL FUND

TOWN OF ESSEX, CONNECTICUT
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Budgeted Amounts			Variance With Final Budget Over (Under)
	Original	Final	Actual	
PROPERTY TAXES				
Property taxes	\$ 22,946,179	\$ 22,946,179	\$ 23,115,276	\$ 169,097
Interest and lien fees	50,000	50,000	116,854	66,854
Total property taxes	22,996,179	22,996,179	23,232,130	235,951
INTERGOVERNMENTAL				
Veterans tax relief	3,962	3,962	-	(3,962)
State education grants	101,966	101,966	103,927	1,961
Town Aid Road Fund grant	214,693	214,693	214,767	74
LOCIP	40,493	40,493	40,765	272
Grants in lieu of taxes	10,393	10,393	10,393	-
Homeowners tax relief	-	-	3,258	3,258
Municipal Grant-In-Aid	74,547	74,547	74,547	-
Other State and Federal grants	3,348	3,348	4,982	1,634
Total intergovernmental	449,402	449,402	452,639	3,237
LOCAL REVENUES				
Miscellaneous permits	3,500	3,500	3,381	(119)
Access line tax share	25,000	25,000	19,670	(5,330)
Landfill fees	80,000	80,000	83,881	3,881
Building permits	125,000	125,000	212,828	87,828
Circuit court fines	4,000	4,000	1,866	(2,134)
Zoning permits	7,100	7,100	14,738	7,638
Zoning Board of Appeals	2,160	2,160	3,549	1,389
Planning Commission	2,500	2,500	-	(2,500)
Conveyance tax	110,000	110,000	172,624	62,624
Park and Recreation Fees	4,500	4,500	-	(4,500)
Miscellaneous receipts	25,000	25,000	30,305	5,305
Town clerk fees	115,000	115,000	162,691	47,691
Inland wetlands permits	1,440	1,440	2,480	1,040
Regional recycling fees	62,000	62,000	66,655	4,655
Health department fees	7,500	7,500	9,642	2,142
Local PILOT	-	-	53,460	53,460
Total local revenues	574,700	574,700	837,770	263,070
INTEREST INCOME	75,000	75,000	87,515	12,515
Total revenues	24,095,281	24,095,281	24,610,054	514,773
OTHER FINANCING SOURCES				
Appropriation of fund balance	99,869	702,047	-	(702,047)
Total revenues and other financing sources	\$ 24,195,150	\$ 24,797,328	\$ 24,610,054	\$ (187,274)

TOWN OF ESSEX, CONNECTICUT
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Budgeted Amounts			Variance With Final Budget Over (Under)
	Original	Final	Actual	
BOARD OF SELECTMEN				
GENERAL GOVERNMENT				
Selectmen	\$ 218,070	\$ 218,070	\$ 150,225	\$ (67,845)
Assessor	121,278	121,278	119,837	(1,441)
Central Services	221,388	237,109	237,109	-
Elections	46,071	46,971	34,942	(12,029)
Probate court	3,460	3,460	3,460	-
Tax Collector	118,450	118,450	116,669	(1,781)
Town Clerk	175,252	216,937	216,937	-
Finance	188,507	212,066	212,066	-
Zoning Enforcement Agent	72,834	72,834	70,416	(2,418)
Fringe Benefits	1,037,117	1,098,963	1,098,963	-
General Insurance	185,414	185,414	156,813	(28,601)
Legal Services	78,500	82,428	82,428	-
Public Restroom Facilities	18,750	18,750	16,557	(2,193)
Technology	222,942	233,911	233,911	-
Board of Assessment Appeals	1,430	1,430	807	(623)
Board of Finance	110,500	56,676	34,189	(22,487)
Conservation Commission	13,250	13,250	13,048	(202)
Economic Development Commission	14,100	14,100	9,552	(4,548)
IWWC Commission	6,540	6,540	5,778	(762)
Land Use - Administrative	107,835	107,835	105,171	(2,664)
Parks and Recreation	187,362	187,362	182,659	(4,703)
Parks and Recreation Commission	1,100	1,100	283	(817)
Planning Commission	64,110	66,290	66,290	-
Tree Committee	7,000	7,000	6,967	(33)
Zoning Board of Appeals	5,450	5,861	5,861	-
Zoning Commission	7,110	12,259	12,259	-
Total general government	3,233,820	3,346,344	3,193,197	(153,147)
PUBLIC SAFETY				
Ambulance Association	18,700	18,700	18,343	(357)
Animal Control	10,000	10,000	10,000	-
Building Department	80,171	80,191	80,191	-
Emergency Management	21,400	21,400	17,543	(3,857)
Emergency 911	120,088	120,761	120,761	-
Fire Department	370,612	370,612	364,112	(6,500)
Fire Marshal	50,567	50,567	49,580	(987)
Harbor Patrol	25,400	36,051	36,050	(1)
Police Services	395,400	417,986	417,985	(1)
Resident State Trooper	197,660	197,660	175,041	(22,619)
Water	174,220	174,220	170,144	(4,076)
Total public safety	1,464,218	1,498,148	1,459,750	(38,398)

(Continued)

TOWN OF ESSEX, CONNECTICUT
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND (Concluded)
FOR THE YEAR ENDED JUNE 30, 2020

	Budgeted Amounts			Variance With Final Budget Over (Under)
	Original	Final	Actual	
BOARD OF SELECTMEN (Continued)				
HEALTH AND WELFARE				
Estuary Transit	\$ 20,015	\$ 20,015	\$ 20,015	\$ -
Health Department	126,834	129,280	129,279	(1)
Transfer Station	280,420	280,420	278,035	(2,385)
Social Services	106,904	106,904	106,373	(531)
Visiting Nurses	66,874	66,874	66,850	(24)
Water Pollution Control	2,600	2,600	549	(2,051)
Total health and welfare	603,647	606,093	601,101	(4,992)
 LIBRARIES	 412,434	 412,434	 412,434	 -
 HIGHWAYS AND TRANSPORTATION	 928,404	 956,682	 956,682	 -
 DEBT SERVICE				
Principal Payments	910,000	910,000	910,000	-
Interest and Fiscal Charges	301,612	301,612	301,612	-
Total debt service	1,211,612	1,211,612	1,211,612	-
 CAPITAL OUTLAYS	 542,500	 542,500	 542,500	 -
Total Board of Selectmen	8,396,635	8,573,813	8,377,276	(196,537)
 EDUCATION	 15,798,515	 15,798,515	 15,507,785	 (290,730)
Total expenditures	24,195,150	24,372,328	23,885,061	(487,267)
 OTHER FINANCING USES				
Appropriations carried forward	-	425,000	425,000	-
Total expenditures and other financing uses	\$ 24,195,150	\$ 24,797,328	\$ 24,310,061	\$ (487,267)
				(Concluded)

TOWN OF ESSEX, CONNECTICUT
SCHEDULE OF PROPERTY TAXES LEVIED, COLLECTED AND OUTSTANDING
FOR THE YEAR ENDED JUNE 30, 2020

Grand List Year	Balance Uncollected June 30, 2019	Current Levy	Lawful Corrections		Transfers to Suspense	Balance To Be Collected	Collections				Balance Uncollected June 30, 2020
			Additions	Deductions			Taxes	Interest	Lien Fees	Total	
2018	\$ -	\$ 23,171,789	\$ 14,601	\$ 52,397	\$ -	\$ 23,133,993	\$ 22,900,463	\$ 45,466	\$ 120	\$ 22,946,049	\$ 233,530
2017	241,498	-	4,978	1,084	-	245,392	126,239	25,817	528	152,584	119,153
2016	122,433	-	4,664	221	36,646	90,230	42,044	16,459	264	58,767	48,186
2015	51,686	-	-	-	-	51,686	18,310	9,785	192	28,287	33,376
2014	32,183	-	-	-	-	32,183	12,694	7,106	144	19,944	19,489
2013	15,061	-	-	-	-	15,061	1,802	1,774	24	3,600	13,259
2012	12,254	-	-	-	-	12,254	2,826	5,471	24	8,321	9,428
2011	7,131	-	-	-	-	7,131	1,845	221	24	2,090	5,286
2010	3,357	-	-	-	-	3,357	-	-	-	-	3,357
2009	3,247	-	-	-	-	3,247	-	-	-	-	3,247
2008	4,990	-	-	-	-	4,990	-	-	-	-	4,990
2007	3,137	-	-	-	-	3,137	-	-	-	-	3,137
	<u>\$ 496,977</u>	<u>\$ 23,171,789</u>	<u>\$ 24,243</u>	<u>\$ 53,702</u>	<u>\$ 36,646</u>	<u>\$ 23,602,661</u>	<u>\$ 23,106,223</u>	<u>\$ 112,099</u>	<u>\$ 1,320</u>	<u>\$ 23,219,642</u>	<u>\$ 496,438</u>

TOWN OF ESSEX, CONNECTICUT
SCHEDULE OF DEBT LIMITATION
CONNECTICUT GENERAL STATUTES, SECTION 7-374(b)
AS OF JUNE 30, 2020

Total cash collections for the year ended
June 30, 2020:

Taxes	\$ 23,106,223
Interest and lien fees	113,419
	<u>23,219,642</u>

Reimbursement for revenue loss:

Tax relief (CGS 12-129d)	4,536
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Base	<u>\$ 23,224,178</u>
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	General Purposes	Schools	Sewers	Urban Renewal	Pension Deficit
Debt limitation:					
2-1/4 times base	\$ 52,254,401	\$ -	\$ -	\$ -	\$ -
4-1/2 times base	-	104,508,801	-	-	-
3-3/4 times base	-	-	87,090,668	-	-
3-1/4 times base	-	-	-	75,478,579	-
3 times base	-	-	-	-	69,672,534
	<u>52,254,401</u>	<u>104,508,801</u>	<u>87,090,668</u>	<u>75,478,579</u>	<u>69,672,534</u>
Total debt limitation					
	<u>52,254,401</u>	<u>104,508,801</u>	<u>87,090,668</u>	<u>75,478,579</u>	<u>69,672,534</u>
Indebtedness:					
Bonds payable	3,994,065	6,660,935	-	-	-
Shared debt - Regional School District No. 4	-	1,734,723 *	-	-	-
Authorized, unissued bonds	1,414,555	-	-	-	-
Total indebtedness	<u>5,408,620</u>	<u>8,395,658</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt limitation in excess of outstanding and authorized debt	<u>\$ 46,845,781</u>	<u>\$ 96,113,143</u>	<u>\$ 87,090,668</u>	<u>\$ 75,478,579</u>	<u>\$ 69,672,534</u>
Total capacity of borrowing (7 times base)	162,569,246				
Total present indebtedness	<u>13,804,278</u>				
Margin for additional borrowing	<u>\$ 148,764,968</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, 2020.

CAPITAL AND NON-RECURRING EXPENDITURES FUND

TOWN OF ESSEX, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BY PROJECT
CAPITAL AND NONRECURRING EXPENDITURES FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Capital and Nonrecurring Expenditures Fund						
	Fire Truck	Truck and Equipment	Constable Cars	Harbor Patrol	Wastewater Study	Parks and Recreation	Veterans Memorial
REVENUES							
Interest	\$ 6,271	\$ 25	\$ 798	\$ 470	\$ 1,113	\$ 1,498	\$ -
EXPENDITURES							
Capital outlays	171,300	-	9,478	-	-	-	-
Excess (deficiency) of revenues over expenditures	(165,029)	25	(8,680)	470	1,113	1,498	-
OTHER FINANCING SOURCES							
Transfers in	180,000	-	15,000	5,000	-	25,000	-
Net change in fund balances	14,971	25	6,320	5,470	1,113	26,498	-
Fund balances - beginning	720,893	2,885	87,311	49,670	129,426	149,207	20
Fund balances - ending	\$ 735,864	\$ 2,910	\$ 93,631	\$ 55,140	\$ 130,539	\$ 175,705	\$ 20

(Continued)

TOWN OF ESSEX, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BY PROJECT
CAPITAL AND NONRECURRING EXPENDITURES FUND *(Continued)*
FOR THE YEAR ENDED JUNE 30, 2020

	Capital and Nonrecurring Expenditures Fund					
	Open Space	Essex Elementary	Local Bridge Replacement	Essex Ambulance	Other Purposes	Total
REVENUES						
Interest	\$ 1,279	\$ 2,572	\$ 1,082	\$ 413	\$ 1,666	\$ 17,187
EXPENDITURES						
Capital outlays	-	53,212	-	-	-	233,990
Excess (deficiency) of revenues over expenditures	1,279	(50,640)	1,082	413	1,666	(216,803)
OTHER FINANCING SOURCES						
Transfers in	20,000	60,000	20,000	10,000	25,000	360,000
Net change in fund balances	21,279	9,360	21,082	10,413	26,666	143,197
Fund balances - beginning	128,848	288,256	105,907	37,953	168,790	1,869,166
Fund balances - ending	<u>\$ 150,127</u>	<u>\$ 297,616</u>	<u>\$ 126,989</u>	<u>\$ 48,366</u>	<u>\$ 195,456</u>	<u>\$ 2,012,363</u>
						<i>(Concluded)</i>

NONMAJOR GOVERNMENTAL FUNDS

TOWN OF ESSEX, CONNECTICUT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2020

	Nonmajor Special Revenue Funds									
	Dog Fund	School Cafeteria Fund	Harbor Commission Fund	Constable Private Duty Fund	Historic Documents Fund	Recreational Programs Fund	Special Grants Fund	CVA Pump Out Boat Fund	Tree Committee Fund	Total
ASSETS										
Cash and cash equivalents	\$ 50,371	\$ 7,492	\$ 35,033	\$ 12,859	\$ 6,930	\$ -	\$ -	\$ -	\$ -	\$ 112,685
Receivables:										
Grants and contracts	-	11,327	-	-	-	-	133,030	-	-	144,357
Other	-	-	-	13,546	-	-	14,453	-	-	27,999
Due from other funds	3,960	-	44,817	-	1,537	64,197	-	14,818	6,618	135,947
Other	-	9,324	-	-	-	-	-	-	-	9,324
Total assets	\$ 54,331	\$ 28,143	\$ 79,850	\$ 26,405	\$ 8,467	\$ 64,197	\$ 147,483	\$ 14,818	\$ 6,618	\$ 430,312
LIABILITIES										
Accounts payable	\$ 3,297	\$ 2,804	\$ -	\$ -	\$ -	\$ 360	\$ 6,121	\$ 1,425	\$ -	\$ 14,007
Due to other funds	-	12,976	10,700	-	-	-	118,939	-	-	142,615
Unearned revenue	-	-	-	-	-	770	12,466	-	-	13,236
Due to others	-	-	-	-	-	-	9,957	-	-	9,957
Total liabilities	3,297	15,780	10,700	-	-	1,130	147,483	1,425	-	179,815
FUND BALANCES										
Nonspendable	-	9,324	-	-	-	-	-	-	-	9,324
Restricted	-	3,039	-	-	8,467	-	-	-	-	11,506
Committed	51,034	-	69,150	26,405	-	63,067	-	13,393	6,618	229,667
Total fund balances	51,034	12,363	69,150	26,405	8,467	63,067	-	13,393	6,618	250,497
Total liabilities and fund balances	\$ 54,331	\$ 28,143	\$ 79,850	\$ 26,405	\$ 8,467	\$ 64,197	\$ 147,483	\$ 14,818	\$ 6,618	\$ 430,312

TOWN OF ESSEX, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Nonmajor Special Revenue Funds									Total
	Dog Fund	School Cafeteria Fund	Harbor Commission Fund	Constable Private Duty Fund	Historic Documents Fund	Recreational Programs Fund	Special Grants Fund	CVA Pump Out Boat Fund	Tree Committee Fund	
REVENUES										
Intergovernmental	\$ -	\$ 52,231	\$ -	\$ -	\$ -	\$ -	\$ 586,244	\$ 117,496	\$ -	\$ 755,971
Local	13,512	52,829	19,777	84,345	5,048	89,066	-	-	2,638	267,215
Interest	-	-	141	-	-	-	-	-	-	141
Total revenues	<u>13,512</u>	<u>105,060</u>	<u>19,918</u>	<u>84,345</u>	<u>5,048</u>	<u>89,066</u>	<u>586,244</u>	<u>117,496</u>	<u>2,638</u>	<u>1,023,327</u>
EXPENDITURES										
Current:										
General government	24,845	-	14,156	-	1,800	72,918	8,780	-	-	122,499
Public safety	-	-	3,937	90,410	-	-	-	-	-	94,347
Health and welfare	-	-	-	-	-	-	3,482	81,689	-	85,171
Education	-	177,012	-	-	-	-	22,446	-	-	199,458
Debt Service:										
Principal payments	-	-	-	-	-	-	-	20,628	-	20,628
Interest and fiscal charges	-	-	-	-	-	-	-	1,879	-	1,879
Capital outlays	-	-	-	-	-	-	551,944	-	-	551,944
Total expenditures	<u>24,845</u>	<u>177,012</u>	<u>18,093</u>	<u>90,410</u>	<u>1,800</u>	<u>72,918</u>	<u>586,652</u>	<u>104,196</u>	<u>-</u>	<u>1,075,926</u>
Excess (deficiency) of revenues over expenditures	(11,333)	(71,952)	1,825	(6,065)	3,248	16,148	(408)	13,300	2,638	(52,599)
OTHER FINANCING SOURCES										
Transfers in	<u>10,000</u>	<u>73,388</u>	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,888</u>
Net change in fund balances	(1,333)	1,436	9,325	(6,065)	3,248	16,148	(408)	13,300	2,638	38,289
Fund balances - beginning	<u>52,367</u>	<u>10,927</u>	<u>59,825</u>	<u>32,470</u>	<u>5,219</u>	<u>46,919</u>	<u>408</u>	<u>93</u>	<u>3,980</u>	<u>212,208</u>
Fund balances - ending	<u>\$ 51,034</u>	<u>\$ 12,363</u>	<u>\$ 69,150</u>	<u>\$ 26,405</u>	<u>\$ 8,467</u>	<u>\$ 63,067</u>	<u>\$ -</u>	<u>\$ 13,393</u>	<u>\$ 6,618</u>	<u>\$ 250,497</u>

FIDUCIARY FUNDS

TOWN OF ESSEX, CONNECTICUT
COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION AND OTHER POST-EMPLOYMENT BENEFITS TRUST FUNDS
AS OF JUNE 30, 2020

	Employees' Retirement Plan	Merit Service Plan	Police Retirement Plan	Other Post-Employment Benefit Plan	Total Pension and OPEB Trust Funds
ASSETS					
Cash and cash equivalents	\$ 64,849	\$ 21,120	\$ 25,654	\$ 70,000	\$ 181,623
Investments					
Mutual funds	3,838,521	1,165,586	1,518,489	-	6,522,596
Total assets	<u>3,903,370</u>	<u>1,186,706</u>	<u>1,544,143</u>	<u>70,000</u>	<u>6,704,219</u>
NET POSITION					
Restricted for pension benefits	<u>\$ 3,903,370</u>	<u>\$ 1,186,706</u>	<u>\$ 1,544,143</u>	<u>\$ 70,000</u>	<u>\$ 6,704,219</u>

TOWN OF ESSEX, CONNECTICUT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION AND OTHER POST-EMPLOYMENT BENEFITS TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Employees' Retirement Plan	Merit Service Plan	Police Retirement Plan	Other Post-Employment Benefit Plan	Total
ADDITIONS					
Contributions:					
Employer	\$ 268,122	\$ 116,872	\$ 371,291	\$ 70,000	\$ 826,285
Plan members	-	-	6,770	-	6,770
Total contributions	268,122	116,872	378,061	70,000	833,055
Investment earnings:					
Net change in the fair value of investments	46,978	11,926	9,969	-	68,873
Interest and dividends	117,109	34,584	41,724	-	193,417
Total investment earnings	164,087	46,510	51,693	-	262,290
Total additions	432,209	163,382	429,754	70,000	1,095,345
DEDUCTIONS					
Benefit payments	299,123	99,541	134,013	-	532,677
Administrative expenses	16,814	6,805	6,168	-	29,787
Total deductions	315,937	106,346	140,181	-	562,464
Change in net position	116,272	57,036	289,573	70,000	532,881
Net position - beginning	3,787,098	1,129,670	1,254,570	-	6,171,338
Net position - ending	\$ 3,903,370	\$ 1,186,706	\$ 1,544,143	\$ 70,000	\$ 6,704,219

TOWN OF ESSEX, CONNECTICUT
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
AS OF JUNE 30, 2020

	Elementary School Activity Fund	Performance Bond Fund	Special Project Escrow Fund	Total Agency Funds
ASSETS				
Cash and cash equivalents	\$ 25,851	\$ 20,900	\$ 3,732	\$ 50,483
Investments	-	111,182	-	111,182
Receivables	-	31,260	42,291	73,551
Total assets	<u>\$ 25,851</u>	<u>\$ 163,342</u>	<u>\$ 46,023</u>	<u>\$ 235,216</u>
LIABILITIES				
Due to others	\$ -	\$ 163,342	\$ 46,023	\$ 209,365
Due to student groups	25,851	-	-	25,851
Total liabilities	<u>\$ 25,851</u>	<u>\$ 163,342</u>	<u>\$ 46,023</u>	<u>\$ 235,216</u>

TOWN OF ESSEX, CONNECTICUT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Balance, July 1, 2019	Additions	Deletions	Balance, June 30, 2020
Elementary School Activity Fund				
Assets				
Cash and cash equivalents	\$ 21,663	\$ 15,506	\$ 11,318	\$ 25,851
Total assets	<u>\$ 21,663</u>	<u>\$ 15,506</u>	<u>\$ 11,318</u>	<u>\$ 25,851</u>
Liabilities				
Due to student groups	\$ 21,663	\$ 15,506	\$ 11,318	\$ 25,851
Total liabilities	<u>\$ 21,663</u>	<u>\$ 15,506</u>	<u>\$ 11,318</u>	<u>\$ 25,851</u>
Performance Bond Fund				
Assets				
Cash and cash equivalents	\$ 20,900	\$ -	\$ -	\$ 20,900
Investments	111,182	-	-	111,182
Receivables	75,499	5,100	49,339	31,260
Total assets	<u>\$ 207,581</u>	<u>\$ 5,100</u>	<u>\$ 49,339</u>	<u>\$ 163,342</u>
Liabilities				
Due to others	\$ 207,581	\$ 5,100	\$ 49,339	\$ 163,342
Total liabilities	<u>\$ 207,581</u>	<u>\$ 5,100</u>	<u>\$ 49,339</u>	<u>\$ 163,342</u>
Special Project Escrow Fund				
Assets				
Cash and cash equivalents	\$ 3,263	\$ 469	\$ -	\$ 3,732
Receivables	48,868	37,596	44,173	42,291
Total assets	<u>\$ 52,131</u>	<u>\$ 38,065</u>	<u>\$ 44,173</u>	<u>\$ 46,023</u>
Liabilities				
Due to others	\$ 52,131	\$ 38,065	\$ 44,173	\$ 46,023
Total liabilities	<u>\$ 52,131</u>	<u>\$ 38,065</u>	<u>\$ 44,173</u>	<u>\$ 46,023</u>
Total All Agency Funds				
Assets				
Cash and cash equivalents	\$ 45,826	\$ 15,975	\$ 11,318	\$ 50,483
Investments	111,182	-	-	111,182
Receivables	124,367	42,696	93,512	73,551
Total assets	<u>\$ 281,375</u>	<u>\$ 58,671</u>	<u>\$ 104,830</u>	<u>\$ 235,216</u>
Liabilities				
Due to others	\$ 259,712	\$ 43,165	\$ 93,512	\$ 209,365
Due to student groups	21,663	15,506	11,318	25,851
Total liabilities	<u>\$ 281,375</u>	<u>\$ 58,671</u>	<u>\$ 104,830</u>	<u>\$ 235,216</u>