



February 13, 2018

MEMORANDUM TO PROSPECTIVE BIDDERS

**Re: REGIONAL SCHOOL DISTRICT NO. 1, CONNECTICUT
(CONSISTING OF THE MEMBER TOWNS OF CANAAN, CORNWALL, KENT,
NORTH CANAAN, SALISBURY AND SHARON, CONNECTICUT)
\$4,000,000 General Obligation Bond Anticipation Notes**

Dated: March 7, 2018

Date of Sale: Thursday, February 22, 2018

Due: October 18, 2018

Time of Sale: 11:30 A.M. (Eastern Time)

**** Telephone Number to Submit a Bid: (203) 283-1110 ****

As per the Notice of Sale, proposals may be submitted by telephone on Thursday, February 22, 2018. Please note that a representative of Phoenix Advisors, LLC will be available until 11:30 A.M. (Eastern Time) on the day of the sale to assist with telephone bids. We ask that you submit your final bid by telephone at **(203) 283-1110 no later than 11:30 A.M. on Thursday, February 22, 2018.**

An Official Statement has not been prepared by or on behalf of the Issuer for this sale. The issue of notes is exempt from the provisions of Rule 15c2-12, as amended, of the Securities and Exchange Commission.

The General Purpose Financial Statements have been excerpted from the Annual Financial Report of the Regional School District No. 1, and the District's member Towns as of June 30, 2017. These excerpts are included in this package. Copies of the complete reports for June 30th are available upon request from Phoenix Advisors, LLC, Attention: Barry Bernabe, Managing Director, 53 River Street, Suite 1, Milford, Connecticut, telephone (203) 878-4945.

We trust we may be of service.

PHOENIX ADVISORS, LLC

Telephone Sale Term Sheet
\$4,000,000 General Obligation Bond Anticipation Notes

Regional School District No. 1, Connecticut

Date of Sale: Thursday, February 22, 2018 at 11:30 A.M. (Eastern Time).

Location of Sale: Phoenix Advisors, 53 River Street Suite 1, Milford, Connecticut 06460

Issuer: Regional School District No. 1, Connecticut (the “District”).

Issue: \$4,000,000 General Obligation Bond Anticipation Notes (the “Notes”).

Dated Date: March 7, 2018

Principal and Interest Due: At maturity on October 18, 2018

Purpose: To finance renovations to the Housatonic Valley Regional High School.

Denominations: \$100,000, or integral multiples thereof.

Redemption: The Notes are not subject to redemption prior to maturity.

Security: The Notes will be general obligations of the District and its member towns of Canaan, Cornwall, Kent, North Canaan, Salisbury and Sharon. The District will pledge its full faith and credit to the payment of principal of and interest on the Notes when due.

Credit Rating: No application for a rating on this Note issue has been made to any credit rating agency. The District does not have an outstanding rating. The District’s member Towns of Cornwall, Kent and Sharon are rated Aa2 by Moody’s. The Town of Kent is also rated AA+ by Standard & Poor’s. The District’s member Towns of Canaan, North Canaan and Salisbury do not have an outstanding bond rating.

Basis of Award: Lowest Net Interest Cost (NIC), as of dated date.

Form of Legal Opinion and Tax Exemption: See attached “Appendix - Opinion of Bond Counsel and Tax Exemption”

Bank Qualification: The Notes shall be designated by the Issuer as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Notes.

Registrar, Transfer Agent, Certifying Agent and Paying Agent: Unless an alternate is designated by the District as provided under “Option for No Book Entry” in the Notice of Sale, U.S Bank National Association of Hartford, Connecticut, Goodwin Square, 23rd Floor, 225 Asylum Street, Hartford, Connecticut 06103.

Option for No Book Entry: A bidder for the Notes may request that the Notes be issued in the form of a single fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC. See “Option for No Book Entry” in Notice of Sale.

Municipal Advisor: Phoenix Advisors, LLC of Milford, Connecticut will act as Municipal Advisor. Telephone (203) 283-1110, email; bbernabe@muniadvisors.com

Legal Opinion: Day Pitney LLP of Hartford, Connecticut will act as Bond Counsel.

Delivery and Payment: It is expected that delivery of the Notes in book-entry-only form will be made to The Depository Trust Company on or about March 7, 2018. Delivery of the Notes will be made against payment in Federal Funds.

Issuer Official: Questions concerning the sale should be addressed to: Mr. Samuel Herrick, Business Manager, Regional School District No. 1, 246 Warren Turnpike Road, Falls Village, Connecticut 06031, telephone (860) 824-0855 or Mr. Barry Bernabe, Managing Director, Phoenix Advisors, LLC, 53 River Street, Milford, Connecticut, telephone: (203) 283-1110.

NOTICE OF TELEPHONE SALE
\$4,000,000
Regional School District Number 1 of the State of Connecticut
Bond Anticipation Notes
(BOOK-ENTRY)

TELEPHONE PROPOSALS will be received by Regional School District Number 1 of the State of Connecticut until **11:30 A.M. Eastern Time on THURSDAY,**

FEBRUARY 22, 2018

for the purchase of \$4,000,000 Bond Anticipation Notes of Regional School District Number 1, dated March 7, 2018, maturing on October 18, 2018 (the "Notes").

The District will designate the Notes as "qualified tax-exempt obligations" for purposes of the deduction for Federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

The Notes will be payable with interest at maturity. Interest shall be computed on the basis of a 30-day month and a 360-day year. The Notes are not subject to redemption prior to maturity.

The Notes will be general obligations of the District and its member towns of Canaan, Cornwall, Kent, North Canaan, Salisbury and Sharon payable from ad valorem taxes levied on all taxable property in each member town of the District without limitation as to rate or amount except classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts.

DTC Book-Entry. The Notes will be issued by means of a book-entry system with no physical distribution of note certificates made to the public. The Notes will be issued in registered form and one note certificate for each interest rate will be issued to The Depository Trust Company ("DTC"), New York, New York, registered in the name of its nominee, Cede & Co., and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Notes in principal amounts of \$100,000 or any integral multiple thereof, with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures adopted by DTC and its Participants. The purchaser, as a condition to delivery of the Notes, will be required to deposit the note certificates with DTC, registered in the name of Cede & Co. Principal of and interest on the Notes will be payable by the District or its agent to DTC or its nominee as registered owner of the Notes. Principal and interest payments by DTC to Participants of DTC will be the responsibility of DTC; principal and interest payments to Beneficial Owners by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The District will not be responsible or liable for payments by DTC to its Participants or by DTC Participants or Indirect Participants to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Notes and the District fails to identify another qualified securities depository to replace DTC, or (b) the District determines to discontinue the book-entry system of evidence and transfer of ownership of the Notes, the District will authenticate and deliver replacement Notes in the form of fully registered certificates. Any such replacement Notes, will provide that principal of and interest on the Notes will be payable to the registered owner upon presentation and surrender of the Notes at the principal office of the Paying Agent, or of its successors as paying agent for the Notes.

Option For No Book Entry. A bidder for the Notes may request that the Notes be issued in the form of a single fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC, provided the bid is for all the Notes at the same interest rate. A bidder for the Notes requesting that the Notes be issued in non-book-entry form may request that it be designated by the District as the Certifying Agent, Registrar and Paying Agent for the Notes if it is a bank or trust company authorized to act in such capacity

pursuant to the Connecticut General Statutes. Any bidder seeking to have the Notes issued in non-book-entry form, or to be designated as Certifying Agent, Registrar and Paying Agent for such Notes, shall indicate this preference to the District at the time of the submission of the bid. The District reserves the right to decline any request to issue the Notes in non-book entry form, or to designate the successful bidder as Certifying Agent, Registrar and Paying Agent for the Notes, if it should determine, in its sole discretion, that issuing the Notes in such manner or with such designation is not in its best interests. If the Notes are issued in non-book-entry form, the successful bidder, and any subsequent registered owner of the Notes, shall not impose on or charge the District any costs or expenses of any re-registration or transfer of Notes from time to time, including any costs of counsel or of converting the Notes to book-entry only form, or for any costs or expenses of services as Certifying Agent, Registrar and Paying Agent for the Notes if the successful bidder is so designated.

Proposals. Proposals may be made for all or any part of the Notes. No proposal for less than the minimum denomination or for less than par and accrued interest will be entertained. Each proposal must state one rate of interest in a multiple of one-hundredth (1/100) of one-percent (1%) per annum for each part of the Notes bid for in the proposal, and may, at the option of the bidder, include a premium. For information purposes only, bidders are requested to state in their bids the net interest rate to the District, as described under "Basis of Award" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

Telephone Proposals Bidding Procedure. Telephone bids for the purchase of the Notes will be received on behalf of the District by telephone call to a representative of Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, Connecticut at (203) 283-1110.

Basis of Award. As between proposals which comply with this Notice, the Notes will be sold to the responsible bidder or bidders offering to purchase the Notes at the lowest net interest rate, which will be determined for each interest rate stated in the proposal based on the total interest to be payable at such rate and deducting therefrom any premium. If there is more than one responsible bidder making said offer at the same lowest net interest rate, the Notes will be sold to the responsible bidder with a proposal for the highest principal amount of Notes specified or, if the same principal amount of Notes is specified in such proposals, to the responsible bidder whose proposal is selected by the District by lot from among all such proposals. If a bidder is awarded only a part of the Notes, any premium offered in such proposal will be proportionately reduced so that the resulting net interest rate with respect to the Notes awarded is the same as that contained in the bidder's proposal with respect to the entire amount bid at such rate, carried to four places.

The District reserves the right to award to any bidder all or any part of the Notes bid for in its proposal. The right is reserved to reject any and all proposals and to reject any proposal not complying with this Notice of Sale and to waive any irregularity or informality with respect to any proposal.

The District further reserves the right to postpone the sale to another time and date in its sole discretion for any reason. The District will use its best efforts to notify prospective bidders in a timely manner of any need for a postponement. If the sale is postponed, an alternative bid date will be published on Bloomberg at least 48 hours prior to such alternative bid date. Upon the establishment of an alternative bid date, any bidder may submit proposals for the purchase of the Notes in accordance with the provisions of this Notice of Sale.

Certifying and Paying Agent. Unless the successful bidder on the Notes is designated as the Certifying Agent, Registrar and Paying Agent for the Notes as provided in "Option For No Book Entry" above, the Notes will be authenticated by U.S. Bank National Association, Hartford, Connecticut, which will also act as Registrar and Paying Agent.

Delivery. At or prior to the delivery of the Notes the successful bidder shall be furnished, without cost, with (a) the approving opinion of Day Pitney LLP of Hartford, Connecticut, Bond Counsel; (b) a signature and no litigation certificate, in form satisfactory to said firm, dated as of the date of delivery of the Notes and receipt of payment therefor, and stating that there is no litigation pending, or to the knowledge of the signer or signers thereof threatened, affecting the validity of the Notes or the power of the member towns of the District to levy and collect taxes to pay them; and (c) a receipt of payment for the Notes. U.S. Bank National Association will keep the original opinion and certificates and copies of the supporting documents, which may be examined at its principal office in Hartford, Connecticut, upon reasonable notice.

Establishment of Issue Price. The winning bidder shall assist the District in establishing the issue price of the Notes and shall execute and deliver to the District at Closing an “issue price” or similar certificate setting forth the reasonably expected initial offering price to the Public or the sales price or prices of the Notes, together with the supporting pricing wires or equivalent communications, substantially in the applicable form set out in the Appendix hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the winning bidder and Bond Counsel. All actions to be taken by the District under this Notice of Sale to establish the issue price of the Notes may be taken on behalf of the District by the District’s Municipal Advisor identified herein and any notice or report to be provided to the District may be provided to the District’s Municipal Advisor.

By submitting a bid for the Notes, a bidder, other than a bidder purchasing the Notes for its own account and not with a view to distribution or resale to the Public, represents that it has an established industry reputation for underwriting new issuances of municipal obligations.

If the winning bidder has purchased the Notes for its own account and not with a view to distribution or resale to the Public, then, whether or not the Competitive Sale Requirements, as herein defined, were met, the certificate will recite such facts and identify the price or prices at which the purchase of the Notes was made.

The District intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of the Notes) will apply to the initial sale of the Notes (the “Competitive Sale Requirements”) because:

- (1) the District shall disseminate this Notice of Sale to potential Underwriters in a manner that is reasonably designed to reach potential Underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the District may receive bids from at least three Underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the District anticipates awarding the sale of the Notes to the bidder who submits a firm offer to purchase the Notes at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Notes, as specified in the bid.

In the event that the Competitive Sale Requirements are not satisfied, the District shall so advise the winning bidder. The District shall treat the first price at which 10% of a maturity of the Notes (the “10% Test”) is sold to the Public as the issue price of that maturity, applied on a maturity-by-maturity basis (and if different interest rates apply within a maturity, to each separate CUSIP number within that maturity). The winning bidder shall advise the District if any maturity of the Notes satisfies the 10% Test as of the date and time of the award of the Notes. The District will not require bidders to comply with the “Hold-The-Offering-Price Rule”, as described in Treasury Regulations Section 1.148-1(f)(2)(ii), and therefore does not intend to use the initial offering price to the Public as of the Sale Date of any maturity of the Notes as the issue price of that maturity. **Bids will not be subject to cancellation in the event that the Competitive Sale Requirements are not satisfied.**

If the Competitive Sale Requirements are not satisfied, then until the 10% Test has been satisfied as to each maturity of the Notes, the winning bidder agrees to promptly report to the District the prices at which the unsold Notes of that maturity have been sold to the Public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the earlier to occur of the satisfaction of the 10% Test as to the Notes of that maturity or the sale of all Notes of that maturity.

By submitting a bid, each bidder confirms that: (i) any agreement among Underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Notes to the

Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Notes of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Notes of that maturity or all Notes of that maturity have been sold to the Public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among Underwriters relating to the initial sale of the Notes to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Notes to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Notes of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Notes of that maturity or all Notes of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wires.

Sales of any Notes to any person that is a Related Party to an Underwriter shall not constitute sales to the Public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

- (i) "Public" means any person other than an Underwriter or a Related Party,
- (ii) "Underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Notes to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Notes to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Notes to the Public),
- (iii) a purchaser of any of the Notes is a "Related Party" to an Underwriter if the Underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "Sale Date" means the date that the Notes are awarded by the District to the winning bidder.

Bond Counsel Opinion. The opinion of Bond Counsel will cover the following matters: (1) that the Notes will be valid general obligations of the District and its member towns when duly certified; (2) that, assuming the accuracy of and compliance by the District with its representations and covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, under existing statutes, interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; the Notes are not "private activity bonds" and interest on the Notes is not treated as a preference item for purposes of calculating the Federal alternative minimum tax; however, for tax years beginning prior to January 1, 2018, interest on the Notes is included in the calculation of a corporation's adjusted current earnings for purposes of, and thus may be subject to, the Federal alternative minimum tax for certain corporations; and the Notes are "qualified tax-exempt obligations"; and (3) that, under existing statutes, interest on the Notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the Notes is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax.

Municipal Advisor. Regional School District Number 1 has retained Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, Connecticut 06460, to serve as its municipal advisor (the “Municipal Advisor”) in connection with the issuance of the Notes. The Municipal Advisor has not independently verified any of the information contained in the Notice of Sale and its appendices and makes no guarantee as to their completeness or accuracy.

No Continuing Disclosure or Official Statement. Since the Notes mature not more than nine months from the date of issue and are in denominations of \$100,000 or more, the undertaking to provide an official statement or continuing disclosure under SEC Rule 15c2-12 does not apply to the Notes. Therefore, the District will not provide an official statement nor enter into a Continuing Disclosure Agreement with respect to the Notes.

CUSIP Numbers. The deposit of the Notes with DTC under a book-entry system requires the assignment of CUSIP numbers prior to delivery. It shall be the responsibility of the purchaser to apply for CUSIP numbers for the Notes prior to delivery. Neither the failure to print such CUSIP number on any note, nor any error with respect thereto, shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Notes. All expenses in relation to the printing of CUSIP numbers on the Notes shall be paid for by the District; provided, however, that the District assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers, which charges shall be the responsibility of and shall be paid for by the purchaser.

Delivery Date and Payment. The Notes will be delivered against payment in immediately available Federal funds through the facilities of The Depository Trust Company, New York, New York on March 7, 2018.

More Information. For more information regarding this issue and the District reference is made to the District’s financial statements. Copies of the District’s financial statements may be obtained from Mr. Barry J. Bernabe, Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, Connecticut 06460 (telephone: (203) 283-1110) or from Mr. Samuel J. Herrick, Business Manager, Regional School District Number 1, 246 Warren Turnpike Road, Falls Village, Connecticut 06031 (telephone: (860) 824-0855).

ROBERT WHELAN,
Chairman of the Board of Education

JENNIFER WEIGEL,
Treasurer

February 13, 2018

**APPENDIX TO NOTICE OF SALE
FORM OF ISSUE PRICE CERTIFICATE**

Competitive Sale Requirements Satisfied

**REGIONAL SCHOOL DISTRICT NUMBER 1 OF THE STATE OF CONNECTICUT
\$4,000,000 BOND ANTICIPATION NOTES, DATED MARCH 7, 2018**

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of Name of the Underwriter ("Underwriter Short Name"), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the "Notes").

1. Reasonably Expected Initial Offering Price.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Notes to the Public by Underwriter Short Name are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Notes used by Underwriter Short Name in formulating its bid to purchase the Notes. Attached as Schedule B is a true and correct copy of the bid provided by Underwriter Short Name to purchase the Notes.

(b) Underwriter Short Name was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by Underwriter Short Name constituted a firm offer to purchase the Notes.

2. Defined Terms.

(a) *Maturity* means Notes with the same credit and payment terms. Notes with different maturity dates, or Notes with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Notes. The Sale Date of the Notes is February 22, 2018.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Notes to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Notes to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Notes to the Public).

(e) *Issuer* means Regional School District Number 1 of the State of Connecticut.

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Underwriter Short Name's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Compliance Agreement and with respect to compliance with the federal income tax rules affecting the Notes, and by Day Pitney LLP, as bond counsel, in connection with rendering its opinion that the interest on the Notes is excluded from gross income for federal income tax purposes, the preparation of the

Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Notes.

Name of the Underwriter

By: _____

Name: _____

__/__/2018

Attachments:

**SCHEDULE A
EXPECTED OFFERING PRICES**

**SCHEDULE B
COPY OF UNDERWRITER'S BID**

[Remainder of page intentionally left blank]

Competitive Sale Requirements Not Satisfied - 10% Test Applied

**REGIONAL SCHOOL DISTRICT NUMBER 1 OF THE STATE OF CONNECTICUT
\$4,000,000 BOND ANTICIPATION NOTES, DATED MARCH 7, 2018**

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of *Name of the Underwriter* ("*Underwriter Short Name*"), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "Notes").

1. ***Sale of the Notes.*** As of the date of this certificate, for each Maturity of the Notes, the first price at which at least 10% of such Maturity of the Notes was sold to the Public is the respective price listed in Schedule A.

2. ***Defined Terms.***

(a) "*Issuer*" means Regional School District Number 1 of the State of Connecticut.

(b) "*Maturity*" means Notes with the same credit and payment terms. Notes with different maturity dates, or Notes with the same maturity date but different stated interest rates, are treated as separate Maturities.

(c) "*Public*" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) "*Underwriter*" means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Notes to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Notes to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Notes to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents *Underwriter Short Name's* interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Compliance Agreement and with respect to compliance with the federal income tax rules affecting the Notes, and by Day Pitney LLP, as bond counsel, in connection with rendering its opinion that the interest on the Notes is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Notes.

Name of the Underwriter

By: _____

Name: _____

Dated: __/__/2018

Attachment:

**SCHEDULE A
SALE PRICES**

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REGIONAL SCHOOL DISTRICT NUMBER 1 OF THE STATE OF CONNECTICUT
\$4,000,000 BOND ANTICIPATION NOTES
DATED MARCH 7, 2018; MATURING OCTOBER 18, 2018
APPENDIX - OPINION OF BOND COUNSEL AND TAX STATUS

The following information has been prepared by Bond Counsel in connection with this note issue. Bond Counsel are not passing upon and do not assume responsibility for the accuracy or completeness of the statements made in any information distributed in connection with the note issue (other than matters in this Appendix), and they make no representation that they have independently verified the same.

BOND COUNSEL OPINION

The legal opinion of the firm of Day Pitney LLP of Hartford, Connecticut, Bond Counsel, will be furnished to the successful bidder when the Notes are delivered, and a copy of the legal opinion will be included in the record of proceedings of the District authorizing the Notes. The opinion will be dated and given on and will speak only as of the date of original delivery of the Notes to the successful bidder.

The opinion of Day Pitney LLP with respect to the Notes will be substantially in the following form:

[FORM OF BOND COUNSEL OPINION]

(date of closing)

Regional School District Number 1
Falls Village, Connecticut

We have represented Regional School District Number 1 of the State of Connecticut as Bond Counsel in connection with the issuance by the District of \$4,000,000 Bond Anticipation Notes, dated as of March 7, 2018.

We have examined a record of proceedings authorizing the Notes, and based on our examination, we are of the opinion that Regional School District Number 1 is authorized to issue the Notes; the District is duly and legally organized; all proper proceedings for the issuance and delivery of the Notes have been taken; no limitation of indebtedness under the laws of the State of Connecticut has been exceeded in the issuance of the Notes; the Notes will be valid and binding general obligations of the District and its member towns of Canaan, Cornwall, Kent, North Canaan, Salisbury and Sharon when certified as provided thereon by a duly authorized official of U.S. Bank National Association; and each member town of the District has the power to levy ad valorem taxes to pay the Notes against all the taxable property in the District within such town without limit as to rate or amount except certified forest land taxable at a limited rate and dwelling houses of qualified elderly people of low income or of qualified disabled persons taxable at limited amounts.

It is to be understood that the rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met in order that interest on the Notes is excluded from gross income for Federal income tax purposes. The District officials authorized to issue the Notes have executed written representations and agreements on behalf of the District relating to compliance with such provisions of the Code to ensure that the interest on the Notes will be excluded from gross income for Federal income tax purposes. The representations and agreements also provide that the Notes are designated or deemed designated as "qualified tax-exempt obligations" for purposes of the deduction for Federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

Based on such representations and agreements and on the record of proceedings authorizing the Notes, and assuming the accuracy of such representations and compliance with such agreements, it is our opinion that, under existing statutes: (1) interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; (2) the Notes are not "private activity bonds" and interest on the Notes is not treated as a preference item for purposes of calculating the Federal alternative minimum tax, however, for tax years beginning prior to January 1, 2018, interest on the Notes is included in the calculation of a corporation's adjusted current earnings for purposes of, and thus may be subject to, the federal alternative minimum tax for certain corporations; and (3) the Notes are "qualified tax-exempt obligations" for purposes of the deduction for Federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

Based on the record of proceedings authorizing the Notes, it is our opinion that, under existing statutes: (1) interest on the Notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and (2) interest on the Notes is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax.

Very truly yours,

Day Pitney LLP

FEDERAL INCOME TAX.

Interest Excluded From Gross Income. The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements that must be met in order that interest on the Notes is excluded from the gross income of the owners thereof for federal income tax purposes. Some of these requirements must be continuously met subsequent to delivery of the Notes. Failure to comply with any of these requirements may cause the interest on the Notes to be includable in gross income for federal income tax purposes retroactively to the date of their issuance irrespective of the date on which such noncompliance occurs.

The District officials authorized to issue the Notes will enter into a Tax Compliance Agreement in connection with the delivery of the Notes, which will contain certain representations and covenants on behalf of the District relating to compliance with such requirements of the Code to ensure that the interest on the Notes will be excluded from the gross income of the owners thereof for federal income tax purposes.

Alternative Minimum Tax. The Code imposes an alternative minimum tax on individuals and, for tax years beginning prior to January 1, 2018, an alternative minimum tax on corporations. The alternative minimum tax on corporations has been repealed for tax years beginning after December 31, 2017. The alternative minimum tax is imposed on alternative minimum taxable income, which includes preference items. The interest on certain tax-exempt "private activity bonds" is treated as a preference item. The District's Tax Compliance Agreement will contain certain representations and covenants to ensure that the Notes are not "private activity bonds" so that interest on the Notes will not be treated as a preference item for individuals or corporations in calculating alternative minimum taxable income.

For tax years beginning prior to January 1, 2018, the Code provides, however, that for certain corporations a portion of the excess of adjusted current earnings (which includes certain tax-exempt interest) over other alternative minimum taxable income will be included in alternative minimum taxable income for purposes of calculating the corporation's alternative minimum tax.

Financial Institutions. The Code provides that commercial banks, thrift institutions and certain other financial institutions may not deduct the portion of their interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than "qualified tax-exempt obligations". The District's Tax Compliance Agreement will contain certain representations and covenants to ensure that the Notes will be "qualified tax-exempt

obligations" for purposes of the deduction for federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

Additional Federal Income Tax Matters. Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the payment at maturity on short-term debt obligations (i.e., debt obligations with a stated fixed rate of interest which mature not more than one year from the date of issue) that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity ("qualified stated interest"), or (ii) the difference between the issue price of the short-term debt obligations and the aggregate amount to be paid at maturity ("original issue discount"). For this purpose, the issue price of the short-term debt obligations is the first price at which a substantial amount of the short-term debt obligations is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the IRS provides further guidance with respect to short-term debt obligations, taxpayers holding such obligations may treat the stated interest payable at maturity either as qualified stated interest or as included in the stated redemption price at maturity of the obligation. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt short-term debt obligations in a consistent manner. Prospective purchasers of the Notes should consult their own tax advisors with respect to the tax consequences of ownership of the Notes and the treatment elected.

In addition to the matters addressed above, prospective purchasers of the Notes should be aware that the ownership of tax-exempt obligations, such as the Notes, may result in collateral federal income tax consequences to certain taxpayers, including without limitation, taxpayers otherwise eligible for the earned income credit, recipients of Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, certain insurance companies, certain S corporations and foreign corporations subject to the branch profits tax. Prospective purchasers of the Notes may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

STATE OF CONNECTICUT TAX ON INTEREST.

The opinion of Bond Counsel will state in substance that, based on the record of proceedings authorizing the Notes, under existing statutes: (1) interest on the Notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts, and estates; and (2) interest on the Notes is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Interest on the Notes is included in gross income for purposes of the Connecticut corporation business tax.

Owners of the Notes should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the Notes and the disposition thereof, including the extent to which gains and losses from the sale or exchange of the Notes held as capital assets reduce and increase, respectively, amounts taken into account in computing the Connecticut income tax on individuals, trusts and estates and may affect the net Connecticut minimum tax on such taxpayers who are also required to pay the federal alternative minimum tax.

ORIGINAL ISSUE PREMIUM.

The initial public offering price of certain of the Notes may be greater than the amount payable on the Notes at maturity. The excess of the initial public offering price at which a substantial amount of such Notes are sold over the amount payable thereon at maturity constitutes original issue premium. No representation is made by the District regarding the prices at which a substantial amount of the Notes ultimately will be sold to the public. An owner who purchases a note with original issue premium must amortize such original issue premium as provided in applicable Treasury Regulations, and amortized premium reduces the owner's basis in the note for federal income tax purposes. Owners of Notes having original issue premium, and especially any owner who is not an original owner of a note who bought the note at its initial public offering price, should consult their tax advisors with respect to the federal and state income tax consequences of the disposition of such notes.

GENERAL.

The opinion of Bond Counsel is rendered as of its date and Bond Counsel assumes no obligation to update or supplement its opinion to reflect any facts or circumstances that may come to its attention, or any changes in law or the interpretation thereof that may occur after the date of its opinion. Legislation affecting municipal bonds is regularly under consideration by the United States Congress. No assurance can be given that pending federal legislation, if any, or federal legislation enacted or proposed after the date of issuance of the Notes will not have an effect on the federal tax status or the market price of the Notes or will not change the effect of other federal tax law consequences, including those discussed above, of owning and disposing of the Notes, and Bond Counsel expresses no opinion thereon. No assurance can be given that future legislation or amendments to the income tax law of the State of Connecticut, if enacted into law, will not contain provisions that could, directly or indirectly, reduce the benefit of the exclusion of the interest on the Notes or any gain made on the sale or exchange thereof from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates, and Bond Counsel expresses no opinion thereon. Prospective owners of the Notes are advised to consult their tax advisors regarding the potential tax consequences of proposed federal or State of Connecticut tax legislation, if any, affecting municipal bonds.

The discussion above does not purport to address all aspects of federal, state, or local taxation that may be relevant to a particular owner of the Notes. Prospective owners of the Notes, particularly those who may be subject to special rules, are advised to consult their tax advisors regarding the federal, state, and local tax consequences of owning and disposing of the Notes, including any tax consequences arising under the laws of any other state or other taxing jurisdiction.

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REGIONAL SCHOOL DISTRICT NO. 1, CONNECTICUT

FINANCIAL INFORMATION

Excerpted from the
Annual Financial Report of
The Regional School District No. 1, Connecticut
Year Ended June 30, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Regional School District No. 1
Falls Village, Connecticut

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Regional School District No. 1, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District'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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Regional School District No. 1, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund, Pupil Services Fund, and Regional Services Fund 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 4–9 and pension schedules on pages 37-38 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

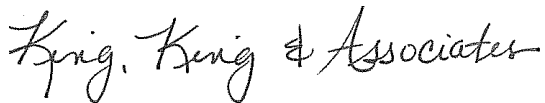
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Regional School District No. 1's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017, on our consideration of the Regional School District No. 1'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 Regional School District No. 1's internal control over financial reporting and compliance.



King, King & Associates, CPAs
Winsted, Connecticut
December 15, 2017

REGIONAL SCHOOL DISTRICT NO. 1

Management's Discussion and Analysis

June 30, 2017

As management of the Regional School District No. 1, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

The District serves the towns of Falls Village, Cornwall, Kent, North Canaan, Salisbury, and Sharon and operates a regional high school located in Falls Village, CT, regional special education, and central office services. The student population at Housatonic Valley Regional High School is 412 students while there are 1,080 PK-8 students in the member town K-8 schools.

The District accepts tuition students from surrounding towns and out of state students into its Ag-Ed program. During the year, there were twelve students who attended the high school and they are included in the count of students.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$10,391,682 (*net position*). Of this amount, \$234,817 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors. Restricted net position is \$90,580. \$53,601 is restricted for Pupil Services, \$36,979 is restricted for Federal and State Grants. The remainder of net position, \$10,066,285 is invested in capital assets.
- The District's total net position decreased by \$85,542. This decrease is attributable primarily to an increase in short term debt attributable to the building project – short term BANS.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$337,397, a decrease of \$512,730 in comparison with the prior year. Of this amount, \$(31,711) is available for spending at the government's discretion (*unassigned fund balance*) and \$154,409 has been assigned to member towns.
- At the end of the current fiscal year, the fund balance for the general fund was \$278,366, of which \$96,295 has been assigned to member towns leaving an unassigned fund balance for the general fund of \$182,071 or 2% percent of total general fund expenditures.
- Long-term obligations as of June 30, 2017, are \$3,355,533, which compares to the June 30, 2016 debt obligations of \$3,997,239; a decrease of \$641,706. The decrease in debt was a result of the payoff of principal of \$626,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District'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 District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator whether the financial position of the District is improving or deteriorating.

REGIONAL SCHOOL DISTRICT NO. 1

Management's Discussion and Analysis

June 30, 2017

The *statement of activities* presents information showing how the government's net position has 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 future cash inflows (revenues) and outflows (expenditures).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by grants and member towns assessments (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activity of the District is education.

The government-wide financial statements can be found on pages 10-11 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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District 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 a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government'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 District maintains nine (9) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund. The District reports the Pupil Services, Regional Services, and Federal and State Grants as major funds.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

The District adopts annual appropriated budgets for its General Fund, Pupil Services Fund, and Regional Services Fund. Budgetary comparison statements have been provided for these funds on pages 16-18 to demonstrate compliance with the budgets.

REGIONAL SCHOOL DISTRICT NO. 1

Management's Discussion and Analysis

June 30, 2017

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

The basic fiduciary fund financial statements can be found on pages 19-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-37 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$10,391,682 at the close of the most recent fiscal year.

	<u>2017</u>	<u>2016</u>
Current and Other Assets	\$ 4,331,119	\$ 1,100,990
Capital Assets	<u>13,344,848</u>	<u>13,546,372</u>
Total Assets	<u>17,675,967</u>	<u>14,647,362</u>
Deferred Outflows of Resources	<u>64,970</u>	<u>77,964</u>
Other Liabilities	3,993,722	250,863
Long-term Liabilities Outstanding	<u>3,355,533</u>	<u>3,997,239</u>
Total Liabilities	<u>7,349,255</u>	<u>4,248,102</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>
Net Position:		
Net Investment in Capital Assets	10,066,285	9,651,097
Restricted	90,580	32,447
Unrestricted	<u>234,817</u>	<u>793,680</u>
Total Net Position	<u>\$ 10,391,682</u>	<u>\$ 10,477,224</u>

The restricted portion of the District's net position primarily represents net position restricted for capital projects. The balance of *unrestricted net position* (\$234,817) may be used to meet the district's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all categories of net position, for the district as a whole.

REGIONAL SCHOOL DISTRICT NO. 1

Management's Discussion and Analysis

June 30, 2017

	<u>2017</u>	<u>2016</u>
Revenues		
General Revenues:		
Unrestricted Investment Income	\$ 7,585	\$ 7,767
Other income	242,289	276,720
Loss on Disposal of Assets	(132)	-
Program Revenues:		
Charges for Services	15,412,156	15,577,612
Operating Grants and Contributions	<u>4,820,954</u>	<u>3,770,261</u>
Total Revenues	<u>20,482,852</u>	<u>19,632,360</u>
Expenses		
Governmental Activities:		
Education	12,491,814	11,404,473
Regional Services	1,134,849	1,068,433
Pupil Services	6,617,638	6,415,497
Cafeteria	226,287	220,458
Interest on Long-Term Debt	<u>97,806</u>	<u>108,354</u>
Total Expenses	<u>20,568,394</u>	<u>19,217,215</u>
Change in Net Position	(85,542)	415,145
Beginning Net Position	<u>10,477,224</u>	<u>10,062,079</u>
Ending Net Position	<u>\$ 10,391,682</u>	<u>\$ 10,477,224</u>

Governmental activities. Governmental activities decreased the District's net position by \$85,542.

Seventy-five percent (75%) of the revenues of the District were derived from charges for services, twenty-four percent (24%) from operating grants and contributions, and one percent (1%) from other sources.

The District's total revenues were \$20,482,852, or \$850,492 greater than the district's revenue for the year ending June 30, 2016. This increase is attributable to a higher member town assessment for tuition.

Major revenue factors included:

- Unused encumbrances from the previous fiscal year and state security grant.

Major expense factors included:

- Salary and benefit expenditures in the high school and Pupil Services budgets were lower than budgeted.

Financial Analysis of the Government's Funds

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

REGIONAL SCHOOL DISTRICT NO. 1

Management's Discussion and Analysis

June 30, 2017

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$337,397, a decrease of \$512,730 in comparison with the prior year. Nine percent (9%) of this total amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was (\$31,711). As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents one point seven percent (1.7%) of total general fund expenditures.

The District's General Fund decreased by \$121,084 during the current fiscal year.

Budgetary Highlights

The General Fund budget was over-expended by \$101,904. This was due to certified salaries being lower than budgeted. Replacement teachers were hired at salaries lower than budgeted and some positions were not filled. Similarly, savings from health insurance benefits was achieved at these positions.

The Pupil Services budget was over-expended by \$104,662. Savings was achieved in special education in the area of salary and transportation costs.

The Regional School Services Center budget ended the year over-expended by \$60,261. In-Service Training and curriculum development costs exceeded budgeted amounts due to work necessary for the preparation of the NEAS&C Accreditation review.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2017, amounts to \$13,344,848 (net of accumulated depreciation). This investment in capital assets includes land and buildings, vehicles, machinery and equipment.

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

- Major renovation of the Art Room including new cabinetry and plumbing.
- Installation of a kitchenette in room 112 for Special Education students

(Net of Depreciation)

	<u>2017</u>	<u>2016</u>
Buildings & Improvements	\$ 12,081,264	\$ 12,395,004
Construction in Progress	289,361	34,700
Vehicles & Equipment	974,223	1,116,668
Total	<u>\$ 13,344,848</u>	<u>\$ 13,546,372</u>

Additional information on the District's capital assets can be found in Note 3 on page 30 of this report.

REGIONAL SCHOOL DISTRICT NO. 1

Management's Discussion and Analysis

June 30, 2017

Long-term debt. The District has the following obligations.

	<u>2017</u>	<u>2016</u>
Bonds	\$ 3,343,533	\$ 3,973,239
Early Retirement Incentive	12,000	24,000
Total	<u>\$ 3,355,533</u>	<u>\$ 3,997,239</u>

The District's total debt was decreased by \$641,706 during the current fiscal year, due primarily to the scheduled bond payments.

Additional information on the District's long-term debt can be found in Note 3 on pages 31-33 of this report.

Economic Factors and Next Year's Budgets and Rates

- The District continues to utilize IDEA and Preschool grants to offset special education costs in the 2017-2018 year. The District continues to seek ways to reduce special education costs while providing mandated services. The District is continuing to build capacity through training of staff to service special education students in-district instead of through high cost out-of-district placements. The implementation of an in-house program at the high school has proven to be effective in its second year.
- The District continues to monitor health insurance premiums carefully and seek savings for health insurance premiums through plan design changes and a shift in premium cost from the employer to the employee.
- Collective Bargaining Agreements are in place for certified and non-certified staff through 6/30/2018. The Superintendent retired at the end of the 2017 fiscal year. Funds were put in the budget for a search for a replacement. Other administrators (Principal, Asst. Principal, Director of Pupil Services and Special Education Supervisor) have a collective bargaining agreement in place through 6/30/2019.
- Enrollment has been declining district-wide. The high school anticipates that enrollment will decline for the next few years from its current level of 400 resident students.

These factors were considered in preparing the District's budget for the 2017 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Education, Regional School District No. 1, 246 Warren Turnpike, Falls Village, CT 06031.

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REGIONAL SCHOOL DISTRICT NO. 1

Statement of Net Position

June 30, 2017

	<u>Governmental Activities</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 4,216,986
Investments	25,054
State and Federal Grants Receivable	88,180
Inventories	<u>899</u>
Total Current Assets	<u>4,331,119</u>
Noncurrent Assets:	
Capital Assets, net of Depreciation	<u>13,344,848</u>
Total Assets	<u>\$ 17,675,967</u>
 Deferred Outflows of Resources	
Deferred Amount on Bond Refunding	<u>64,970</u>
Total Deferred Outflows of Resources	<u>64,970</u>
 Liabilities	
Current Liabilities:	
Accounts Payable	\$ 159,395
Deferred Revenue	59
Accrued Expenses	34,268
Bond Anticipation Note	3,800,000
Current Portion of Long-Term Obligations	<u>643,000</u>
Total Current Liabilities	<u>4,636,722</u>
Noncurrent Liabilities:	
Noncurrent Portion of Long-Term Obligations	<u>2,712,533</u>
Total Liabilities	<u>7,349,255</u>
 Deferred Inflows of Resources	 <u>-</u>
 Net Position	
Net Investment in Capital Assets	10,066,285
Restricted	90,580
Unrestricted	<u>234,817</u>
Total Net Position	<u>\$ 10,391,682</u>

The notes to the financial statements are an integral part of this statement

REGIONAL SCHOOL DISTRICT NO. 1

Balance Sheet
Governmental Funds
June 30, 2017

	<u>General (High School)</u>	<u>Pupil Services</u>	<u>Regional Services</u>	<u>Building Fund</u>	<u>Federal and State Grants Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Assets							
Cash and Cash Equivalents	\$ 471,355	\$ -	\$ -	\$ 3,625,070	\$ 6,613	\$ 113,948	\$ 4,216,986
Investments	-	-	-	-	-	25,054	25,054
State and Federal Grants Receivable	51,385	-	-	-	30,436	6,359	88,180
Due from Other Funds	-	144,925	33,543	-	-	-	178,468
Inventories	-	-	-	-	-	899	899
Total Assets	<u>\$ 522,740</u>	<u>\$ 144,925</u>	<u>\$ 33,543</u>	<u>\$ 3,625,070</u>	<u>\$ 37,049</u>	<u>\$ 146,260</u>	<u>\$ 4,509,587</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts Payable	\$ 94,833	\$ 52,307	\$ 12,255	\$ -	\$ -	\$ -	\$ 159,395
Bond Anticipation Notes	-	-	-	3,800,000	-	-	3,800,000
Due to Other Funds	130,536	-	47,932	-	-	-	178,468
Deferred Revenue	-	-	-	-	59	-	59
Accrued Expenses	19,005	3,044	12,208	-	11	-	34,268
Total Liabilities	<u>244,374</u>	<u>55,351</u>	<u>72,395</u>	<u>3,800,000</u>	<u>70</u>	<u>-</u>	<u>4,172,190</u>
Fund Balances:							
Nonspendable: Inventories	-	-	-	-	-	899	899
Restricted for Pupil Services	-	53,601	-	-	-	-	53,601
Restricted for Fed & State Grants	-	-	-	-	36,979	-	36,979
Committed to Capital Outlay	-	-	-	-	-	66,235	66,235
Committed to Cafeteria Fund	-	-	-	-	-	56,985	56,985
Assigned to Member Towns	96,295	35,973	-	-	-	-	132,268
Assigned for Other Purposes	-	-	-	-	-	22,141	22,141
Unassigned	182,071	-	(38,852)	(174,930)	-	-	(31,711)
Total Fund Balances	<u>278,366</u>	<u>89,574</u>	<u>(38,852)</u>	<u>(174,930)</u>	<u>36,979</u>	<u>146,260</u>	<u>337,397</u>
Total Liabilities and Fund Balances	<u>\$ 522,740</u>	<u>\$ 144,925</u>	<u>\$ 33,543</u>	<u>\$ 3,625,070</u>	<u>\$ 37,049</u>	<u>\$ 146,260</u>	<u>\$ 4,509,587</u>

The notes to the financial statements are an integral part of this statement

REGIONAL SCHOOL DISTRICT NO. 1

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

Fund Balances Reported in Governmental Funds Balance Sheet \$ 337,397

**Amounts reported for governmental activities in the government- wide
Statement of Net Position are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

<i>Capital Assets</i>	25,434,413
<i>Depreciation</i>	(12,089,565)

During a prior year the District refunded some of its existing debt. The amount borrowed is received in the governmental funds and increases fund balance. The amount that was sent to the paying agent (\$3,425,000) to be escrowed for payment of the old debt (\$3,330,404) as it comes due is paid out of governmental funds and reduces fund balance. The difference between those amounts (\$94,596) will be amortized as an adjustment of interest expense in the statement of activities over the remaining life of the refunded debt. Unamortized bonding costs of refunding debt (\$22,350) will be included in the deferred amount on refunding. In addition, the District received a premium of \$45,475. The premium will be amortized as an adjustment of interest expense in the statement of activities over the remaining life of the new debt.

<i>Deferred Amount on Refunding</i>	64,970
<i>Unamortized Premiums</i>	(18,533)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund statements.

<i>General Obligation Bonds</i>	<u>(3,337,000)</u>
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Net Position of Governmental Activities \$10,391,682

REGIONAL SCHOOL DISTRICT NO. 1
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	<u>General (High School)</u>	<u>Pupil Services</u>	<u>Regional Services</u>	<u>Building Fund</u>	<u>Federal and State Grants Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues							
Assessments to Towns	\$ 9,826,533	\$ 4,512,163	\$ 821,048	\$ -	\$ -	\$ -	\$ 15,159,744
State and Federal Grants	506,891	272,218	-	-	3,004,984	37,873	3,821,966
Investment Income	4,609	2,300	492	-	44	140	7,585
Tuition and Charges for Services	88,470	31,844	-	-	-	132,098	252,412
Other Revenue	296	-	-	-	-	241,993	242,289
Interfund Services Provided	-	1,705,564	271,207	-	-	-	1,976,771
Total Revenues	<u>10,426,799</u>	<u>6,524,089</u>	<u>1,092,747</u>	<u>-</u>	<u>3,005,028</u>	<u>412,104</u>	<u>21,460,767</u>
Expenditures							
Current:							
Salaries	4,709,313	3,675,864	760,510	-	951,762	92,876	10,190,325
Employee Benefits	1,278,351	1,455,254	201,970	-	1,808,442	154,608	4,898,625
Purchased Services	965,486	590,564	152,598	-	239,068	75,966	2,023,682
Tuition	-	849,615	-	-	-	-	849,615
Supplies and Materials	603,771	24,020	12,469	-	19,970	123,422	783,652
Other	95,374	-	7,302	-	2,498	27,557	132,731
Interfund Services Used	1,976,771	-	-	-	-	-	1,976,771
Capital Outlay	116,534	27,426	4,338	225,021	30,259	-	403,578
Debt Service							
Principal and Interest	714,518	-	-	-	-	-	714,518
Total Expenditures	<u>10,460,118</u>	<u>6,622,743</u>	<u>1,139,187</u>	<u>225,021</u>	<u>3,051,999</u>	<u>474,429</u>	<u>21,973,497</u>
Excess/(Deficiency) of Revenues over Expenditures	(33,319)	(98,654)	(46,440)	(225,021)	(46,971)	(62,325)	(512,730)
Other Financing Sources/(Uses)							
Transfers In	-	-	-	50,000	65,765	22,000	137,765
Transfers Out	(87,765)	-	-	-	-	(50,000)	(137,765)
Total Other Financing Sources/(Uses)	<u>(87,765)</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>65,765</u>	<u>(28,000)</u>	<u>-</u>
Net Change in Fund Balances	(121,084)	(98,654)	(46,440)	(175,021)	18,794	(90,325)	(512,730)
Fund Balances - Beginning	<u>399,450</u>	<u>188,228</u>	<u>7,588</u>	<u>91</u>	<u>18,185</u>	<u>236,585</u>	<u>850,127</u>
Fund Balances - Ending	<u>\$ 278,366</u>	<u>\$ 89,574</u>	<u>\$ (38,852)</u>	<u>\$ (174,930)</u>	<u>\$ 36,979</u>	<u>\$ 146,260</u>	<u>\$ 337,397</u>

The notes to the financial statements are an integral part of this statement

REGIONAL SCHOOL DISTRICT NO. 1

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net Change in Fund Balances - Governmental Funds \$ (512,730)

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Expenditures	477,945
Depreciation Expense	(679,469)

Bond and lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Debt Issued:

Amortization of the Premium on refunding debt	3,706
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Repayments:

Amortization of the Deferred Amount on Refunding	(12,994)
Early Termination Benefits	12,000
Principal payments on long-term debt	<u>626,000</u>

Change in Net Position of Governmental Activities \$ (85,542)

REGIONAL SCHOOL DISTRICT NO. 1

Budgetary Comparison Statement

General Fund

For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Over
	Original	Final	Budgetary Basis	(Under)
Revenues				
Assessments to Towns	\$10,025,231	\$10,025,231	\$ 9,826,533	\$ (198,698)
State and Federal Grants	2,169	2,169	506,891	504,722
Other Income	100,529	100,529	213,723	113,194
Total Revenues	10,127,929	10,127,929	10,547,147	419,218
Expenditures				
Current				
Salaries	4,742,835	4,742,835	4,709,323	(33,512)
Employee Benefits	1,358,316	1,358,316	1,281,950	(76,366)
Purchased Services	2,993,362	2,993,362	2,971,215	(22,147)
Supplies and Materials	610,229	610,229	622,068	11,839
Other	151,186	151,186	158,131	6,945
Capital Outlay	113,816	113,816	192,345	78,529
Debt Service				
Interest Expense	105,642	105,642	88,518	(17,124)
Redemption of Principal	621,000	621,000	626,000	5,000
Total Expenditures	10,696,386	10,696,386	10,649,550	(46,836)
Excess/(Deficiency) of Revenues				
Over Expenditures Before Other				
Financing Sources/(Uses)	(568,457)	(568,457)	(102,403)	466,054
Other Financing Sources/(Uses)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources/(Uses)	-	-	-	-
Excess/(Deficiency) of Revenues				
Over Expenditures and Other				
Financing Sources/(Uses)	\$ (568,457)	\$ (568,457)	(102,403)	\$ 466,054
Beginning Budgetary Fund Balance			198,698	
Ending Budgetary Fund Balance			\$ 96,295	

The notes to the financial statements are an integral part of this statement

REGIONAL SCHOOL DISTRICT No. 1

Budgetary Comparison Statement

Pupil Services

For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Over (Under)
	<u>Original</u>	<u>Final</u>		
Revenues				
Member Assessments	\$ 6,399,730	\$ 6,399,730	\$ 6,217,727	\$ (182,003)
State and Federal Grants	243,808	243,808	272,218	17,103
Other Income	58,041	58,041	39,155	(18,886)
Total Revenues	<u>6,701,579</u>	<u>6,701,579</u>	<u>6,529,100</u>	<u>(183,786)</u>
Expenditures				
Current				
Salaries	3,739,440	3,739,440	3,680,590	(58,850)
Employee Benefits	1,442,702	1,442,702	1,455,254	12,552
Tuition	868,936	868,936	886,570	17,634
Purchased Services	650,775	650,775	602,411	(48,364)
Supplies and Materials	30,150	30,150	24,350	(5,800)
Capital Outlay	22,250	22,250	25,954	3,704
Total Expenditures	<u>6,754,253</u>	<u>6,754,253</u>	<u>6,675,129</u>	<u>(79,124)</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>\$ (52,674)</u>	<u>\$ (52,674)</u>	(146,029)	<u>\$ (104,662)</u>
Beginning Budgetary Fund Balance			<u>182,002</u>	
Ending Budgetary Fund Balance			<u>\$ 35,973</u>	

The notes to the financial statements are an integral part of this statement

REGIONAL SCHOOL DISTRICT No. 1

Budgetary Comparison Statement

Regional Services

For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Over (Under)
	<u>Original</u>	<u>Final</u>		
Revenues				
Member Assessments	\$ 1,092,372	\$ 1,092,372	\$ 1,092,255	\$ (117)
Other Income	<u>492</u>	<u>492</u>	<u>4,264</u>	<u>3,772</u>
Total Revenues	<u>1,092,864</u>	<u>1,092,864</u>	<u>1,096,519</u>	<u>3,655</u>
Expenditures				
Current				
Salaries	784,743	784,743	782,568	(2,175)
Employee Benefits	194,694	194,694	201,970	7,276
Purchased Services	113,380	113,380	171,021	57,641
Supplies and Materials	13,350	13,350	12,575	(775)
Capital Outlay	2,500	2,500	3,341	841
Other	<u>(15,806)</u>	<u>(15,806)</u>	<u>(14,698)</u>	<u>1,108</u>
Total Expenditures	<u>1,092,861</u>	<u>1,092,861</u>	<u>1,156,777</u>	<u>63,916</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>\$ 3</u>	<u>\$ 3</u>	(60,258)	<u>\$ (60,261)</u>
Beginning Budgetary Fund Balance			<u>118</u>	
Ending Budgetary Fund Balance			<u>\$ (60,140)</u>	

The notes to the financial statements are an integral part of this statement

REGIONAL SCHOOL DISTRICT NO. 1

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2017

	Private-Purpose <u>Trust Funds</u>	Agency <u>Funds</u>	<u>Totals</u>
Assets			
Cash and Cash Equivalents	\$ -	\$ 249,897	\$ 249,897
Investments	<u>1,551,302</u>	<u>14,176</u>	<u>1,565,478</u>
Total Assets	<u>\$ 1,551,302</u>	<u>\$ 264,073</u>	<u>\$ 1,815,375</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities			
Scholarships Payable	\$ -	\$ -	\$ -
Fiduciary Deposits	<u>-</u>	<u>264,073</u>	<u>264,073</u>
Total Liabilities	<u>-</u>	<u>264,073</u>	<u>264,073</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Net Position			
Held in Trust for Scholarships	<u>1,551,302</u>	<u>-</u>	<u>1,551,302</u>
Total Net Position	<u>\$ 1,551,302</u>	<u>\$ -</u>	<u>\$ 1,551,302</u>

The notes to the financial statements are an integral part of this statement

REGIONAL SCHOOL DISTRICT NO. 1
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2017

	<u>Private-Purpose Trust Funds</u>
Additions	
Donations	\$ 105,266
Investment Income	<u>90,950</u>
Total Additions	<u>196,216</u>
Deductions	
Scholarships and Awards	<u>44,848</u>
Total Deductions	<u>44,848</u>
Change in Net Position	151,368
Net Position - Beginning	<u>1,399,934</u>
Net Position - Ending	<u><u>\$ 1,551,302</u></u>

The notes to the financial statements are an integral part of this statement

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Regional School District No. 1 (the District) is administered by a Board of Education, comprised of representatives from each member town: Canaan, Cornwall, Kent, North Canaan, Salisbury and Sharon. Financing is provided by the member towns in proportion to the number of pupils attending school from each town.

The Legislative authority of the District is vested in the Board of Education meetings. The Superintendent is the chief executive, chief administrative officer and budget-making authority of the District. The Board of Education is responsible for revising the proposed budget and submitting the final budget to the Board meetings and referendums. The Board of Education is also responsible for establishing the annual assessments. The District has the power to incur indebtedness by issuing bonds or notes as provided by the Connecticut General Statutes.

The accounting and reporting policies of the District relating to the funds included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The more significant accounting policies of the District are described below.

The District's financial statements include the accounts of all District controlled operations. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the District (the primary government) and its component units. The basic criterion for inclusion of a component unit in a governmental unit's reporting entity for general purpose financial reporting is the exercise of oversight responsibility. Oversight responsibility is determined on the basis of financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters and scope of public service. Currently, there are no entities considered component units of the District. The District includes all funds, agencies, boards, and authorities that are controlled by or dependent on the District's executive and legislative branches.

The financial statements presented herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from the District.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by Town assessments and intergovernmental revenues.

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

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

REGIONAL SCHOOL DISTRICT NO. 1

Notes to the Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Their revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Exceptions to this general rule include: voluntary non-exchange transactions when all eligibility requirements have been met. Expenditures are generally recorded when a liability is incurred. Exceptions to this general rule include: compensated absences, debt service, and claims and judgments which are recorded only when payment is due.

Assessments when levied, tuition, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government, or specifically identified.

The District reports the following major governmental funds:

The *General Fund* is the general operating fund of the Housatonic Valley Regional High School (HVRHS) and related activities. It is used to account for all financial resources except those required to be accounted for in another manner.

The *Pupil Services Fund* is a special revenue fund funded by assessments paid by member Towns and accounts for special education services for District students with special needs.

The *Regional Services Fund* is a special revenue fund funded by assessments paid by member Towns and accounts for the administration of the District.

The *Federal and State Grants Fund* is a special revenue fund funded by governmental grants used to account for educational grants administered by the District.

Additionally, the district reports the following fiduciary fund types:

The *Private-Purpose Trust Funds* consist of scholarship funds held in trust for the benefit of individuals.

Agency Funds account for monies held as a custodian for school-related groups and outside agencies.

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 of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

REGIONAL SCHOOL DISTRICT NO. 1

Notes to the Financial Statements

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Cash and cash equivalents: The deposit of public funds is controlled by the Connecticut General Statutes. The District maintains separate accounts with depositories where necessary. Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested in various interest-bearing accounts, certificates of deposit, and pooled investment funds which may be deemed to be cash equivalents based on maturity date or availability of conversion to cash. Cash and cash equivalents are stated at cost, which approximates market value and have maturities of three months or less.

Receivables and payables: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The District has not established an allowance for estimated uncollectibles because the majority of receivables are in the form of state and federal grants.

Investments: In general, State of Connecticut Statutes allow the District to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust, in obligations of any state or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. The 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.

Inventories: Unused food supplies are recorded as inventory in the financial statements at cost on the FIFO method.

Advances to and from other funds: Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either Interfund receivables or payables. Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Interfund services provided/(used): Amounts charged for services provided to one or more funds that are reported as revenues in the major and nonmajor funds and as an expense in the General Fund.

Capital assets: Capital assets, which include equipment, fixtures, and other long-lived assets, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	45-50
Land Improvements	20
Furniture and Equipment	5-20

REGIONAL SCHOOL DISTRICT NO. 1

Notes to the Financial Statements

Deferred outflows/inflows of resources: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

Long-term obligations: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when it is due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Fund equity and net position: In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations or other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents the net position of the District, which is not restricted for any project or other purpose.

When both restricted and unrestricted net position are available, the District first applies restricted resources when an expense is incurred.

In the fund financial statements, fund balances of governmental funds are classified in the following five separate categories:

Nonspendable Fund Balance – Indicates amounts that cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Examples are items that are not expected to be converted to cash including prepaid expenditures and permanent fund principal.

REGIONAL SCHOOL DISTRICT NO. 1

Notes to the Financial Statements

Restricted Fund Balance – Indicates amounts that are restricted to specific purposes. The spending constraints placed on the use of fund balance amounts are externally imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Indicates amounts that can be used only for specific purposes pursuant to constraints imposed by formal budgetary action of the Board of Education as approved by member Towns in accordance with provisions of the Connecticut General Statutes.

Assigned Fund Balance – Indicates amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by formal action of the Board of Education.

Unassigned Fund Balance – Represents the remaining fund balance after amounts are set aside for all other classifications.

The District has not established a formal policy for its use of restricted and unrestricted (committed, assigned, unassigned) fund balance; however, the District generally uses restricted fund balance first if the expenditure meets the restricted purpose, followed by committed, assigned and unassigned amounts.

The District has not formally enacted legislation or Board policies requiring it to maintain a minimum fund balance.

Fair Value of Financial Instruments

In accordance with ASC 820-10, the District is required to measure the fair value of its assets and liabilities under a three-level hierarchy, as follows:

Level 1: Quoted market prices for identical assets or liabilities to which an entity has access to at the measurement date.

Level 2: Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets in markets that are not active;
- c. Observable inputs other than quoted prices for the assets or liability;
- d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity; and *unobservable inputs* reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Investments are carried at fair value based on Level 1 and Level 2 observable inputs and are presented in Note 3.

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY.

Budgetary information and accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- A proposed operating budget is submitted for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is approved by a vote of the District member towns, and the annual budgets authorize and provide the basis for control over financial operations for the fiscal year.
- The Board of Education is authorized to transfer budgeted amounts between departments within any fund.
- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- Encumbrance accounting is used.

The Statement of Revenue and Expenditures-Budget (non-GAAP Budgetary Basis) and Actual-General Fund represents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of differences in excess of revenues and expenditures and other sources of financial resources with expenditures for the year ended June 30, 2017 is presented as follows:

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

General Fund

	<u>GAAP Basis</u>	<u>Entity Differences</u>	<u>Perspective Differences</u>	<u>Budgetary Basis</u>
Revenues	\$ 10,426,799	\$ -	\$ 120,348	\$ 10,547,147
Expenditures	(10,460,118)	(87,765)	(101,667)	(10,649,550)
Other Financing Sources/Uses	<u>(87,765)</u>	<u>87,765</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over/ (Under) Expenditures	<u>\$ (121,084)</u>	<u>\$ -</u>	<u>\$ 18,681</u>	<u>\$ (102,403)</u>

Pupil Services

	<u>GAAP Basis</u>	<u>Entity Differences</u>	<u>Perspective Differences</u>	<u>Budgetary Basis</u>
Revenues	\$ 6,524,089	\$ -	\$ 5,011	\$ 6,529,100
Expenditures	(6,622,743)	-	(52,386)	(6,675,129)
Other Financing Sources/Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over/ (Under) Expenditures	<u>\$ (98,654)</u>	<u>\$ -</u>	<u>\$ (47,375)</u>	<u>\$ (146,029)</u>

Regional Services

	<u>GAAP Basis</u>	<u>Entity Differences</u>	<u>Perspective Differences</u>	<u>Budgetary Basis</u>
Revenues	\$ 1,092,747	\$ -	\$ 3,772	\$ 1,096,519
Expenditures	(1,139,187)	-	(17,590)	(1,156,777)
Other Financing Sources/Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over/ (Under) Expenditures	<u>\$ (46,440)</u>	<u>\$ -</u>	<u>\$ (13,818)</u>	<u>\$ (60,258)</u>

The perspective basis differences include recognition of grants and encumbered expenditures. Entity differences are due to interfund transactions budgeted as revenues and expenses for budgeting purposes.

Budgeted amounts are presented as originally adopted as well as amended by the Board of Education.

Annual budgets are adopted for the General Fund, Pupil Services, and Regional Services Funds. All appropriations lapse at year-end, except for capital appropriations.

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

NOTE 3 – DETAILED NOTES ON ALL FUNDS

Cash and Investments

The deposits of public funds are controlled by the Connecticut General Statutes. The following is a summary of cash and cash equivalents at June 30, 2017:

Demand Accounts	<u><u>\$ 4,464,231</u></u>
-----------------	----------------------------

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk; however, it has obtained a pledge for \$4,250,000 of collateral to be maintained by Salisbury Bank & Trust. At year-end, the District's carrying amount of deposits was \$4,464,231. The bank balance was \$4,958,743. Of the bank balance, Federal Depository Insurance Corporation covered \$791,181.

As of June 30, 2017, \$4,167,562 of the District's bank balance of \$4,958,743 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 50,321
Uninsured and collateral held by pledging bank's Trust department not in the District's name	<u>4,117,241</u>
Total	<u><u>\$ 4,167,562</u></u>

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The District has no investment policy that limits the investment choices further than the State Statutes listed above. The U.S. Government Bond Fund's underlying investments are in U.S. government securities. The District was not able to determine if its mutual funds have credit ratings.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District's investments are not subject to custodial credit risk, as they are not directly held.

As of June 30, 2017, the District had the following investments:

		Investment Maturities	
		Less Than 1 yr.	1-5 yrs.
Short-term Investments	\$ 1,536,765	N/A	-
U.S. Government Bond Funds	25,054	N/A	-
CDs	<u>14,539</u>	<u>14,539</u>	-
Total Investments	<u><u>\$ 1,576,358</u></u>	<u><u>\$ 14,539</u></u>	<u><u>\$ -</u></u>

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

The following is a summary of assets measured at fair value:

<u>Description</u>	June 30, <u>2017</u>	<u>Fair Value Measurements Using</u>		
		Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Short-term Investments	\$ 1,536,765	\$ 1,536,765	\$ -	\$ -
U.S. Government Bond Funds	<u>14,539</u>	<u>14,539</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,551,304</u>	<u>\$ 1,551,304</u>	<u>\$ -</u>	<u>\$ -</u>

The short-term investments and U.S. Government bond funds are reported as investments in the fiduciary funds in the financial statements. CD's are reported at amortized cost and are excluded from the fair value disclosures.

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. Governmental funds record costs of inventories as expenditures and expenses when consumed rather than when purchased. Inventories at year end consisted of:

Governmental Funds	
School Cafeteria	\$899

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

Capital assets

Capital assets activity for the year ended June 30, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Construction in Progress	\$ 34,700	\$ 254,661	\$ -	\$ 289,361
Total capital assets, not being depreciated	<u>34,700</u>	<u>254,661</u>	<u>-</u>	<u>289,361</u>
Capital assets, being depreciated:				
Buildings & Improvements	18,985,728	165,631	-	19,151,359
Furniture and Equipment	5,689,153	57,653	(54,489)	5,692,317
Vehicles	301,376	-	-	301,376
Total capital assets being depreciated	<u>24,976,257</u>	<u>223,284</u>	<u>(54,489)</u>	<u>25,145,052</u>
Less accumulated depreciation for:				
Buildings & Improvements	6,590,724	479,371	-	7,070,095
Furniture and Equipment	4,672,691	187,734	(54,357)	4,806,068
Vehicles	201,170	12,232	-	213,402
Total accumulated depreciation	<u>11,464,585</u>	<u>679,337</u>	<u>(54,357)</u>	<u>12,089,565</u>
Total capital assets, being depreciated, net	<u>13,511,672</u>	<u>(456,053)</u>	<u>(132)</u>	<u>13,055,487</u>
Governmental activities capital assets, net	<u>\$ 13,546,372</u>	<u>\$ (201,392)</u>	<u>\$ (132)</u>	<u>\$ 13,344,848</u>

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

Governmental Activities:	
Education	\$ 649,586
Pupil Services	22,321
Cafeteria	<u>7,430</u>
Total	<u>\$ 679,337</u>

Construction Commitments

The District approved a Building Project for an amount not to exceed \$5,755,866. A portion of the cost of the project will be reimbursed by the State. At year end, the Districts commitments are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Building Project	\$289,361	\$5,486,505

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

Interfund Transfers

Interfund Transfers during the year ended June 30, 2017 were as follows:

	Transfer to:				
	Building Fund	Grants Fund	Reserve for Capital Outlay	Cafeteria Fund	Total
<u>Transfers from:</u>					
Reserve for					
Capital Outlay	\$ 50,000	\$ -	\$ -	\$ -	\$ 50,000
General Fund	-	65,765	12,000	10,000	87,765
Total	\$ 50,000	\$ 65,765	\$ 12,000	\$ 10,000	\$ 137,765

The transfer from the General Fund to the Cafeteria Fund represents a budgeted transfer of \$10,000. The transfer from the General Fund to the Reserve for Capital Outlay Fund represents a budgeted transfer of \$12,000. The transfer from General Fund to the Grants Fund represents Title I grant funds of \$65,765. The transfer from the Reserve for Capital Outlay Fund to the Building fund is for the Building project.

Interfund Advances

	Due to:		
<u>Due from:</u>	<u>Pupil Services</u>	<u>Regional Services</u>	<u>Total</u>
General Fund	\$ 96,993	\$ 33,543	\$ 130,536
Regional Services	47,932	-	47,932
Total	\$ 144,925	\$ 33,543	\$ 178,468

The amount due from the General Fund to Pupil Services and Regional Services represents cash balances held on behalf of the funds.

Encumbrances

At June 30, 2017, the following encumbrances were authorized and outstanding:

General Fund (High School)	\$ 182,071
Pupil Services Fund	53,601
Regional Services Fund	21,288
Total	\$ 256,960

Long-term obligations

Long-term obligation activity

A General Obligation Bond of \$3,425,000 was issued on 6/27/13 to refund earlier loan and bond issues, with an interest rate of 2.3%. The note matures March 1, 2022.

General Obligation Bonds were issued March 18, 2015 in the amount of \$2,000,000, with an interest rate of 2.22%. The note matures August 15, 2024.

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

An early retirement incentive was accepted and offered to teachers, in a prior year. The offer consisted of three annual payments of \$12,000.

	Interest Rate	Date of Issue	Date of Maturity	Principal Outstanding June 30, 2017
<i>Governmental activities</i>				
General Obligation Bond	2.300%	06-27-13	03-01-22	\$ 1,725,000
General Obligation Bond	2.220%	03-18-15	08-15-24	<u>1,600,000</u>
Total governmental long-term obligations				<u>\$ 3,325,000</u>

Changes in long-term obligations for the year ended June 30, 2017, are as follows:

<i>Governmental Activities:</i>	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Current <u>Portion</u>
Bonds	\$ 3,951,000	\$ -	\$ (626,000)	\$ 3,325,000	\$ 631,000
Unamortized Premiums	22,239	-	(3,706)	18,533	-
Early Retirement Incentive	24,000	-	(12,000)	12,000	12,000
Total	<u>\$ 3,997,239</u>	<u>\$ -</u>	<u>\$ (641,706)</u>	<u>\$ 3,355,533</u>	<u>\$ 643,000</u>

Debt service requirements

Historically, the General Fund has been used to liquidate long-term liabilities. Debt service requirements on long-term debt at June 30, 2016, are as follows:

Year <u>Ending</u>	<u>Long-Term Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 643,000	\$ 73,526
2019	541,000	59,036
2020	548,000	46,704
2021	549,000	34,088
2022	456,000	21,510
2023-2025	<u>600,000</u>	<u>19,980</u>
Total	<u>\$ 3,337,000</u>	<u>\$ 254,844</u>

Interest expense

Interest expense for the year ended June 30, 2017 was \$97,806.

Short-term Obligations- Bond Anticipation Notes

The Town uses bond anticipation notes to fund construction costs prior to issuance of bonds. The following table summarizes changes in the Town's short-term obligations for the year ended June 30, 2017:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Bond Anticipation Note	\$ -	\$ 3,800,000	\$ -	\$ 3,800,000

The bond anticipation note carries an interest rate of .8% and matures in March 2018. Total interest incurred and expensed was \$0. Interest upon payment is \$23,851.

REGIONAL SCHOOL DISTRICT NO. 1

Notes to the Financial Statements

Advance refunding of debt

On June 27, 2013, a General Obligation Bond was issued to refund an earlier loan and bond issues. The refunding resulted in an economic gain as well as savings from refunding. The economic gain realized in the funding was \$267,015 and the savings resulting from the refunding was as follows:

Cash flow requirements to service (old) debt	\$ 4,079,261
Less: Cash flow requirements for new debt	<u>(3,771,839)</u>
Net savings from refunding	<u>\$ 307,422</u>

In a prior year, the District defeased a loan and bonds by placing the proceeds of a new bond in an irrevocable trust to provide for all future debt service payment on the old loan and bonds. Accordingly, the trust account assets and the liability for the defeased loan and bonds are not included in the District's financial statements. At June 30, 2017, \$1,760,305 of loan and bonds outstanding are considered defeased.

NOTE 4 – OPERATING LEASES

During a prior year, the District entered into an operating lease for several copiers. The monthly payments are \$2,784. During 2016-17 lease payments totaled \$34,414.

Future minimum lease payments under current agreements are as follows:

<u>Year</u>	<u>Amount</u>
2018	33,408
2019	5,568

NOTE 5 – OTHER INFORMATION

Compensated Absences

Employees are paid for absence due to vacation and illness under various agreements and policies. Vacation pay is generally not accrued beyond the fiscal year it is earned. Unused sick leave however, may be accumulated, and in certain circumstances paid upon separation. As the liability is not easily estimable, it is the District's policy to recognize sick leave costs at the time payments are made, and no liability has been determined as of June 30, 2017.

Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Additionally, employee health coverage is purchased from a commercial carrier. The District does not maintain a self-insurance fund. The District is a member of the Connecticut Interlocal Risk Management Agency (CIRMA) workers compensation pool, a risk sharing pool. The Worker's Compensation Pool provides statutory benefits pursuant to the provisions of the Connecticut Worker's Compensation Act. The coverage is subject to an incurred loss retrospective rating plan and losses incurred are evaluated at 24, 36, and 48 months after the effective date of coverage. The pool is allowed to make additional assessments, and is expected to make an additional assessment payable over four years. There are no significant reductions in insurance coverage, and there have been no settlements in excess of insurance coverage in the past three years.

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

NOTE 6 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Teacher’s Retirement Board

Plan Description: Teachers, principals, superintendents, or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers’ Retirement System (the “System”). The System is a cost sharing multiple-employer defined benefit pension plan administered by the Connecticut State Teachers’ Retirement Board (CTRB). Chapter 167a of the State Statutes grants authority to establish and amend the benefited terms to the CTRB Board. The CTRB issues a publicly available financial report that can be obtained at www.ct.gov, or by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106.

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% of the average annual salary times years of credited service (maximum benefit is 75% of average annual salary during the 3 highest years of salary).

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement: Employees are eligible for service-related disability regardless of length of service. Five years of credited service is required for non-service-related disability or eligibility. Disability benefits are calculated as 2% of average annual salary times years of credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

Contributions: Per Connecticut General Studies Section 10-183z, contribution requirements of active employees and the State of Connecticut are approved, amended, and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

Employer (School Districts): School District employers are not required to make contributions to the plan. The statutes require the State of Connecticut to contribute 100% of each school districts required contributions, which are actuarially determined as an amount, that, when combined with employee contributions, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

Employees: Participants are required to contribute 7.25% of their annual salary to the System as required by the CGS Section 10-183b(7). For the year ended June 30, 2017 the certified teachers’ contribution to the Connecticut Teachers Retirement Board was \$493,748. Covered payroll for the district for the year ended June 30, 2017 was approximately \$6,800,012.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions: At June 30, 2016 the District reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows due to the statutory requirement that the State pay 100% of the required contribution. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	<u>24,624,923</u>
Total	<u>\$ 24,624,923</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At June 30, 2017, the District had no proportionate share of the net pension liability.

For the year ended June 30, 2017, the District recognized benefits expense and intergovernmental revenue of \$1,686,448 in the governmental funds for on-behalf amounts for the contributions provided by the State. In the government-wide financial statements, the District recognized \$2,685,436 of pension expense for on-behalf amounts for the benefits provided by the State.

Actuarial Assumptions: The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2010. The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.00 Percent
Salary increases, including inflation	3.75-7.00 Percent
Long-term investment rate of return, net of pension investment expense, including inflation.	8.50 Percent

Mortality rates were based on the RP-2000 Combined Mortality Table RP-2000 projected 19 years using scale AA, with a two-year setback for males and females for the period after service retirement and for dependent beneficiaries.

Future Cost-of-Living increases for members who retire on or after September 1, 1992 are assumed to receive an annual cost-of-living adjustment of 2%.

The long-term expected rate of return on pension investments was determined using a log-normal distributions analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension 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 asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

REGIONAL SCHOOL DISTRICT NO. 1
Notes to the Financial Statements

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap U.S. Equities	21.00%	5.80%
Developed Non-U.S. Equities	18.00%	6.60%
Emerging Markets (Non-U.S.)	9.00%	8.30%
Core Fixed Income	7.00%	1.30%
Inflation Linked Bond Fund	3.00%	1.00%
Emerging Market Bond	5.00%	3.70%
High Yield Bonds	5.00%	3.90%
Real Estate	7.00%	5.10%
Private Equity	11.00%	7.60%
Alternative Investments	8.00%	4.10%
Cash	<u>6.00%</u>	0.40%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 8.5%. The projection of cash flows used to determine the discount rate assumed that 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's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension 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 District's proportionate share of the net pension liability is \$0 and therefore the change in the discount rate would only impact the amount recorded by the State of Connecticut.

Non-Certified Employees

Substantially all other eligible full time employees are covered under the Regional School District No. 1 of Litchfield County Employees Pension Plan, a money purchase pension plan. The plan is a single employer defined contribution pension plan, administered by a pension committee of Regional School District No. 1. Current participants total 63 employees.

The plan covers all full-time employees who have completed at least thirty-six months of service and have attained the age twenty-five. Employees become eligible to participate on the July first following the completion of the above requirements. At June 30, 2017, all 63 employees were vested.

Vesting begins after three years service, at which time participants become 100% vested. Effective July 1st 2009, new participants become fully vested following three years of service. As a result, all participants are fully vested. Normal retirement is at age 65, with provisions for early retirement at age 55. Plan contributions are either 6% or 7.5% of annual compensation, depending on the employee's date of hire. There is provision for employee voluntary contributions. Employer contributions for the fiscal year ended June 30, 2017 totaled \$129,747. Employees are not required to make contributions to this plan.

The plan allows for amendment by the District as employer.

REGIONAL SCHOOL DISTRICT NO. 1

Notes to the Financial Statements

Deferred Compensation Plan

The District sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Participants' direct investment of deferred amounts and employee accounts are not reported in the financial statements of the District.

NOTE 7 – RECENTLY ISSUED ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for periods beginning after June 15, 2017.

GASB Statement No. 84, Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment funds, (3) private-purpose funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The requirements of this statement are effective for reporting periods beginning December 15, 2018.

GASB Statement No. 86, Certain Debt Extinguishment Issues. This statement improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87, Leases. This statement improves the 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 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 reporting periods beginning after December 15, 2019.

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REGIONAL SCHOOL DISTRICT NO. 1
 State Teacher's Retirement System
 Proportionate Share of Net Pension Liability and Schedule of Contributions
 Last Two Fiscal Years

Schedule of Proportionate Share of Net Pension Liability	<u>2017</u>	<u>2016</u>
District's proportion of the net pension liability	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	\$ -
State of Connecticut's proportionate share of the net pension associated with the District	<u>24,624,923</u>	<u>19,174,197</u>
Total	<u>\$ 24,624,923</u>	<u>\$ 19,174,197</u>
Districts's covered-employee payroll	<u>\$ 6,800,012</u>	<u>\$ 6,120,662</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll.	<u>0.00%</u>	<u>0.00%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>0.00%</u>	<u>0.00%</u>

See accountant's report.

REGIONAL SCHOOL DISTRICT NO. 1
 State Teacher's Retirement System
 Notes to Required Supplementary Information
 Schedule of Proportionate Share of the Net Pension Liability
 June 30, 2017

Change of Benefit Terms	None
Changes of Assumptions	In 2011, rates of withdrawal, retirement and assumed rates of salary increase were adjusted more closely to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five-year period ended June 30, 2010.
Actuarial Cost Method	Entry Age
Amortization Period	Level percent of salary, closed
Remaining Amortization Period	22.4 years
Asset Valuation Method	4 year smoothed market
Inflation	3.00%
Salary Increases	3.75%-7.00% average, including inflation
Investment Rate of Return	8.50%, net of pension plan investment expense, including inflation

TOWN OF CANAAN, CONNECTICUT

FINANCIAL INFORMATION

Excerpted from the
Annual Financial Report of
The Town of Canaan, Connecticut
Year Ended June 30, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Finance
The Town of Canaan, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Canaan, CT, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Canaan, CT'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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Canaan, CT, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the General Fund 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 and pension schedules on pages 4–10 and 47-48 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 of Canaan, CT's basic financial statements. The introductory section, combining and combining and individual nonmajor fund financial statements, and supplemental schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of state financial assistance 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 nonmajor fund financial statements and the schedule of expenditures of state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2017, on our consideration of the Town of Canaan, CT'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 of Canaan, CT's internal control over financial reporting and compliance.



King, King & Associates, CPAs
Winsted, CT
December 1, 2017

TOWN OF CANAAN, CT
Management's Discussion and Analysis
June 30, 2017

As management of the Town of Canaan, CT, we offer readers of the Town of Canaan, CT's financial statements this narrative overview and analysis of the financial activities of the Town of Canaan, CT for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Canaan, CT exceeded its liabilities at the close of the most recent fiscal year by \$3,938,479 (*net position*). Of this amount, \$1,954,675 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. Net Position of \$48,093 and \$12,829 was restricted for Debt Service and Special Revenue Fund purposes, respectively. The balance of \$1,935,882 is invested in capital assets.
- The government's total net position decreased by \$1,464,591. This decrease is attributable to completion of the Emergency Services Building.
- The Town's governmental funds reported, on a current financial resources basis, combined ending fund balances of \$2,150,911 a decrease of \$1,600,070 from the prior fiscal year. Of this amount, \$728,302 is available for spending at the government's discretion (*unassigned fund balance*) and \$322,063 has been assigned for subsequent year's appropriations. An additional \$31,261 is assigned for Cemetery Maintenance.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$728,302 or 15.2% percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Canaan, CT's basic financial statements. The Town of Canaan, CT's basic financial statements are comprised of 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 of Canaan, CT's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town of Canaan, CT's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator whether the financial position of the Town of Canaan, CT is improving or deteriorating.

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

TOWN OF CANAAN, CT
Management's Discussion and Analysis
June 30, 2017

Both of the government-wide financial statements distinguish functions of the Town of Canaan, CT that are principally supported by tax revenues, grants and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Canaan, CT include general government, public safety, public works, health and welfare, culture and recreation, sanitation and education. The operations of the Canaan Water Department are reported as a business-type activity.

The government-wide financial statements can be found on pages 11-12 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 of Canaan, CT, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Canaan, CT can be divided into three categories: governmental funds, proprietary 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 cash and other financial resources that can be readily converted to cash flow in and out, and balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a near or short-term view of the Town's finances that may be useful in evaluating the Town's near term financing requirements. *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 a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government'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 of Canaan, CT maintains thirty-one (31) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Fire Truck Equipment Reserve and the Emergency Service Building Fund, which are considered to be major funds. The remaining twenty-eight funds are combined into a single aggregated presentation in the financial statements. Individual fund data for each of these nonmajor funds is reported as supplementary information to the financial statements.

The Town of Canaan, CT adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-17 of this report.

TOWN OF CANAAN, CT
Management's Discussion and Analysis
June 30, 2017

Proprietary Funds. Proprietary Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town's proprietary fund presents the same information as is reported for the Canaan Water Department in the business-type activities sections of the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to provide services to the Town of Canaan. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains two funds that are considered pension trust funds, three private-purpose funds, and six agency funds.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-46 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Canaan, CT, assets exceeded liabilities by \$3,951,733 at the close of the most recent fiscal year.

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 2,648,238	\$ 4,451,935	\$ 48,149	\$ 29,832	\$ 2,696,387	\$ 4,481,767
Capital Assets	4,292,930	4,320,323	504,242	511,670	4,797,172	4,831,993
Total Assets	\$ 6,941,168	\$ 8,772,258	\$ 552,391	\$ 541,502	\$ 7,493,559	\$ 9,313,760
Deferred Outflows of Resources	-	-	-	-	-	-
Current Liabilities	\$ 346,090	\$ 491,000	\$ 11,083	\$ 34,218	\$ 357,173	\$ 525,218
Long-term Liabilities	2,937,502	3,126,388	260,405	259,084	3,197,907	3,385,472
Total Liabilities	3,283,592	3,617,388	271,488	293,302	3,555,080	3,910,690
Deferred Inflows of Resources	-	-	-	-	-	-
Net Position:						
Net Investment in Capital Assets	1,692,045	1,835,998	243,837	237,613	1,935,882	2,073,611
Restricted	60,922	80,451	-	-	60,922	80,451
Unrestricted	1,904,609	3,238,421	37,066	10,587	1,941,675	3,249,008
Total Net Position	\$ 3,657,576	\$ 5,154,870	\$ 280,903	\$ 248,200	\$ 3,938,479	\$ 5,403,070

TOWN OF CANAAN, CT
Management's Discussion and Analysis
June 30, 2017

A portion of the Town of Canaan, CT's net position (49.2%) reflects its net investment in capital assets (e.g. land, buildings, machinery and equipment, and infrastructure assets such as roads, bridges and water system assets). The Town of Canaan, CT uses these assets to provide services to its citizens; consequently these assets are not available for spending. Of the Town of Canaan, CT's remaining net position, \$60,922 is restricted for debt service and special revenue fund purposes and \$1,941,675 (49.3%) is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors. This compares with last year's unrestricted net position of \$3,249,008.

At the end of the current fiscal year, the Town of Canaan, CT is able to report positive balances in all categories of net position for the government as a whole.

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
REVENUES						
<i>General Revenues:</i>						
Property Taxes	\$ 4,148,813	\$ 4,094,282	\$ -	\$ -	\$ 4,148,813	\$ 4,094,282
Conveyance Taxes	-	-	-	-	-	-
Grants and Contributions, not						
Restricted to Specific Programs	164,017	159,900	-	-	164,017	159,900
Unrestricted Investment Earnings	13,084	26,082	-	-	13,084	26,082
Other Income	208,838	102,168	-	-	208,838	102,168
Gain on Disposal of Fixed Assets	-	-	-	-	-	-
<i>Program Revenues:</i>						
Charges for Services	99,569	110,863	103,828	85,111	203,397	195,974
Operating Grants and Contribution	822,304	667,885	-	-	822,304	667,885
Capital Grants and Contributions	210,618	89,931	-	-	210,618	89,931
Total Revenues	5,667,243	5,251,111	103,828	85,111	5,771,071	5,336,222
EXPENSES						
<i>Governmental Activities:</i>						
General Government	502,923	457,158	-	-	502,923	457,158
Public Safety	2,276,542	519,264	-	-	2,276,542	519,264
Public Works	596,066	523,645	-	-	596,066	523,645
Health and Welfare	132,400	133,567	-	-	132,400	133,567
Culture and Recreation	95,201	98,552	-	-	95,201	98,552
Sanitation	101,108	103,480	-	-	101,108	103,480
Education	3,358,222	3,175,950	-	-	3,358,222	3,175,950
Public Water Utility	-	-	71,125	63,992	71,125	63,992
Interest on Long-Term Debt	102,075	100,049	-	-	102,075	100,049
Total Expenses	7,164,537	5,111,665	71,125	63,992	7,235,662	5,175,657
Change in Net Position	(1,497,294)	139,446	32,703	21,119	(1,464,591)	160,565
Beginning Net Position	5,154,870	5,015,424	248,200	227,081	5,403,070	5,242,505
Ending Net Position	\$ 3,657,576	\$ 5,154,870	\$ 280,903	\$ 248,200	\$ 3,938,479	\$ 5,403,070

Governmental activities. Governmental activities decreased the Town of Canaan, CT's net position by \$1,451,337.

Governmental activities revenues totaled \$5,771,071 for fiscal year 2017, an increase of \$434,849 from the prior fiscal year. The most significant factor contributing to this increase is the \$200,000 grant receivable for the Emergency Services Building and increases in property tax revenues and other revenues.

TOWN OF CANAAN, CT
Management's Discussion and Analysis
June 30, 2017

Key elements of this increase are as follows:

Seventy-three percent (73%) of the revenues of the Town were derived from property taxes, followed by eighteen percent (18%) capital and operating grants, two percent (2%) charge for services, three (3%) unrestricted, and four percent (4%) other income and investment income.

Major revenue factors included:

- Property Tax Collections, including collections of prior taxes, interest, and lien fees, were greater than the amount budgeted
- Recognition of Insurance Proceeds from the Fire Fund
- Greater than anticipated collections of Tuition and Education Grant Funds

Major expense factors include:

- Cost savings in most departments due to the diligence of department heads and employees
- Cost savings by the Board of Education

Business-type activities. Business-type activities increased the Town's net position by \$32,703.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds. The focus of the Town of Canaan, CT'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 of Canaan, CT's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Canaan, CT's governmental funds reported combined ending fund balances of \$2,150,911 a decrease of \$1,600,070 in comparison with the prior fiscal year. Thirty-four (34) % of this total constitutes unassigned fund balance with is available for spending at the government's discretion.

At the end of the current fiscal year, the Town of Canaan, CT is able to report positive balances in all categories of fund balance for the government as a whole.

Proprietary Fund: The Town of Canaan, CT's proprietary fund is the Water Department Fund. Its net assets increased \$32,703 during the fiscal year resulting in ending net assets of \$280,903. As discussed earlier this increase was attributable to the positive operating results of the Town's Water Department.

General Fund: The General Fund is the chief operating fund of the Town of Canaan, CT. At the end of the current fiscal year, the total fund balance of the General Fund was \$1,096,671, of which \$322,063 was assigned for the next fiscal year, \$31,261 was assigned to Cemetery Maintenance and \$15,045 was committed to Post-Employment Retirement Benefits. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and the amount assigned for future periods to total fund expenditures. Unassigned fund balance and the amount assigned for future periods represents 21.9 percent of total General Fund expenditures for the fiscal year ending June 30, 2017.

TOWN OF CANAAN, CT
Management's Discussion and Analysis
June 30, 2017

During the current fiscal year, the fund balance of the Town of Canaan, CT's General Fund increased by \$233,212. Key factors in this increase are as follows:

- There was a budgeted use of fund balance; however, due to better than anticipated revenues and controlled spending in various departments, the use of fund balance was not utilized.
- Cost savings in most of the town's departments.

General Fund Budgetary Highlights

The original General Fund budget provided for the use of \$189,017 of fund balance to finance approved expenditure appropriations not financed by projected revenue. An additional appropriation of \$1,800 for the Town Clerk Assistant was made during the year. Due to the diligence of employees and department heads, and greater revenue than budgeted, the budgeted use of surplus was not used during the year.

On the budgetary basis of accounting, transfers to other Town funds totaling \$115,324 were charged to Town departmental appropriations. Of this amount, appropriations of \$106,500 were included in the original budget as transfer to non-recurring accounts. The insurance proceeds from the fire were recognized and \$8,824 was appropriated to the Kellogg School Technology Reserve Fund, thereby increasing the transfers out.

On the budgetary basis, General Fund revenues for the fiscal year were \$86,226 less than budgetary projections, while expenditures were \$249,774 less than budgeted amounts due primarily to cost savings of many Town departments. The final amended General fund budget provided for the use of fund balance of \$190,817. However, as a result of the positive budgetary variances, the use of fund balance was not utilized. In addition, the following funds (D.M. Hunt Library Improvement fund \$450, S. Canaan Meeting House \$240 and Sidewalk Streetscaping Fund \$12,343) were closed out and balances totaling \$13,033 were transferred into the General fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town of Canaan, CT's investment in capital 4,797,172 (net of accumulated depreciation). This investment in capital assets includes land, building and improvements, furniture, vehicles, equipment, and infrastructure assets (roads, culverts, bridges and water system assets).

Additional information on the Town's capital assets can be found in Note 7 on page 35 of this report.

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

- The acquisition of Limerock Station
- The town's portion of the Amesville Bridge

TOWN OF CANAAN, CT
 Management's Discussion and Analysis
 June 30, 2017

CAPITAL ASSETS
 (Net of Depreciation)

	<u>2017</u>	<u>2016</u>
Land	\$ 379,825	\$ 233,325
Buildings and Improvements	2,411,728	2,523,931
Infrastructure	1,004,847	1,008,528
Machinery and Equipment	496,530	554,539
Capital Assets not being depreciated	104,851	101,735
Water System	<u>399,391</u>	<u>409,935</u>
Total	<u>\$ 4,797,172</u>	<u>\$ 4,831,993</u>

Long-term debt. At June 30, 2017 the Town of Canaan, CT's long-term debt included a general obligation bond debt outstanding of \$192,750. The debt, which is backed by the full faith and credit of the Town, financed Lee H Kellogg School construction costs incurred in prior fiscal years. The Town repaid \$64,250 of this debt during the current fiscal year. Future debt service requirements will be financed in part with State construction reimbursement grants of \$48,093. The Town's long-term debt at fiscal year-end also included \$260,405 in borrowing that was utilized to finance the water system tank replacement project.

The Town issued general obligation bonds totaling \$2,300,000 on July 1, 2014 to finance the design and construction of the Falls Village Volunteer Emergency Services Center, requiring annual principal payments of \$115,000. The balance was \$2,070,000 at year-end. General obligation bonds totaling \$350,000 were issued on August 1, 2015 to finance the Lee H Kellogg School Roof and Amesville Bridge. Payments of \$17,500 plus interest will be made over 20 years. The balance was \$332,500 at year-end.

Additional information on the Town of Canaan, CT's long-term debt can be found in Note 9 on page 36 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic factors affecting the Town of Canaan, CT, including those that were considered in preparing the Town's General Fund budget for the 2017-2018 fiscal year, and those that will affect future budgets are as follows:

- State grant funding is expected to decrease.
- The education appropriations to Regional School District No. 1 for fiscal year 2017-2018 increased by \$54,753 due to an increase in the town's student population.

All of these factors were considered in preparing the Town of Canaan, CT's budget for the 2018 fiscal year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Canaan, CT's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Selectmen, Town of Canaan, and P.O. Box 47, Falls Village, CT 06031.

TOWN OF CANAAN, CT
Statement of Net Position
June 30, 2017

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
ASSETS			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 2,086,014	\$ 4,120	\$ 2,090,134
Investments	187,796	-	187,796
State and Federal Grants Receivable	257,865	-	257,865
Other Receivables	-	44,029	44,029
Property Taxes Receivable (Net)	90,183	-	90,183
Interest Receivable	26,380	-	26,380
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	379,825	104,850	484,675
Capital Assets, Net of Depreciation	<u>3,913,105</u>	<u>399,392</u>	<u>4,312,497</u>
Total Assets	<u>\$ 6,941,168</u>	<u>\$ 552,391</u>	<u>\$ 7,493,559</u>
DEFERRED OUTFLOWS OF RESOURCES			
	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES:			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 319,809	\$ 11,083	\$ 330,892
Refundable Advances	26,281	-	26,281
<i>Noncurrent Liabilities:</i>			
Due Within One Year	198,444	15,618	214,062
Due in More Than One Year	<u>2,739,058</u>	<u>244,787</u>	<u>2,983,845</u>
Total Liabilities	<u>3,283,592</u>	<u>271,488</u>	<u>3,555,080</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net Investment in Capital Assets	1,692,045	243,837	1,935,882
Restricted for Special Revenue Fund Purposes	12,829	-	12,829
Restricted for Debt Service	48,093	-	48,093
Unrestricted	<u>1,904,609</u>	<u>37,066</u>	<u>1,941,675</u>
Total Net Position	<u>\$ 3,657,576</u>	<u>\$ 280,903</u>	<u>\$ 3,938,479</u>

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

TOWN OF CANAAN, CT

Statement of Activities

For the Year Ended June 30, 2017

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services	Operating		Primary Government			
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
Primary Government:								
Governmental Activities:								
General Government	\$ 502,923	\$ 58,263	\$ 45,443	\$ -	\$ (399,217)	\$ -	\$ (399,217)	
Public Safety	2,276,542	-	-	200,000	(2,076,542)	-	(2,076,542)	
Public Works	596,066	-	169,778	10,618	(415,670)	-	(415,670)	
Health & Welfare	132,400	7,294	-	-	(125,106)	-	(125,106)	
Sanitation	101,108	22,112	-	-	(78,996)	-	(78,996)	
Education	3,358,222	11,900	607,083	-	(2,739,239)	-	(2,739,239)	
Culture & Recreation	95,201	-	-	-	(95,201)	-	(95,201)	
Interest	102,075	-	-	-	(102,075)	-	(102,075)	
Total Governmental Activities	7,164,537	99,569	822,304	210,618	(6,032,046)	-	(6,032,046)	
Business-Type Activities:								
Water Department	71,125	103,828	-	-	-	32,703	32,703	
Total Business-Type Activities	71,125	103,828	-	-	-	32,703	32,703	
Total Primary Government	\$ 7,235,662	\$ 203,397	\$ 822,304	\$ 210,618	(6,032,046)	32,703	(5,999,343)	
General revenues:								
Property taxes levied for general purposes					4,148,813	-	4,148,813	
Grants not restricted to specific purpose					164,017	-	164,017	
Other Income					208,838	-	208,838	
Unrestricted investment income					13,084	-	13,084	
Total general revenues					4,534,752	-	4,534,752	
Change in net position					(1,497,294)	32,703	(1,464,591)	
Net position - beginning,					5,154,870	248,200	5,403,070	
Net position - ending					\$ 3,657,576	\$ 280,903	\$ 3,938,479	

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

TOWN OF CANAAN, CT

Balance Sheet

Governmental Funds

June 30, 2017

	General Fund	Emergency Services Building	Fire Truck & Equip Reserves	Nonmajor Governmental Funds	Total
ASSETS					
Cash and Cash Equivalents	\$ 996,718	\$ 12,686	\$ 279,428	\$ 797,182	\$ 2,086,014
Investments	187,796	-	-	-	187,796
Grants Receivable	-	200,000	-	9,773	209,773
Property Taxes Receivable, Net	90,183	-	-	-	90,183
Interfund Receivables	-	-	-	-	-
Total Assets	<u>\$ 1,274,697</u>	<u>\$ 212,686</u>	<u>\$ 279,428</u>	<u>\$ 806,955</u>	<u>\$ 2,573,766</u>
LIABILITIES					
Accounts Payable	\$ 96,945	\$ 182,789	\$ -	\$ 40,075	\$ 319,809
Deferred Revenue	4,316	-	-	-	4,316
Interfund Payables	-	-	-	-	-
Refundable Advances	-	-	-	21,965	21,965
Total Liabilities	<u>101,261</u>	<u>182,789</u>	<u>-</u>	<u>62,040</u>	<u>346,090</u>
Deferred Inflows of Resources					
Deferred Taxes	<u>76,765</u>	-	-	-	<u>76,765</u>
Total Deferred Inflows of Resources	<u>76,765</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,765</u>
FUND BALANCES					
Restricted for:					
Special Revenue Fund Purposes	-	-	-	12,829	12,829
Committed to:					
Capital Projects (also see page 54)	-	29,897	279,428	732,086	1,041,411
OPEB Obligations (Note 11)	15,045	-	-	-	15,045
Assigned to:					
Cemetery Maintenance	31,261	-	-	-	31,261
Subsequent Year's Budget	322,063	-	-	-	322,063
Unassigned	<u>728,302</u>	-	-	-	<u>728,302</u>
Total Fund Balances	<u>1,096,671</u>	<u>29,897</u>	<u>279,428</u>	<u>744,915</u>	<u>2,150,911</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,274,697</u>	<u>\$ 212,686</u>	<u>\$ 279,428</u>	<u>\$ 806,955</u>	<u>\$ 2,573,766</u>

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

TOWN OF CANAAN, CT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2017

Fund balances reported in governmental funds Balance Sheet \$ 2,150,911

Amounts reported for governmental activities in the government-wide Statement of Net Position are different because:

The governmental fund Balance Sheet includes revenues that will only be available to pay current period liabilities. Adjustments are necessary to accrue receivables for all earned revenues.

Interest on taxes \$ 21,628
Taxes Paid in Advance 4,752

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital Assets 7,371,900
Accumulated Depreciation (3,078,970)

Deferred revenue for property taxes and grants are reported in the funds but accrued as revenue in the government-wide statements and added to net position.

Property taxes 76,765

Noncurrent intergovernmental grants receivable are not available to pay for current period expenditures and therefore are not reported in the funds.

School Construction Grant 48,092

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund statements.

(2,937,502)

Net position of governmental activities \$ 3,657,576

TOWN OF CANAAN, CT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	General	Emergency Services Building	Fire Truck & Equip Reserves	Nonmajor Governmental Funds	Totals
Revenues					
Property Taxes	\$ 4,187,575	\$ -	\$ -	\$ -	\$ 4,187,575
Unrestricted Grants and Contributions	164,017	-	-	-	164,017
Operating Grants and Contributions	657,702	-	-	42,605	700,307
Capital Grants and Contributions	19,955	200,000	-	10,618	230,573
Charges for Services	97,855	-	-	1,714	99,569
Other Income	62,338	-	-	-	62,338
Investment Earnings	3,778	8,037	407	862	13,084
Total Revenues	<u>5,193,220</u>	<u>208,037</u>	<u>407</u>	<u>55,799</u>	<u>5,457,463</u>
Expenditures					
Current					
General Government	525,160	-	-	41,443	566,603
Public Safety	144,933	2,124,336	-	5,173	2,274,442
Public Works	404,972	-	-	-	404,972
Health & Welfare	122,215	-	-	1,284	123,499
Sanitation	102,352	-	-	-	102,352
Culture & Recreation	61,931	-	-	-	61,931
Education	3,124,926	-	-	-	3,124,926
Debt Service	298,825	-	-	-	298,825
Capital Outlay	20,903	-	-	79,080	99,983
Total Expenditures	<u>4,806,217</u>	<u>2,124,336</u>	<u>-</u>	<u>126,980</u>	<u>7,057,533</u>
Excess/(Deficiency) of Revenues Over Expenditures	387,003	(1,916,299)	407	(71,181)	(1,600,070)
Other Financing Sources/(Uses)					
Transfers In	13,033	-	25,000	141,824	179,857
Transfers Out	(166,824)	-	-	(13,033)	(179,857)
Total Other Financing Sources/(Uses)	<u>(153,791)</u>	<u>-</u>	<u>25,000</u>	<u>128,791</u>	<u>-</u>
Net Change in Fund Balances	233,212	(1,916,299)	25,407	57,610	(1,600,070)
Fund Balances - Beginning	<u>863,459</u>	<u>1,946,196</u>	<u>254,021</u>	<u>687,305</u>	<u>3,750,981</u>
Fund Balances - Ending	<u>\$ 1,096,671</u>	<u>\$ 29,897</u>	<u>\$ 279,428</u>	<u>\$ 744,915</u>	<u>\$ 2,150,911</u>

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

TOWN OF CANAAN, CT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to
the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances-total governmental funds \$ (1,600,070)

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

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

<i>Capital Expenditures</i>	167,182
<i>Depreciation Expense</i>	(194,575)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

189,448

Compensated absences and pension contributions are expended in the funds when resources are used, but are expensed in the Statement of Activities when the liability is incurred. This is the amount by which the accrued liability exceeded the resources expended.

(562)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds but are accrued in the government-wide financial statements.

<i>Property Taxes</i>	(38,762)
<i>Intergovernmental Grants</i>	<u>(19,955)</u>

Change in net position of governmental activities \$ (1,497,294)

TOWN OF CANAAN, CT
 Budgetary Comparison Statement
 General Fund
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Differences
	Original	Final Adjusted		
Revenues				
Property Taxes	\$ 4,118,326	\$ 4,118,326	\$ 4,187,575	\$ 69,249
Intergovernmental	560,304	560,304	553,212	(7,092)
Investment Income	2,000	2,000	3,466	1,466
Departmental:	69,825	73,825	72,363	(1,462)
Other Revenue:	45,400	45,400	87,830	42,430
Use of Fund Balance to Finance Budget	189,017	190,817	190,817	-
Total Revenues	4,984,872	4,990,672	5,095,263	104,591
Expenditures				
Current:				
General Government	553,330	559,130	525,160	(33,970)
Public Safety	146,401	146,401	144,933	(1,468)
Public Works	503,995	503,995	404,972	(99,023)
Health and Welfare	131,579	131,579	125,976	(5,603)
Culture and Recreation	72,526	72,526	61,931	(10,595)
Sanitation	108,087	108,087	102,352	(5,735)
Education	3,070,081	3,070,081	2,949,346	(120,735)
Town Support of Education - Fire Fund	-	-	20,903	20,903
Debt Service	292,373	292,373	298,825	6,452
Total Expenditures	4,878,372	4,884,172	4,634,398	(249,774)
Excess/(Deficiency) of Revenues Over Expenditures	106,500	106,500	460,865	354,365
Other Financing Sources/(Uses)				
Transfers In	-	-	13,033	13,033
Transfers Out	(106,500)	(106,500)	(115,324)	(8,824)
Total Other Financing Sources/(Uses)	(106,500)	(106,500)	(102,291)	4,209
Revenues and other financing sources over/ (under) expenditures and other financing uses				
	\$ -	\$ -	\$ 358,574	\$ 358,574
Fund Balances, beginning			819,726	
Plus: Income restored to Fund Balance			358,574	
Less: Use of Fund Balance to Finance Budget			(190,817)	
Fund Balances, ending			\$ 987,483	

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

TOWN OF CANAAN, CT
Statement of Net Position
Proprietary Fund
June 30, 2017

**Water
Department
Fund**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,120
Accounts Receivable	44,029
Total Current Assets	<u>\$ 48,149</u>

Noncurrent Assets

Capital Assets, net of accumulated depreciation	504,242
Total Noncurrent Assets	<u>\$ 504,242</u>

Total Assets	<u>\$ 552,391</u>
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DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>
---------------------------------------	----------

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 11,083
Interfund Advances	-
Current Portion of Long-term Debt	15,618
Total Current Liabilities	<u>26,701</u>

Non-Current Liabilities:

Non-Current Portion of Note Payable	244,787
Total Non-Current Liabilities	<u>244,787</u>

Total Liabilities	<u>271,488</u>
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DEFERRED INFLOWS OF RESOURCES	<u>-</u>
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NET POSITION

Invested in capital assets	243,837
Unrestricted	37,066
Total Net Position	<u>\$ 280,903</u>

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

TOWN OF CANAAN, CT
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
for the year ended June 30, 2017

	Water Department Fund
OPERATING REVENUES	
Charges for Services:	
Water Charges	\$ 103,828
Total Operating Revenues	<u>103,828</u>
 OPERATING EXPENSES	
Personnel	10,370
Office Supplies	794
Materials and Plant Supplies	3,061
Repairs and Maintenance	20,767
Utilities	6,872
Insurance	100
Water Testing	8,347
Depreciation	<u>10,543</u>
Total Operating Expenses	<u>60,854</u>
Operating Income/(Loss)	42,974
 NONOPERATING REVENUES/(EXPENSES)	
Interest Expense	<u>(10,271)</u>
Total Nonoperating Revenues/(Expenses)	<u>(10,271)</u>
Change in Net Position	32,703
Total Net Position - Beginning	<u>248,200</u>
Total Net Position - Ending	<u>\$ 280,903</u>

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

TOWN OF CANAAN, CT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	<u>Water Department Fund</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 84,461
Payments for salaries and benefits	(10,370)
Payments to Suppliers	<u>(46,228)</u>
Net Cash Provided/(Used by) Operating Activities	<u>27,863</u>
Cash Flows from Noncapital Financing Activities:	
	<u>-</u>
Cash Flow from Capital and Related Financing Activities:	
Principal payments on notes	(13,652)
Loan from General Fund	(1,875)
Interest payments on notes	(10,271)
Acquisition and construction of capital assets	<u>(3,115)</u>
Net Cash Provided/(Used by) Capital and related Financing Activities	<u>(28,913)</u>
Cash Flow from Investing Activities:	
	<u>-</u>
Net Decrease in Cash and Cash Equivalents	(1,050)
Balances - Beginning of the Year	<u>5,170</u>
Balances - End of the Year	<u>\$ 4,120</u>
Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:	
Operating Income/(Loss)	\$ 42,974
Change in Assets and Liabilities:	
Receivables, Net	(19,367)
Accounts Payable	(6,287)
Depreciation Expense	<u>10,543</u>
Net Cash Provided/(Used by) Operating Activities	<u>\$ 27,863</u>

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

TOWN OF CANAAN, CT
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>	<u>Totals</u>
Assets				
Cash and Cash Equivalents	\$ -	\$ 18,651	\$ 14,364	\$ 33,015
Investments- Mutual Funds	926,805	225,984	-	1,152,789
Contributions Receivable	29,346	-	-	29,346
Total Assets	<u>\$ 956,151</u>	<u>\$ 244,635</u>	<u>\$ 14,364</u>	<u>\$ 1,215,150</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities				
Due to Student Groups	\$ -	\$ -	\$ 12,593	\$ 12,593
Due to Others	-	-	1,771	1,771
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 14,364</u>	<u>14,364</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Position				
Reserved for Donor's Intentions Restricted for Pensions	- 956,151	18,651 225,984	-	18,651 1,182,135
Total Net Position	<u>\$ 956,151</u>	<u>\$ 244,635</u>	<u>\$ -</u>	<u>\$ 1,200,786</u>

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

TOWN OF CANAAN, CT
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2017

	<u>Pension</u> <u>Trust Fund</u>	<u>Private-Purpose</u> <u>Trust Funds</u>	<u>Total</u>
Additions			
Contributions			
Town	\$ 27,484	\$ 15,000	\$ 42,484
Employees	53,587	-	53,587
Foundation Grants	-	1,500	1,500
Private Donations	-	8,824	8,824
Total Contributions	<u>81,071</u>	<u>25,324</u>	<u>106,395</u>
Investment Income			
Interest and Dividends	-	8,838	8,838
Net Increase in Fair Value of Investments	<u>129,545</u>	<u>19,181</u>	<u>148,726</u>
Total Investment Income	<u>129,545</u>	<u>28,019</u>	<u>157,564</u>
Total Additions	<u>210,616</u>	<u>53,343</u>	<u>263,959</u>
Deductions			
Benefits Paid	17,934	-	17,934
Plan Administration	-	2,902	2,902
Financial Assistance	-	6,506	6,506
Total Deductions	<u>17,934</u>	<u>9,408</u>	<u>27,342</u>
Change in Net Position	192,682	43,935	236,617
Net Position - Beginning	<u>763,469</u>	<u>200,700</u>	<u>964,169</u>
Net Position - Ending	<u>\$ 956,151</u>	<u>\$ 244,635</u>	<u>\$ 1,200,786</u>

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

TOWN OF CANAAN
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Canaan, Connecticut (the Town) have been prepared in conformance with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Town's significant accounting policies are described below.

Reporting Entity

The Town of Canaan, CT (the "Town") was incorporated in 1739. It operates under a Board of Selectmen, Town Meeting, Board of Finance form of government and provides a full range of services including public safety, public works, sanitation, health and welfare, culture and recreation, education, and general administrative services to its residents.

Accounting principles generally accepted in the united States of America require that the reporting entity include 1) the primary government, 2) organizations for which the primary government is financially accountable, and 3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided by the GASB have been considered and there are no entities which should be presented as components units of the Town.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities are supported by assessing fees on users.

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

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

The various funds included in the financial statements are described below:

Governmental Funds are those through which most governmental functions typically are financed. The governmental funds are as follows:

The *General Fund* is the primary operating fund of the Town. It is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state grants, licenses, permits, charges for services, and earnings on investments.

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

TOWN OF CANAAN
Notes to the Financial Statements

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

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. These funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The proprietary funds are as follows:

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

Fiduciary Funds are used to account for assets held by the town in a trustee capacity or as an agent for individuals, private organizations, and other governments. Fiduciary funds are not included in the government-wide statements. The fiduciary funds are as follows:

Pension Trust Funds are used for the accumulation of resources to be used for retirement benefits.

Private-Purpose Trust Funds are used to account for resources legally held in trust for the benefit of individuals, private organizations or other governments.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Measurement focus, basis of accounting, and financial statements presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes 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.

Amounts reported as program revenues in the government-wide financial statements include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

TOWN OF CANAAN
Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Their revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Exceptions to this general rule include: voluntary non-exchange transactions when all eligibility requirements have been met. Expenditures are generally recorded when a liability is incurred. Exceptions to this general rule include: compensated absences, pension obligations, and claims and judgments that are recorded only when payment is due.

Property taxes when levied, licenses, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as governmental fund revenues of the current fiscal period. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance. Revenues are recognized when program eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the Town, or specifically identified.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

The *Falls Village Emergency Services Building Fund* accounts for the financial activity of a general obligation bond funded building construction project.

The *Fire Truck and Equipment Reserve* accounts for resources allocated for the purchase of fire trucks and equipment.

Additionally, the government reports the following fund types:

Proprietary Fund Types

Enterprise Funds are used to account for Water Department Fund fees and expenses.

Fiduciary Fund Types

Private-Purpose Trust Funds are used to account for resources legally held in trust for the benefit of individuals, private organization, or other governments.

Pension Trust Funds

The Pension Trust Funds are used to account for the accumulation of resources to be used for retirement benefits.

Agency Funds

Agency Funds account for monies held as a custodian for outside groups and agencies.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to members and residents for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions.

TOWN OF CANAAN
Notes to the Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the funds are charges to customers for services and reimbursements for modifications made to planned water line improvements. Operating expenses for the funds include the cost of operations and maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Water Department Fund, reported as a major enterprise-type proprietary fund, is the Town's only proprietary fund.

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 of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

Cash and Cash Equivalents - The deposit of public funds is controlled by the Connecticut General Statutes. The Town maintains separate accounts with depositories where necessary. Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested in various interest-bearing accounts, certificates of deposit, and pooled investment funds that may be deemed to be cash equivalents based on maturity date or availability of conversion to cash. Cash and cash equivalents are stated at cost, which approximates market value. The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months from the original date of acquisition. The above definition of cash applies to the proprietary funds' statement of cash flows.

Investments - In general, State of Connecticut Statutes allow the Town to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust, in obligations of any state or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. The pension and other trust funds may also invest in stocks or bonds or other securities selected by the trustee. Investments are stated at fair value, primarily utilizing quoted market prices, with the exception of certificates of deposit (cost), and money market funds (amortized cost).

TOWN OF CANAAN
Notes to the Financial Statements

Fair Value of Financial Instruments - In accordance with GASB 72, the town is required to measure the fair value of its assets and liabilities under a three-level hierarchy, as follows:

Level 1: Quoted market prices for identical assets or liabilities to which an entity has access to at the measurement date.

Level 2: Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets in markets that are not active;
- c. Observable inputs other than quoted prices for the assets or liability;
- d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity; and *unobservable inputs* reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Property Taxes - In accordance with Connecticut General Statutes, property taxes are assessed as of October 1, levied on the following July 1, and are due in two installments, July 1, and January 1. Motor vehicle taxes are due in one installment on July 1, and supplemental motor vehicle taxes are due in full January 1. The Town has established an allowance for estimated uncollectible property taxes in the amount of \$8,500. Taxes not paid on or before the first day of the month next succeeding the month in which they became due and payable, or if not due and payable on the first day of the month, on or before the same date of the next succeeding month corresponding to that day of the month on which they all become due and payable, are considered delinquent. Continuing liens are filed within two years of the original due date. An allowance based on historical collection experience is provided for uncollectible taxes. Property taxes, interest, and lien fees receivable that are not considered available to liquidate general fund liabilities of the current period are reported as a deferred inflow of resources on the governmental fund balance sheet, and accordingly, are not recognized as revenue in the fund financial statements during the current fiscal period.

Advances to and from other funds - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns 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 in excess of one years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

TOWN OF CANAAN
Notes to the Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. As permitted under GASB 34, the Town has prospectively capitalized its governmental activities infrastructure assets in the statement of net position beginning July 1, 2003. The Town's governmental activities infrastructure assets acquired before July 1, 2003 have not been capitalized and are not reported as capital assets in the government-wide financial statements.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & Improvements	15-50
Infrastructure	40-60
Water system assets	30-50
Equipment	4-60

Capital asset acquisitions are reported as expenditures and no depreciation is taken in the governmental fund financial statements.

Compensated absences – Employees accumulate, by prescribed formula, vacation and sick days for subsequent use or for payment upon termination or retirement. Expenses to be paid in future periods are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for amounts expected to be paid with available resources, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, 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 recognized as an expense in the period they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued, including capital leases, 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 services.

Long-term debt - Is recognized as a liability of a governmental fund when it is due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Deferred outflows/inflows of resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government has no items that qualify for reporting in this category.

TOWN OF CANAAN
Notes to the Financial Statements

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, Deferred Taxes, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Retirement plan accounting-

Pension Trust Funds- In the pension trust funds employee contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due pursuant to legal requirements of the plan. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Governmental Funds- In the governmental funds, expenditures are recognized when they are paid or are expected to be paid with current available resources.

Funding Policy- The Town funds its contributions in accordance with the terms of each plan.

Fund equity and net position- In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations or other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents the net position of the Town, which is not restricted for any project or other purpose.

When both restricted and unrestricted resources are available for certain expenses, the Town expends restricted resources first and uses unrestricted resources when the restricted funds are depleted.

In the fund financial statements, fund balances of governmental funds are classified in the following five separate categories:

Nonspendable Fund Balance – Indicates amounts that cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Examples are items that are not expected to be converted to cash including inventory, prepaid expenditures and permanent fund principal.

Restricted Fund Balance – Indicates amounts that are restricted to specific purposes. The spending constraints placed on the use of fund balance amounts are externally imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

TOWN OF CANAAN
Notes to the Financial Statements

Committed Fund Balance – Indicates amounts that can be used only for specific purposes pursuant to constraints imposed by formal budgetary action of the Board of Finance and Town Meeting in accordance with provisions of the Connecticut General Statutes.

Assigned Fund Balance – Indicates amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by formal action of Town officials.

Unassigned Fund Balance – Represents the remaining fund balance after amounts are set aside for all other classifications.

The Town has not established a formal policy for its use of restricted and unrestricted (committed, assigned, unassigned) fund balance; however, the Town generally used restricted fund balance first if the expenditure meets the restricted purpose, followed by committed, assigned and unassigned amounts.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds Payable	\$ 2,595,250
Capital Lease	5,635
Compensated Absences	7,519
Termination Benefits	48,951
OPEB Obligation	<u>280,147</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ 2,937,502</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances-total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. Elements which comprise these changes include debit issuance and repayments and compensated absences. The details to these elements are below.

TOWN OF CANAAN
Notes to the Financial Statements

The details concerning the issuance and repayment of debt are as follows:

Bond Principal Payments	\$ 198,440
Issuance of General Obligation Bonds	-
OPEB Obligation	<u>(8,992)</u>
Net adjustment to decrease <i>net changes in fund balances- total governmental funds</i> to arrive at changes in net position of governmental activities	<u>\$ 189,448</u>

Items which comprise compensated absences are:

Termination Benefits	\$ (39)
Compensated Absences	<u>(523)</u>
Net adjustment to increase <i>net changes in fund balances- total governmental funds</i> to arrive at changes in net position of governmental activities	<u>\$ (562)</u>

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

The Town follows these procedures in establishing budgetary data reflected in the financial statements:

Governmental Funds- Department heads, officers and agencies of the Town file estimates of expenditures to be made and revenues to be collected in the upcoming year to the Board of Finance. These estimates, as revised by the Board of Finance, are recommended as the annual operating budget for adoption at the Town meeting in May. Upon the adoption of the budget, the Board of Finance is authorized to transfer appropriated amounts between departments, and to authorize additional departmental appropriations totaling less than \$20,000. Town meeting approval is required whenever additional appropriations for a department exceed \$20,000 in the aggregate. The legal level of control at which expenditures may not exceed appropriations is at the departmental level. Appropriations for capital projects do not lapse until completion of the applicable projects. Annual General Fund unexpended appropriations lapse at year end.

The Town does not have legally adopted annual budgets for its special revenue funds, and capital project funds, because budgetary control is alternatively achieved by constraints imposed by intergovernmental grant agreements, or Connecticut General Statutes.

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve that portion of the applicable appropriation, is frequently employed by governmental units as an extension of formal budgetary integration in the governmental funds. The Town is not utilizing encumbrance accounting.

The Town prepares its annual budget on a basis of accounting (“budgetary basis”) which differs in some respects from the United States Generally Accepted Accounting Principles basis (“GAAP basis”) of accounting.

TOWN OF CANAAN
Notes to the Financial Statements

Budgetary/GAAP Reconciliation

A reconciliation of General Fund operations as presented in accordance with the GAAP basis of accounting, to the amounts presented on the budgetary basis, is as follows:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources/(Uses)</u>	<u>Change</u>
Budgetary Basis	\$ 5,095,263	\$ 4,634,398	\$ (102,291)	\$ 358,574
Fund Balance Assigned to:				
Cemetery Maintenance	293	239	-	54
OPEB Reserve - see note 9	19	-	2,500	2,519
Interfund Transfers Appropriated From:				
Departmental Budgets	-	(54,000)	(54,000)	-
Teachers Retirement System				
on-behalf Payments - see note 9	205,950	205,950	-	-
Use of Fund Balance to finance budget	(190,817)	-	-	(190,817)
School Roof Grant	62,882	-	-	62,882
Grant Revenue Passed Through to:				
Region One School District	19,630	19,630	-	-
GAAP Basis	<u>\$ 5,193,220</u>	<u>\$ 4,806,217</u>	<u>\$ (153,791)</u>	<u>\$ 233,212</u>

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The deposits of public funds are controlled by the Connecticut General Statutes. The following is a summary of cash and cash equivalents at June 30, 2017:

Detailed Cash Notes on all Funds

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits	\$ 2,057,491	\$ 4,120	\$ 14,364	\$ 2,075,975
Total Cash and Cash Equivalents	<u>\$ 2,057,491</u>	<u>\$ 4,120</u>	<u>\$ 14,364</u>	<u>\$ 2,075,975</u>

Deposits and Investments

Credit Risk – Generally, credit risk is defined as the risk that an issuer of a debt type investment will not fulfill its obligation to the holder. The Town has no credit risk policy beyond that of the Connecticut General Statutes.

Nationally recognized organizations assign ratings to various types of debt type instruments. The Town's mutual fund investments consist primarily of equity mutual funds for which no credit risk disclosure is required.

Custodial Credit Risk – Deposits. This is the risk that in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party.

TOWN OF CANAAN
Notes to the Financial Statements

The Town deposits its public funds in conformance with Connecticut General Statutes (Section 7-402), and actively manages its deposits in such a manner as to ensure that substantially all deposits are at all times either insured by Federal Depository insurance or secured with collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk based capital ratio. The Town has obtained pledge agreements from its banks in amounts greater than those required by Connecticut General Statutes.

At June 30, 2017, Town bank deposits of \$1,140,400, including certificates of deposits classified as investments, were insured by Federal Depository insurance. The remaining balances of Town deposits were exposed to custodial credit risk as follows: \$1,037,375 was collateralized under security agreements protecting the Town's interest in collateral held by bank trust departments or agents but not in the Town's name, and \$194,116 was uninsured and uncollateralized.

Custodial Credit Risk - Investments – This is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The manner by which the Town addresses custodial credit risk associated with certificates of deposit is described in the previous sections of this footnote. The Town does not have a formal policy for custodial credit risk associated with other types of cash equivalents and investments; however, the Town's pension plan mutual fund investments are not directly exposed to custodial credit risk.

Interest Rate Risk – The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The table presents information about the exposure of the Town's investments to this risk using the segmented time distribution model.

As of June 30, 2017, the Town had the following investments:

	Reported Value	Maturity Not Applicable	Investment Maturities	
			Less Than 1 yr.	1-5 yrs.
Governmental Funds:				
General fund - certificates of deposit	\$ 214,378	\$ -	\$ 214,378	\$ -
Nonmajor funds - certificates of deposit	1,941	-	1,941	-
Total governmental funds	<u>\$ 216,319</u>	<u>\$ -</u>	<u>\$ 216,319</u>	<u>\$ -</u>
Fiduciary Funds:				
Town pension plan - mutual funds	\$ 926,805	\$ 926,805	\$ -	\$ -
Fire department plan - mutual funds	225,984	225,984	-	-
Total fiduciary funds	<u>\$ 1,152,789</u>	<u>\$ 1,152,789</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF CANAAN
Notes to the Financial Statements

Fair Value Measurements

The following is a summary of assets measured at fair value.

	June 30, 2017	Fair Value Measurements Using		
		Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deposit Account	\$ 16,358	\$ 16,358	\$ -	\$ -
Mutual Funds	926,805	926,805	-	-
Equities	136,824	136,824	-	-
Fixed Income	72,802	72,802	-	-
Total Investments	<u>\$ 1,152,789</u>	<u>\$ 1,152,789</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 – RECEIVABLES

Town receivable balances at June 30, 2017 are as follows:

	General Fund	Major Governmental Funds	Proprietary Fund	Non-Major Governmental Funds	Pension Trust Funds	Totals
Property Taxes	\$ 98,683	\$ -	\$ -	\$ -	\$ -	\$ 98,683
Accrued Interest and Fees	-	-	-	-	-	-
Water User Fees	-	-	44,029	-	-	44,029
Intergovernmental	-	200,000	-	9,773	-	209,773
Pension Contributions	-	-	-	-	29,346	29,346
Total Gross Receivables	<u>98,683</u>	<u>200,000</u>	<u>44,029</u>	<u>9,773</u>	<u>29,346</u>	<u>381,831</u>
Allowance for Collection Losses	<u>(8,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,500)</u>
Total Net Receivables	<u>\$ 90,183</u>	<u>\$ 200,000</u>	<u>\$ 44,029</u>	<u>\$ 9,773</u>	<u>\$ 29,346</u>	<u>\$ 373,331</u>

Advance property tax collections, and governmental grant funds received but not earned in accordance with the terms of grant agreements, are reports as unearned revenue in the liabilities section of both the governmental activities column of the statement of net position, and in the governmental funds balance sheet.

To reflect that a portion of property taxes, interest, and lien fees receivable at June 30, 2017 are not considered available to liquidate general fund liabilities of the current period, the governmental funds balance sheet reports property tax revenue, unavailable for expenditure in the current fiscal year of \$76,765, as a deferred inflow of resources.

The Town is currently negotiating with a customer of the water system for reimbursement of expenses incurred for a change in the Town's Right of Way over the customer's property. The amount to be collected from the customer has not been finalized.

NOTE 6 – INTERFUND BALANCES

There were no Interfund advances that resulted from various interfund transactions.

TOWN OF CANAAN
Notes to the Financial Statements

Interfund Transfers during the year ended June 30, 2017 were as follows:

Transfers Out:	Transfers In:		
	General Fund	Non-Major Funds	Totals
General Fund	\$ -	\$ 166,824	\$ 166,824
Non-major Funds	13,033	-	13,033
	\$ 13,033	\$ 166,824	\$ 179,857

Transfers are used to account for unrestricted revenues from the General Fund used to finance various programs accounted for in other funds in accordance with budget authorizations and reimbursed expenditures capital improvements.

NOTE 7 – CAPITAL ASSETS

	06/30/2016 Beginning Balance	Increases	Decreases	06/30/2017 Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 233,325	\$ 146,500	\$ -	\$ 379,825
Total capital assets, not being depreciated	233,325	146,500	-	379,825
Capital assets, being depreciated:				
Buildings & Improvements	4,577,529	6,425	-	4,583,954
Infrastructure	1,062,076	14,257	-	1,076,333
Furniture, Equipment and Vehicles	1,331,788	-	-	1,331,788
Total capital assets, being depreciated	6,971,393	20,682	-	6,992,075
Less accumulated depreciation for:				
Buildings & Improvements	2,053,598	118,628	-	2,172,226
Infrastructure	53,548	17,938	-	71,486
Furniture, Equipment and Vehicles	777,249	58,009	-	835,258
Total accumulated depreciation	2,884,395	194,575	-	3,078,970
Total capital assets, being depreciated, net	4,086,998	(173,893)	-	3,913,105
Governmental activities capital assets, net	\$ 4,320,323	\$ (27,393)	\$ -	\$ 4,292,930
Business-type Activities:				
Capital assets, not being depreciated:				
Construction in process	\$ 101,736	\$ 3,115	\$ -	\$ 104,851
Total capital assets, not being depreciated	101,736	3,115	-	104,851
Capital assets, being depreciated:				
Water System	612,897	-	-	612,897
Less accumulated depreciation for:				
Water System	202,963	10,543	-	213,506
Business-type activities, capital assets, net	\$ 511,670	\$ (7,428)	\$ -	\$ 504,242

TOWN OF CANAAN
Notes to the Financial Statements

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

Governmental activities:	
General Government	\$ 26,054
Public Safety	2,100
Public Works	63,556
Health and Welfare	7,370
Culture and Recreation	30,310
Sanitation	2,528
Education	62,657
	<u>\$ 194,575</u>
Business-type activities:	
Public Water Utility	<u>\$ 10,543</u>

NOTE 8 – LONG-TERM DEBT

Governmental Activities

Long-term liability activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
General Obligation Bonds-Kellogg	\$ 257,000	\$ -	\$ 64,250	\$ 192,750	\$ 64,250
General Obligation Bond (School Roof)	350,000	-	17,500	332,500	17,500
General Obligation Bond	2,185,000	-	115,000	2,070,000	115,000
Capital Lease	7,325	-	1,690	5,635	1,694
Net OPEB Obligation	271,155	8,992	-	280,147	-
Compensated Absences - BOE	1,908	-	300	1,608	-
Compensated Absences - Town	5,088	823	-	5,911	-
Termination Benefits	48,912	39	-	48,951	-
Total	<u>\$ 3,126,388</u>	<u>\$ 9,854</u>	<u>\$ 198,740</u>	<u>\$ 2,937,502</u>	<u>\$ 198,444</u>

The General Fund has historically been used to liquidate long-term liabilities.

General Obligation Bonds

The Town issues general obligation bonds to provide financing for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. Bonds payable are secured by the general revenue raising powers of the Town.

General Obligation Bond Issue

On July 1, 2014 the Town issued of general obligation bonds totaling \$2,300,000 to finance the design and construction of a Falls Village Volunteer Emergency Services Center. Annual debt service requirements of the bonds are \$115,000 commencing July 1, 2015, and maturing July 1, 2034. The bonds provide for an initial interest rate of 3.565%, with adjustment to the Treasury Rate plus the Treasury Rate margin on July 1, 2021, July 1, 2027, and July 1, 2032. General obligation bonds were issued on August 20, 2015 to finance the Lee H Kellogg School roof and Amesville Bridge projects. Annual debt service requirements are \$17,500 commencing August 1, 2016 and maturing August 1, 2035 with interest calculated at 3.61% payable semi-annually.

TOWN OF CANAAN
Notes to the Financial Statements

At June 30, 2017 the Town was indebted under the following general obligation bonds:

	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate %</u>	<u>Original Issue</u>	<u>Balance June 30, 2017</u>
Lee Kellogg School Renovation	9/1999	9/2019	4.75%	\$ 845,000	\$ 126,750
Lee Kellogg School Renovation	9/1999	9/2019	4.75%	440,000	66,000
Amesville Bridge & School Roof	8/2016	8/2035	3.61%	350,000	332,500
Ambulance Facility	7/2014	7/2034	3.57%	2,300,000	2,070,000
				Total	<u>\$ 2,595,250</u>

The annual debt service requirements of the Town's bonded indebtedness are as follows:

<u>Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 196,750	\$ 94,954	\$ 291,704
2019	196,750	87,171	283,921
2020	196,750	79,388	276,138
2021	132,500	71,604	204,104
2022	132,500	66,873	199,373
2023-2027	662,500	263,391	925,891
2028-2032	662,500	145,104	807,604
2033-2036	415,000	30,916	445,916
Total	<u>\$ 2,595,250</u>	<u>\$ 839,401</u>	<u>\$ 3,434,651</u>

The State of Connecticut reimburses the Town for eligible school bond principal and interest costs. The amount of reimbursement for the year ended June 30, 2017 was \$19,954. Additional reimbursements of principal and interest aggregating \$48,093 are expected to be received through the bonds' maturity dates.

Termination Benefits

The collective bargaining agreement between the Canaan Board of Education (BOE) and the Lee H. Kellogg Faculty Association (LHKFA) provides a severance benefit to members of LHKFA who have been employed by the BOE for at least twenty years. Eligible members receive fifteen percent of their basic salary upon retirement. In addition, the BOE has offered one-time benefit packages to individual employees. At June 30, 2017 a liability for the amount of severance benefits earned by eligible individuals (\$48,951) is reflected in the government-wide statement of net position.

TOWN OF CANAAN
Notes to the Financial Statements

Business-Type Activities:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Due Within</u> <u>One Year</u>
Note Payable	\$ <u>274,057</u>	\$ <u>-</u>	\$ <u>13,652</u>	\$ <u>260,405</u>	\$ <u>15,618</u>

The Water fund has a \$350,000 note dated November 25, 2009 to finance the replacement of two water tanks at the municipal water works system providing for multiple principal advances as needed by the Town to finance the project; interest only payments until November 25, 2010, monthly principal and interest payments based upon the loan's outstanding balance beginning November 25, 2010; final maturity November 25, 2030; interest 3.25%.

The annual debt service requirements of the Town's bonded indebtedness are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s)			
2018	\$ 15,618	\$ 8,303	\$ 23,921
2019	16,141	7,781	23,922
2020	16,681	7,241	23,922
2021	17,221	6,701	23,922
2022	17,815	6,107	23,922
2023-2027	98,412	21,197	119,609
2028-2031	77,195	4,539	81,734
Total	<u>\$ 259,083</u>	<u>\$ 61,869</u>	<u>\$ 320,952</u>

Operating Leases

The Town has entered into several lease agreements for equipment. These leases require monthly payments from \$133 to \$600. These leases expire ranging from July 2018 to February 2021. Total lease expense for 2017 was \$14,278. Future minimum lease payments under current agreements are as follows:

Year ending June 30:	
2018	\$ 14,278
2019	10,516
2020	6,832
2021	1,354

Capital Lease

The Town has entered into a long-term lease purchase with Avaya in September, 2015 for the Town Hall phone system. The lease payments commenced in October 2015. The lease term is for five years with monthly lease payments of \$140.87. The following is an analysis of the lease properties under the capital lease by major classes.

Equipment	\$ 8,452
Less: Accumulated Depreciation	<u>(2,817)</u>
Total, net of depreciation	<u>\$ 5,635</u>

TOWN OF CANAAN
Notes to the Financial Statements

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payment as of June 30, 2017.

June 30, 2018	\$ 1,690
2019	1,690
2020	<u>563</u>
Total Minimum Lease Payments	<u>\$ 3,943</u>

Interest has not been imputed on the lease payments as it is considered immaterial.

NOTE 9 – RETIREMENT PLANS

Summary of Significant Accounting Policies

Basis of Accounting – The pension trust funds’ financial statements are prepared on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Valuation of Investments – fair value, primarily using quoted market prices.

Defined Contribution Plan

The Town provides retirement benefits through a single-employer defined contribution pension plan, the Town of Canaan Retirement Plan (the “plan”), for all eligible employees and elected officials, except certified personnel of the Board of Education who are covered by the State of Connecticut Teachers’ Retirement System. The plan, which does not issue stand-alone financial statements, is considered to be part of the Town’s financial reporting entity and is included in the Town’s financial statements as a Pension Trust fund.

Plan benefits, and contribution requirements, are established by the plan, which may be amended by the Town. At June 30, 2017 the net position available for benefits was \$956,151. Vested benefits totaled \$743,371.

At June 30, 2017 there were fourteen active participants and one participant has not met the minimum service requirement under the plan. To be eligible, participants must be twenty one years old, and have completed twelve months of service working at least 1,000 hours. Eligible participants may make voluntary contributions to the plan in accordance with Section 457 of the Internal Revenue Code, which are fully vested. Town contributions to the plan are three percent of annual compensation. In addition, the Town makes matching contributions based on prescribed formula, equivalent to no more than three percent of participant compensation. Participants direct the investment of contributed funds, and are fully vested after six years of service, at which time their account balances are available for distribution.

The Town contributed \$27,484 to plan participant accounts during the fiscal year, while employees contributed \$53,587. Pension benefits of \$17,734 were paid to participants during the fiscal year. Plan administration costs of \$200 were deducted from the investment account. The Town’s outstanding liability to the plan at fiscal year-end was \$27,484.

TOWN OF CANAAN
Notes to the Financial Statements

Service Incentive Program

The Town provides retirement benefits for members of the Falls Village Volunteer Fire Department (FVVFD) through the Town of Canaan – Falls Village Volunteer Fire Department, Inc. Service Award Program (the “program”). The program is administered by a committee consisting of representatives of the Town and the FVVFD. The program, which does not issue stand-alone financial statements, is considered to be part of the Town’s financial reporting entity and is included in the financial statements as a Pension Trust fund. At June 30, 2017 the net position available for benefits was \$225,984.

At December 31, 2016 the date of the last annual program report, there were forty-two plan participants of which sixteen were entitled to vested program benefits. To be eligible, members of the FVVFD must be at least eighteen years old and have earned sixty-five points under a system prescribed by the FVVFD. The Town’s annual contribution to the program is based upon availability of funds and is allocated by prescribed formula to participants based on years of service. Participants become fully vested after five years of service. The normal retirement age for receiving benefits is sixty-two, at which time participants are eligible for lump sum distributions of account balances. Participants may also apply for early disability distributions under certain circumstances as prescribed by the United States Social Security Administration. The Town contributed \$15,000 to the program during the fiscal year and no retirement benefits were paid to participants during the fiscal year. Plan administration expenses of the pension trust fund were \$2,902.

Teacher’s Retirement Board

Plan Description: Teachers, principals, superintendents, or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers’ Retirement System (the “System”). The System is a cost sharing multiple-employer defined benefit pension plan administered by the Connecticut State Teachers’ Retirement Board (CTRB). Chapter 167a of the State Statutes grants authority to establish and amend the benefited terms to the CTRB Board. The CTRB issues a publicly available financial report that can be obtained at www.ct.gov, or by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106. *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% of the average annual salary times years of credited service (maximum benefit is 75% of average annual salary during the 3 highest years of salary).

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement: Employees are eligible for service-related disability regardless of length of service. Five years of credited service is required for non-service-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times years of credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

TOWN OF CANAAN
Notes to the Financial Statements

Contributions: Per Connecticut General Studies Section 10-183z, contribution requirements of active employees and the State of Connecticut are approved, amended, and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

Employer (School Districts): School District employers are not required to make contributions to the plan. The statutes require the State of Connecticut to contribute 100% of each school districts' required contributions, which are actuarially determined as an amount, that, when combined with employee contributions, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability. The contributions made by the State on behalf of the District for the year ended June 30, 2017 were estimated to be \$205,950, and were recognized as revenues and expenditures in the Federal and State Grants Fund.

Employees: Participants are required to contribute 7.25% of their annual salary to the System as required by the CGS Section 10-183b (7). For the year ended June 30, 2017 the certified teachers' contribution to the Connecticut Teachers Retirement Board was \$58,470. Covered payroll for the district for the year ended June 30, 2017 was approximately \$806,484.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions: At June 30, 2017 the Town reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows due to the statutory requirement that the State pay 100% of the required contribution. The amount recognized by the Town as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportionate share of the net pension liability	\$	-
State's proportionate share of the net pension liability associated with the Town		<u>3,007,213</u>
Total	\$	<u>3,007,213</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At June 30, 2017 the Town had no proportionate share of the net pension liability.

For the year ended June 30, 2017, the Town recognized benefits expense and contribution revenue of \$205,966 in the governmental funds for on-behalf amounts for the benefits provided by the State. In the government-wide financial statements, the Town recognized \$327,947 for pension expense related to actuarial liabilities for on-behalf amounts for the benefits provided by the State.

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

Inflation	2.75 Percent
Salary increases, including inflation	3.25-6.50 Percent
Investment rate of return, net of pension investment expense, including inflation	8.00 Percent

TOWN OF CANAAN
Notes to the Financial Statements

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

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

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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap U.S. Equities	21.00%	5.8%
Developed Non-U.S. Equities	18.00%	6.6%
Emerging Markets (non-U.S.)	9.00%	8.3%
Real Estate	7.00%	5.1%
Private Equity	11.00%	7.6%
Alternative Investments	8.00%	4.1%
Core Fixed Income	7.00%	1.3%
High Yield	5.00%	3.9%
Emerging Market Bond	5.00%	3.7%
Inflation Linked Bond Fund	3.00%	1.0%
Cash	6.00%	0.4%
Total	<u>100%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF CANAAN
Notes to the Financial Statements

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The Town's proportionate share of the net pension liability is \$0 and therefore the change in the discount rate would only impact the amount recorded by the State of Connecticut.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Town of Canaan Retiree Health Insurance Program provides post-employment health insurance coverage for Highway Department employees who attain age sixty and who have completed at least twenty-five years of continuous full-time service through a single-employer defined benefit plan. The plan does not issue stand-alone financial statements. The plan provides for Town-financed individual health insurance coverage for eligible retirees on the same basis as is provided for full-time Town employees. On February 10, 2014, the plan was amended to cease coverage at such time as eligible retirees first become eligible for Medicare. The plan also provides funding of fifty percent of the cost of spousal health insurance costs. The plan continues to provide supplemental Medicare coverage to one surviving spouse who was receiving plan benefits prior to the plan amendment. Tri-annual actuarial valuations are made to re-determine the annual required contributions ("ARC"). Data from the Town's latest actuarial valuation, made July 1, 2015, has been updated by the Town's actuary to reflect the effect of the plan amendment.

The contribution requirements of plan members and the Town are established and may be amended by the Town. The Town determines the ARC using the projected unit credit method.

Funding policy

The Town funds post-employment benefits on a pay-as-you-go basis. The Town has not established a trust fund to irrevocably segregate assets to fund the liability associated with the benefits, which would require the reporting of a trust fund in accordance with GASB guidelines; however, the Town is committing funds for future benefit costs via annual General Fund appropriations. The Town has committed \$15,045 as of June 30, 2017. There are no requirements for employees to contribute.

Annual OPEB Cost and Net OPEB Obligations

The Town's annual Other Post-Employment Benefit (OPEB) cost is calculated on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The AARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation:

Annual required contributions (ARC)	\$ 12,110
Interest on net OPEB Obligation	10,846
Adjustment to annual required contribution	<u>(12,119)</u>
Annual OPEB Cost	10,837
Contributions made**	<u>(1,845)</u>
Increase in net OPEB Obligation	\$ 8,992
Net OPEB Obligation, beginning of year	<u>271,155</u>
Net OPEB Obligation, end of year	<u><u>280,147</u></u>

* Contributions made are assumed to equal expected benefit payments

TOWN OF CANAAN
Notes to the Financial Statements

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is presented below.

Fiscal Year Ending	Annual OPEB Cost (AOC)	Actual Contributions	Percentage of AOC Contributed	Net OPEB Obligation
06/30/2015	\$ 7,962	\$ 1,655	20.8%	\$ 262,393
06/30/2016	\$ 10,455	\$ 1,693	16.2%	\$ 271,155
06/30/2017	\$ 10,837	\$ 1,845	17.0%	\$ 280,147

The schedule of funding progress, presented below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Data is presented for the four years for which data is available.

Schedule of Funding Progress

Valuation Date	Value of Assets (a)	Accrued Liability (b)	AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/(c))
07/01/2012	\$ -	\$ 675,676	\$ 675,676	0%	N/A	N/A
07/01/2014	\$ -	\$ 101,187	\$ 101,187	0%	N/A	N/A
07/01/2015	\$ -	\$ 97,884	\$ 97,884	0%	\$ 165,340	59.2%

Schedule of Employer Contributions

Fiscal Year Ending	Required Contributuion	Actual Contributions	Percentage Contributed
06/30/2015	\$ 8,592	\$ 1,655	19.3%
06/30/2016	\$ 11,414	\$ 1,693	14.8%
06/30/2017	\$ 12,110	\$ 1,845	15.2%

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

TOWN OF CANAAN
Notes to the Financial Statements

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

The information presented was determined as part of the actuarial valuation. Additional information as of the last actuarial valuation follows:

Valuation Date:	July 1, 2015
Actuarial Cost Method:	Projected Unit Credit
Asset Valuation Method:	N/A; not funded
Amortization Method:	Level Dollar
Remaining Amortization Period:	27.98 Years
Actuarial Assumptions:	
Investment Rate of Return:	N/A
Inflation Rate:	2.5%
Health Cost Trend Rates:	Initial rate of 9% for the first year subsequent to the valuation, decreasing 1% per year to an ultimate rate of 5% for 2019 and beyond.
Projected Payroll Increase:	2.5%

NOTE 11 – RISK MANAGEMENT

The Town is exposed to various risks of loss involving torts, theft of, damage to, and destruction of assets, errors and omissions, injuries of employees, natural disaster and public official liabilities. The Town generally obtains commercial insurance for these risks. Coverage has not been significantly reduced and settled claims have not exceeded commercial coverage in any of the last three fiscal years.

The Town obtains its worker compensation and employer liability coverage as a member of Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established for the purpose of administering an interlocal risk management program pursuant to the provisions of Connecticut General Statutes. CIRMA is to be self-sustaining through members' premiums but purchases reinsurance for its protection at various levels for all lines of coverage provided. Members may be subject to supplemental assessment in the event of deficiencies.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Capital Projects

The Towns of Salisbury and Canaan jointly secured Federal Local Bridge Program financing, through the State of Connecticut Department of Transportation for 80% of the cost to replace a bridge that spans the Housatonic River between the two Towns, and jointly formed a committee to oversee the project. The project was completed however final payments have not been made.

TOWN OF CANAAN
Notes to the Financial Statements

Federal and State Grants

The Town has received Federal and State 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.

NOTE 13 – GASB PRONOUNCEMENTS ISSUED, BUT NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) is the standard setting board for governmental entities. The following are statements which have been approved by GASB, but are not yet effective:

- GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits (OPEB) Other than Pensions* – This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements (thereby jointly referred to as trusts) and applies to all governments whose employees are provided with OPEB. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017.
- GASB No. Statement 82 – *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73* – This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of Payments made by employers to satisfy employee (plan member) contribution requirements. The pronouncement is effective for fiscal years beginning after June 15, 2016.
- GASB Statement No. 83 – *Certain Asset Retirement Obligations* – this Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflows of resources for asset retirement obligations. The pronouncement is effective for fiscal years beginning after June 15, 2018.
- GASB Statement No. 84 – *Fiduciary Activities* – establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The pronouncement is effective for fiscal years beginning after December 15, 2018.
- GASB Statement No. 85 – *Omnibus 2017* – This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement an application, and postemployment benefits (pensions and other postemployment benefits other than pensions - OPEB). The pronouncement is effective for fiscal years beginning after June 15, 2017.

TOWN OF CANAAN, CT
 State Teacher's Retirement System
 Proportionate Share of Net Pension Liability
 June 30, 2017

Schedule of Proportionate Share of Net Pension Liability

	2017	2016	2015
Town's proportion of the net pension liability	0.00%	0.00%	0.00%
Town's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State of Connecticut's proportionate share of the net pension associated with Town	3,007,213	2,716,332	2,510,705
Total	\$ 3,007,213	\$ 2,716,332	\$ 2,510,705
Town's covered-employee payroll	\$ 806,484	\$ 843,048	\$ 816,883
Town's proportionate share of the net pension liability (asset) as a percentage of its covered -employee payroll.	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%	0.00%

See accountant's report.

TOWN OF CANAAN, CT
 State Teacher's Retirement System
 Note to Required Supplementary Information
 Schedule of Proportionate Share of Net Pension Liability
 Year-ended June 30, 2017

Change of benefit terms	None
Actuarial Assumptions	The total pension liability was determined by an actuarial valuation as of June 30, 2016.
Actuarial Cost Method	Entry Age
Amortization Period	Level percent of salary, closed
Remaining Amortization Period	17.6 years
Asset Valuation Method	4 year smoothed market
Inflation	2.75%
Salary Increases	3.25%-6.50% average, including inflation
Investment Rate of Return	8.00%, net of pension plan investment expense, including inflation

TOWN OF CORNWALL, CONNECTICUT

FINANCIAL INFORMATION

Excerpted from the
Annual Financial Report of
The Town of Cornwall, Connecticut
Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Finance
Town of Cornwall, 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 Cornwall, Connecticut (the "Town"), as of and for the year ended June 30, 2017, 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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Town's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 9, and the required supplementary information on page 36, 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 nonmajor fund financial statements, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other 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 nonmajor fund financial statements and other 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 September 18, 2017, 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.

Sandra E. Welwood, LLC

Danbury, Connecticut
September 18, 2017

TOWN OF CORNWALL, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2017

As management of the Town of Cornwall (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, 2017.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Town of Cornwall exceeded its liabilities at the close of the most recent fiscal year by \$9,333,845 (*net position*). Of this amount, \$4,425,742 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. Restricted Net Position is \$56,075, which is comprised of \$34,895 for the Cornwall Endowment Fund, \$16,251 for Open Space, \$283 for the Milk Fund and \$4,646 for the Food and Fuel Fund. The remainder of its net position is invested in capital assets.
- As of the close of the current fiscal year, the Town of Cornwall's governmental funds reported combined ending fund balances of \$4,102,867, an increase of \$1,242,405 in comparison with the prior year. Of this amount, \$1,736,893 is available for spending at the government's discretion and called the Unassigned fund balance. The Assigned portion is \$533,366, the Committed portion is \$1,764,322, the Restricted portion is \$21,180 and the Nonspendable portion is \$47,106. See page 33 of the audit report for details.
- At the end of the current fiscal year, the fund balance for the General Fund was \$2,221,919, of which \$200,000 has been assigned for the subsequent year's budget and \$272,815 has been assigned for other purposes leaving an unassigned fund balance for the General Fund of \$1,736,893 or 25.9% percent of total general fund expenditures for 2017.

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. The 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 and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

Town of Cornwall, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

The Statement of Activities presents information showing how the government's net position is 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 result in future cash inflows (revenues) and outflows (expenditures).

Both of the government-wide financial statements present functions of the Town that are principally supported by tax revenues, grants and intergovernmental revenues (*governmental activities*). The governmental activities of the Town include general government, public safety, highways, sanitation, health and welfare, recreation, and education. The Town does not report any funds that carry-on business-type activities.

The government-wide financial statements can be found on pages 10-11 of the audit 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, like other state and local governments, 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 a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government'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 eight (8) individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund. The Town also reports the Capital Projects Fund as a major fund.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12-15 of the audit report.

Town of Cornwall, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town’s own programs.

The basic fiduciary fund financial statements can be found on pages 16-17 of the audit report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-35 of the audit report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Town, assets and deferred outflows of resources exceeded liabilities by \$9,333,845 at the close of the most recent fiscal year.

<u>Net Position</u>		
	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current and other assets	\$ 5,006,734	\$ 3,451,745
Capital assets, net	<u>7,566,286</u>	<u>7,183,591</u>
Total assets	<u>12,573,020</u>	<u>10,635,336</u>
Deferred outflows of resources	<u>37,917</u>	<u>43,333</u>
<u>Liabilities</u>		
Long-term liabilities outstanding	2,752,175	1,418,385
Other liabilities	<u>524,917</u>	<u>182,416</u>
Total liabilities	<u>3,277,092</u>	<u>1,600,801</u>
<u>Net Position</u>		
Net investment in capital assets	4,852,028	5,808,539
Restricted	56,075	41,668
Unrestricted	<u>4,425,742</u>	<u>3,227,661</u>
Total net position	<u>\$ 9,333,845</u>	<u>\$ 9,077,868</u>

The restricted portion of the Town’s Net Position represents net position restricted for capital projects and other purposes. The balance of Unrestricted Net Position (\$4,425,742) may be used to meet the government’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report that all categories of net position increased by \$255,977 during this fiscal year. This increase is primarily attributable to principal pay down of bonded debt and an increase in cash offset by a decrease of taxes, interest and lien fees receivable and the excess of depreciation over additions to capital assets.

Town of Cornwall, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

<u>Changes in Net Position</u>		
	<u>2017</u>	<u>2016</u>
<u>Revenues:</u>		
General revenues:		
Property taxes	\$ 6,294,103	\$ 6,177,343
Unrestricted investment income	30,968	8,656
Grants and contributions	43,201	84,163
Other income	33,550	76,149
Program revenues:		
Charges for services	135,045	125,588
Operating grants and contributions	705,140	627,744
Capital grants and contributions	<u>-</u>	<u>65,241</u>
Total revenues	<u>7,242,007</u>	<u>7,164,884</u>
<u>Expenses:</u>		
Governmental activities:		
General government	895,771	878,525
Public safety	459,980	256,293
Highways	566,702	810,213
Sanitation	139,492	133,478
Health and welfare	58,357	61,940
Recreation	82,405	82,295
Education	4,629,581	4,546,864
Debt service	31,591	36,092
Other	<u>122,151</u>	<u>126,901</u>
Total expenses	<u>6,986,030</u>	<u>6,932,601</u>
Change in net position	255,977	232,283
Beginning net position	<u>9,077,868</u>	<u>8,845,585</u>
Ending net position	<u>\$ 9,333,845</u>	<u>\$ 9,077,868</u>

Governmental activities increased the Town of Cornwall's net position by \$255,977.

Key elements of the activities are as follows: 86.9% of the revenues of the Town were derived from property taxes, followed by 9.7% from operating grants and contributions, 1.9% from charges for services, and 1.5% from other income.

Town of Cornwall, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

Major revenue factors included:

- An increase in collection of delinquent taxes, interest and liens and an increase in fees for services and other revenues.
- A reduction of state grants, principally the LoCIP funds and Education Cost Sharing funds.

For Governmental Activities, 66.8% of the Town's expenses relate to education and repayment of long-term debt for school construction, 7.4% relates to public safety and health and welfare, 10.1% relates to highways and public works, and the remaining 15.7 % relates to government, community services, administration and other areas.

Major expense factors, for the most part, remain consistent as compared to the prior year. Major capital expenditures include the acquisition of a new 114SD Freightliner tanker for the Cornwall Volunteer Fire Department and the box culvert / bridge replacement on Valley Road.

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

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 a government'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 \$4,102,867, an increase of \$1,242,405. 42.3% of this total amount constitutes Unassigned fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, total fund balance of the General Fund totaled \$2,221,919, an increase of \$76,248 over the previous year of which \$200,000 was assigned for the subsequent year's budget and \$272,815 was assigned for other purposes.

As a measure of the General Fund's liquidity, it may be useful to compare both Unassigned Fund Balance and total Fund Balance to total fund expenditures. Unassigned Fund Balance represents 25.9% of total General Fund expenditures for 2017.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town ended the year with a \$121,248 budget surplus. The revenues exceeded budgeted amounts by \$63,244. Overall, the Town's expenditures were \$58,004 less than budgeted amounts principally attributable to reductions in Educational expenses. Although \$200,000 of fund balance was anticipated to be used to balance the budget, none was used. Of the \$121,248 budget surplus, \$45,000 was transferred to Capital Projects per authority of the electors and citizens to facilitate the West Cornwall Wastewater Management Study. This appropriation will ultimately be repaid by a RGTOD grant that was secured by NHCOCG.

Town of Cornwall, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2017 amounts to \$7,566,286 (net of accumulated depreciation). This investment in capital assets includes land and buildings, vehicles, machinery and equipment.

Major capital asset events during the current fiscal include insulation upgrades at CCS, construction of a Swap Shop at the Transfer Station, box culvert / bridge replacement on Valley Road, installation of new guide rails on Music Mountain over Reed Brook Road, purchase of a 2017 Ford F250 4 x 4 and a 2017 CAT backhoe for the Highway Department and the purchase of a new 114SD Freightliner tanker for the Cornwall Volunteer Fire Department.

<u>Capital Assets at Year-End (Net of Accumulated Depreciation)</u>		
	<u>2017</u>	<u>2016</u>
Land and infrastructure	\$ 1,449,029	\$ 1,307,981
Buildings and improvements	4,865,415	4,999,872
Machinery and equipment	<u>1,251,842</u>	<u>875,738</u>
Total (net of accumulated depreciation)	<u>\$ 7,566,286</u>	<u>\$ 7,183,591</u>

Additional information on the Town's capital assets can be found in Note 4 on page 26 of the audit report.

Long-Term Obligations

The Town has the following obligations:

<u>Outstanding Obligations at Year-End</u>		
	<u>2017</u>	<u>2016</u>
General obligation bonds	\$ 2,689,128	\$ 1,348,290
Landfill closure	<u>63,047</u>	<u>70,095</u>
	<u>\$ 2,752,175</u>	<u>\$ 1,418,385</u>

On September 24, 2017, General Obligation Bonds in the amount of \$1,500,000 were issued to fund the town wide bridge program. Additional information on the Town's long-term debt can be found in Note 7 on pages 31-32 of the audit report.

Town of Cornwall, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- Declining enrollment at Cornwall Consolidated School.
- Capital funding for the continuation of updating and replacing DPW equipment.
- Addition of a permanent part-time assistant in the Town Clerk's office.
- Increased debt service to include the town wide bridge program.
- Increases in grants to local organizations that provide services to Cornwall citizens.
- The potential impact of the State fiscal crisis and its effects on state grants and possible assessments.

These factors were considered in preparing the Town of Cornwall's budget for the 2017-2018 fiscal year.

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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Office, Town of Cornwall, P.O. Box 97, Cornwall, CT 06753.

TOWN OF CORNWALL, CONNECTICUT

STATEMENT OF NET POSITION

JUNE 30, 2017

(With Comparative Totals for June 30, 2016)

	2017	2016
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 4,294,882	\$ 2,676,950
Investments	304,798	289,755
Taxes, interest, and lien fees receivable, net	394,559	449,266
Prepaid expenses	12,211	7,984
Other receivables	284	27,790
	5,006,734	3,451,745
Noncurrent assets:		
Capital assets:		
Land and other nondepreciable assets	671,177	671,177
Depreciable assets, net of depreciation	6,895,109	6,512,414
Total assets	12,573,020	10,635,336
<u>Deferred Outflows of Resources</u>		
Unavailable amount on refunding	37,917	43,333
Total deferred outflows of resources	37,917	43,333
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	455,494	119,305
Due to other beneficiaries	27,752	26,985
Accrued expenses	38,770	33,308
Due to State of Connecticut	2,901	2,818
Current portion of long-term obligations	322,387	167,387
	847,304	349,803
Noncurrent liabilities:		
General obligation bonds	2,350,000	1,160,000
Other long-term obligations	79,788	90,998
Total liabilities	3,277,092	1,600,801
<u>Net Position</u>		
Net investment in capital assets	4,852,028	5,808,539
Restricted	56,075	41,668
Unrestricted	4,425,742	3,227,661
Total net position	\$ 9,333,845	\$ 9,077,868

The notes to the financial statements are an integral part of this statement.

TOWN OF CORNWALL, CONNECTICUT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

(With Comparative Totals for the Year Ended June 30, 2016)

	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2017	2016
Governmental Activities:						
General government	\$ 895,771	\$ 117,206	\$ 7,073	\$ -	\$ (771,492)	\$ (723,121)
Public safety	459,980	-	-	-	(459,980)	(228,600)
Highways	566,702	-	224,166	-	(342,536)	(553,218)
Sanitation	139,492	13,767	-	-	(125,725)	(121,698)
Health and welfare	58,357	-	49,845	-	(8,512)	(12,739)
Recreation	82,405	3,431	-	-	(78,974)	(81,166)
Education	4,629,581	641	424,056	-	(4,204,884)	(4,230,493)
Debt service	31,591	-	-	-	(31,591)	(36,092)
Other	122,151	-	-	-	(122,151)	(126,901)
Total governmental activities	\$ 6,986,030	\$ 135,045	\$ 705,140	\$ -	(6,145,845)	(6,114,028)
General Revenues:						
Property taxes, interest, and lien fees					6,294,103	6,177,343
Unrestricted investment income					30,968	8,656
Grants and contributions not restricted to specific purpose					43,201	84,163
Other income					33,550	76,149
Total general revenues					6,401,822	6,346,311
Change in net position					255,977	232,283
Net position, beginning of year					9,077,868	8,845,585
Net position, end of year					\$ 9,333,845	\$ 9,077,868

The notes to the financial statements are an integral part of this statement.

TOWN OF CORNWALL, CONNECTICUT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

(With Comparative Totals for June 30, 2016)

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Governmental Funds	
				2017	2016
Assets					
Cash and cash equivalents	\$ 2,163,344	\$ 1,991,858	\$ 139,680	\$ 4,294,882	\$ 2,676,950
Investments	266,287	-	38,511	304,798	289,755
Taxes, interest, and lien fees receivable, net of allowance	394,559	-	-	394,559	449,266
Other receivables	284	-	-	284	27,790
Prepaid expenses	12,211	-	-	12,211	7,984
Due from other funds	15,150	111	-	15,261	303,109
Total assets	\$ 2,851,835	\$ 1,991,969	\$ 178,191	\$ 5,021,995	\$ 3,754,854
Liabilities					
Accounts payable	\$ 183,178	\$ 272,316	\$ -	\$ 455,494	\$ 119,305
Due to other beneficiaries	27,752	-	-	27,752	26,985
Accrued expenses	38,770	-	-	38,770	33,308
Due to State of Connecticut	1,155	-	1,746	2,901	2,818
Due to other funds	111	11,000	4,150	15,261	303,109
Total liabilities	250,966	283,316	5,896	540,178	485,525
Deferred Inflows of Resources					
Unavailable revenue - taxes, interest, and lien fees	378,950	-	-	378,950	408,867
Fund Balances					
Nonspendable	12,211	-	34,895	47,106	32,831
Restricted	-	-	21,180	21,180	16,821
Committed	-	1,704,025	60,297	1,764,322	633,848
Assigned	472,815	4,628	55,923	533,366	515,930
Unassigned	1,736,893	-	-	1,736,893	1,661,032
Total fund balances	2,221,919	1,708,653	172,295	4,102,867	2,860,462
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,851,835	\$ 1,991,969	\$ 178,191		
Amounts reported in the Statement of Net Position are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				7,566,286	7,183,591
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				378,950	408,867
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.					
Deferred amount on refunding				37,917	43,333
Unamortized premiums				(29,128)	(33,290)
General obligation bonds				(2,660,000)	(1,315,000)
Post-closure landfill costs				(63,047)	(70,095)
Net position				\$ 9,333,845	\$ 9,077,868

The notes to the financial statements are an integral part of this statement.

TOWN OF CORNWALL, CONNECTICUT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Governmental Funds	
				2017	2016
Revenues:					
Property taxes	\$ 6,324,020	\$ -	\$ -	\$ 6,324,020	\$ 6,236,640
Investment income	20,657	5,911	4,400	30,968	8,656
Fees and charges	136,304	-	3,073	139,377	150,234
Intergovernmental revenues	695,223	813	200	696,236	721,372
Contributions	-	9,368	54,936	64,304	51,701
Other revenues	17,019	-	-	17,019	55,578
Total revenues	7,193,223	16,092	62,609	7,271,924	7,224,181
Expenditures:					
Current:					
General government	843,363	19,117	14,282	876,762	840,274
Public safety	146,448	378,267	-	524,715	196,035
Highways	478,981	-	-	478,981	440,072
Sanitation	146,540	-	-	146,540	140,930
Health and welfare	43,072	-	15,285	58,357	61,940
Recreation	82,405	-	-	82,405	82,295
Education	4,425,840	43,677	-	4,469,517	4,381,260
Other	122,151	-	-	122,151	126,901
Debt Service:					
Principal and interest	181,175	-	-	181,175	175,675
Capital outlay	-	588,916	-	588,916	416,331
Total expenditures	6,469,975	1,029,977	29,567	7,529,519	6,861,713
Excess of revenues over (under) expenditures	723,248	(1,013,885)	33,042	(257,595)	362,468
Other Financing Sources (Uses):					
Proceeds from issuance of debt	-	1,500,000	-	1,500,000	-
Transfers in	-	647,000	-	647,000	630,972
Transfers out	(647,000)	-	-	(647,000)	(630,972)
	(647,000)	2,147,000	-	1,500,000	-
Net change in fund balances	76,248	1,133,115	33,042	1,242,405	362,468
Fund balances, beginning of year	2,145,671	575,538	139,253	2,860,462	2,497,994
Fund balances, end of year	\$ 2,221,919	\$ 1,708,653	\$ 172,295	\$ 4,102,867	\$ 2,860,462

The notes to the financial statements are an integral part of this statement.

TOWN OF CORNWALL, CONNECTICUT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	<u>\$ 1,242,405</u>
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (net of disposals) exceeded depreciation in the current period:</p>	
Capital outlay (net of disposals)	714,084
Depreciation expense	<u>(331,389)</u>
	<u>382,695</u>
<p>Revenues in the Statement of Activities that do not provide current financial resources are reported as deferred revenues in the funds. Accordingly, an adjustment is necessary to reconcile amounts reported as interest receivable in the government-wide Statement of Net Position and as unavailable revenue in the fund Balance Sheet.</p>	
	<u>(29,917)</u>
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>	
Debt issued:	
Issuance of debt	(1,500,000)
Amortization of the premium on the refunding debt	4,162
Repayments:	
Amortization of the deferred amount on refunding	(5,416)
To bond holders	<u>155,000</u>
	<u>(1,346,254)</u>
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Post-closure landfill costs	<u>7,048</u>
Change in net position	<u><u>\$ 255,977</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CORNWALL, CONNECTICUT

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY BASIS - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts			Actual	Variance With Final Budget Positive (Negative)
	Original	Transfers	Final		
Revenues:					
Fees for services	\$ 59,901	\$ -	\$ 59,901	\$ 136,304	\$ 76,403
Other revenues	3,500	-	3,500	17,019	13,519
Property taxes	6,086,824	-	6,086,824	6,324,020	237,196
State education grants	42,811	-	42,811	6,950	(35,861)
State general grants	309,037	-	309,037	271,367	(37,670)
Transfer/non-revenue receipts	211,000	-	211,000	20,657	(190,343)
Total revenues	6,713,073	-	6,713,073	6,776,317	63,244
Expenditures:					
Assessor	40,971	-	40,971	39,228	1,743
Board of Assessment Appeals	500	-	500	-	500
Board of Selectmen	98,771	306	99,077	99,043	34
Finance Department	60,232	-	60,232	60,213	19
Hammond Beach	38,784	-	38,784	36,289	2,495
Highway administration/supplies	425,918	10,600	436,518	435,454	1,064
Highway vehicle maintenance	40,000	3,600	43,600	43,527	73
Insurance and benefits	347,789	-	347,789	341,971	5,818
Land use	35,216	-	35,216	89,721	(54,505)
Organizational support	127,000	-	127,000	122,151	4,849
Park & recreation	46,948	-	46,948	46,116	832
Payroll expenses	51,038	-	51,038	49,381	1,657
Probate Court	3,113	-	3,113	3,112	1
Public health & welfare	50,589	-	50,589	43,072	7,517
Public safety	164,897	-	164,897	146,448	18,449
Registrars of Voters	12,257	-	12,257	9,315	2,942
Sanitation & recycling	143,242	3,300	146,542	146,540	2
Tax Collector	37,000	-	37,000	35,158	1,842
Town Clerk	61,119	-	61,119	58,960	2,159
Town office administration	45,652	11,630	57,282	57,261	21
Contingency	30,000	(29,436)	564	-	564
Transfers to other funds	-	45,000	45,000	45,000	-
Board of Education	4,068,862	-	4,068,862	4,008,934	59,928
Capital expenditures	602,000	-	602,000	602,000	-
Debt service	181,175	-	181,175	181,175	-
Total expenditures	6,713,073	45,000	6,758,073	6,700,069	58,004
Net change in fund balance	\$ -	\$ (45,000)	\$ (45,000)	76,248	\$ 121,248
Fund balance, beginning of year				2,145,671	
Fund balance, end of year				\$ 2,221,919	

The notes to the financial statements are an integral part of this statement.

TOWN OF CORNWALL, CONNECTICUT
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017
(With Comparative Totals for June 30, 2016)

	Private- Purpose Trust Funds	Pension Trust Fund	Agency Fund	Totals	
				2017	2016
<u>Assets</u>					
Cash and cash equivalents	\$ 29,762	\$ 3,590	\$ 27,768	\$ 61,120	\$ 50,479
Contributions receivable	-	13,563	-	13,563	30,194
Investments	511,748	646,337	15,662	1,173,747	1,089,519
Total assets	\$ 541,510	\$ 663,490	\$ 43,430	\$ 1,248,430	\$ 1,170,192
<u>Liabilities</u>					
Due to beneficiaries	\$ -	\$ -	\$ 43,430	\$ 43,430	\$ 37,190
Total liabilities	-	-	43,430	43,430	35,377
<u>Net Position</u>					
Held in trust for pension benefits	-	663,490	-	663,490	631,180
Held in trust for other purposes	541,510	-	-	541,510	501,822
Total net position	\$ 541,510	\$ 663,490	\$ -	\$ 1,205,000	\$ 1,133,002

The notes to the financial statements are an integral part of this statement.

TOWN OF CORNWALL, CONNECTICUT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for June 30, 2016)**

	Private- Purpose Trust Funds	Pension Trust Fund	Totals	
			2017	2016
Additions:				
Investment income	\$ 49,845	\$ 2,702	\$ 52,547	\$ 18,275
Unrealized gain on investments	-	54,085	54,085	-
Contributions	4,350	13,563	17,913	36,952
	<u>54,195</u>	<u>70,350</u>	<u>124,545</u>	<u>55,227</u>
Deductions:				
General government	-	-	-	500
Education	10,683	-	10,683	11,273
Retirement	-	38,040	38,040	29,253
Other	3,824	-	3,824	53,822
	<u>14,507</u>	<u>38,040</u>	<u>52,547</u>	<u>94,848</u>
Change in net position	39,688	32,310	71,998	(39,621)
Net position, beginning of year	<u>501,822</u>	<u>631,180</u>	<u>1,133,002</u>	<u>1,172,623</u>
Net position, end of year	<u>\$ 541,510</u>	<u>\$ 663,490</u>	<u>\$ 1,205,000</u>	<u>\$ 1,133,002</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CORNWALL, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Town of Cornwall, Connecticut (the “Town”) is a municipal corporation organized under State Statutes. The form of government includes an elected Board of Selectmen and an elected Board of Finance. The Town provides the following services: general government services, public safety, public works, public health and welfare, culture, and recreation. Primary education services are provided by the Cornwall Consolidated School, whose operations are presented in the Town’s financial statements. Secondary education services are provided by Regional School District #1, of which the towns of Cornwall, Canaan, Kent, North Canaan, Salisbury, and Sharon are members. Town appropriations to the district are determined by a separate taxpayer approved budget and the percentage of Cornwall residents attending the district’s schools.

The legislative authority of the Town is vested in the Town Meeting. The First Selectman is the chief executive, chief administrative officer, and budget-making authority of the Town. The Board of Finance is responsible for revising the proposed budget and submitting the final budget to the Town Meeting. The Board of Finance is also responsible for establishing the annual tax rate. The Town has the power to incur indebtedness by issuing bonds or notes as provided by Connecticut General Statutes.

The accounting and reporting policies of the Town relating to the funds included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The more significant accounting policies of the Town are described below.

The Town’s financial statements include the accounts of all Town controlled operations. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Town (the primary government) and its component units. The basic criteria for inclusion of a component unit in a governmental unit’s reporting entity for basic financial reporting is the exercise of oversight responsibility. Oversight responsibility is determined on the basis of financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, and scope of public service. Currently, there are no entities considered component units of the Town. The Town includes all funds, agencies, boards, commissions, and authorities that are controlled by or dependent on the Town’s executive and legislative branches.

The financial statements presented herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from the Town. Based upon the foregoing criteria, the following organization is not considered part of the Town and is excluded from the accompanying financial statements:

Cornwall Library Association – The Cornwall Library Association is a legally incorporated, separate and distinct entity from the Town. The Town provides a portion of the operating budget to the Library; however, the Town is not required to fund deficits nor does the Town participate in program budgets or managing operations. The Library Board of Trustees determines how its funding is spent.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effects of interfund activity have been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues and are reported separately from business-type activities, which rely on fees and charges for support. The Town has no business-type activities.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes when levied, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government or specifically identified.

The Town reports the following major governmental funds:

General Fund – the primary operating fund of the Town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund.

Capital Projects Fund – used to account for capital acquisition and improvements. This is a perpetual fund financed through annual budget appropriations.

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Additionally, the Town reports the following fiduciary fund types:

Private-Purpose Trust Funds – used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments.

Pension Trust Fund – used to account for the accumulation of resources to be used for retirement benefits.

Agency Funds – account for monies held as a custodian for outside groups and agencies.

When both restricted and unrestricted resources are available for certain expenses, the Town expends restricted resources first and uses unrestricted resources when the restricted funds are depleted.

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 of assets and liabilities, deferred inflows/outflows, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the fiscal year. Actual results could differ from those estimates.

Cash and Cash Equivalents

The deposit of public funds is controlled by the Connecticut General Statutes. The Town maintains separate accounts with depositories where necessary. Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested in various interest-bearing accounts, certificates of deposit, and pooled investment funds that may be deemed to be cash equivalents based on maturity date or availability of conversion to cash. Cash and cash equivalents are stated at cost, which approximates market value and have original maturities of three months or less.

Receivables and Payables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Town has established an allowance for estimated uncollectible property taxes in the amount of \$71,000. The Town also established an allowance for estimated uncollectible interest on taxes in the amount of \$115,000 for a total of \$186,000 in allowances for uncollectible accounts. The Town's property taxes are levied each July 1 on the assessed value listed on the prior October 1 Grand List for all taxable property located in the Town. Taxes are due and payable in two installments on July 1 and January 1 for real property and personal property, and on July 1 for motor vehicles. Additional property taxes are assessed for motor vehicles registered subsequent to the Grand List date through September 30 and are payable in one installment due January 1. The Town files liens against property if taxes, which are due July 1, remain unpaid on the following February 1.

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Investments

In general, State of Connecticut Statutes allow the Town to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interest in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust, in obligations of any state or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. Other trust funds may also invest in stocks, bonds, or other securities selected by the Trustee.

Prepaid Expenses/Expenditures

Payments to vendors that reflect costs applicable to future fiscal periods are reported as prepaid in both the government-wide Statement of Net Position and the governmental fund Balance Sheet. In the governmental fund Balance Sheet, the amount reported as a prepaid expenditure is offset by nonspendable fund balance to indicate that it is not available for expenditure.

Advances To and From Other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund receivables or payables and are recorded for all funds affected in the period in which transactions are executed.

Capital Assets

Capital assets, which include equipment, fixtures, and other long-lived assets, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Under the rules of Governmental Accounting Standards Board (“GASB”) No. 34, the Town has not retroactively recorded infrastructure assets in the government-wide financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Vehicles	5-10
Equipment	5-10
Infrastructure	20

Compensated Absences

The Town provides compensated time off to its employees and elected officials as follows:

Teachers and highway department employees earn sick pay, personal days, and vacation time as prescribed by their employment or union contracts. Vested and earned vacation pay is recognized as a liability of the Town and is accounted for using the accrual basis of accounting.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports a deferred charge on refunding in this manner in the government-wide Statement of Net Position. A deferred charge on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town only has one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the 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.

In the governmental funds financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the 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

In the government-wide financial statements, Net Position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of Net Position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted Net Position – This category represents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents the net position of the Town, which are not restricted for any project or other purpose.

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

In the fund financial statements, fund balances of governmental funds are classified in the following five separate categories:

Nonspendable – amounts that cannot be spent because they are either not in spendable form (inventories, prepaids, and long-term receivables), or they are legally or contractually required to be maintained intact (the corpus of a permanent fund).

Restricted – amounts to be reported when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments, or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Town's highest level of decision-making authority, which is a motion at a Town Meeting. These funds may only be used for the purpose specified unless the Town removes or changes the purpose by taking the same action that was used to establish the commitment. This classification includes certain amounts established and approved by the Town's governing boards.

Assigned – amounts constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by formal action of the Board of Selectmen or Board of Finance.

Unassigned – remaining fund balance after amounts are set aside for all other classifications.

The Town has not established a formal policy for its use of restricted and unrestricted (committed, assigned, unassigned) fund balance; however, the Town generally uses restricted fund balance first if the expenditure meets the restricted purpose, followed by committed, assigned, and unassigned amounts.

Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Note 2 – Budgeting and Budgetary Accounting

Budgetary Basis

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- A proposed operating budget is submitted for the fiscal year.
- Public hearings are conducted in the Town to obtain taxpayer comments.
- The budget is legally enacted through passage of an ordinance. The operating budget includes proposed expenditures and the means of financing them.

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

- The Board of Finance is authorized to transfer budgeted amounts between departments within any fund; however, any additional appropriations exceeding \$20,000 over the total budget must be approved at a Town meeting.
- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- All noncontinuing appropriations lapse at year-end. Capital appropriations do not lapse until completion of the applicable projects.

Budgetary/GAAP Reconciliation

The Town prepares its annual General Fund budget on a basis (budgetary basis), which differs in some respects from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the Town’s method (budget basis) in the General Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis – Budget and Actual to provide a meaningful comparison of actual results with the budget. The major differences between budgetary and GAAP basis are that education expenditures for the Teachers’ Retirement System are only recorded on GAAP basis and certain interfund transfers are recorded as expenditures (budgetary) rather than operating transfers (GAAP).

Adjustments necessary to reconcile the budgetary basis to GAAP basis are presented below:

	Fund balance beginning	Revenues	Expenditures	Other financing sources (uses)	Fund balance ending
GAAP basis	\$ 2,145,671	\$ 7,193,223	\$ (6,469,975)	\$ (647,000)	\$ 2,221,919
Reclassifications	-	-	(647,000)	647,000	-
Teachers’ retirement system on behalf payments not recognized in budgetary basis	-	(416,906)	416,906	-	-
Budgetary basis	<u>\$ 2,145,671</u>	<u>\$ 6,776,317</u>	<u>\$ (6,700,069)</u>	<u>\$ -</u>	<u>\$ 2,221,919</u>

Note 3 – Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

Cash and cash equivalents of the Town consist of the following at June 30, 2017:

	Governmental Funds	Fiduciary Funds	Total 2017	Total 2016
Demand accounts	\$ 768,540	\$ 61,120	\$ 829,660	\$ 656,247
Short Term Investment Fund	<u>3,526,342</u>	<u>-</u>	<u>3,526,342</u>	<u>2,071,182</u>
Total cash and cash equivalents	<u>\$ 4,294,882</u>	<u>\$ 61,120</u>	<u>\$ 4,356,002</u>	<u>\$ 2,727,429</u>

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Custodial Credit Risk on Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$509,453 of the Town’s bank balance of \$817,122 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 417,825
Uninsured and collateral held by pledging bank’s trust department not in the Town’s name	<u>91,628</u>
	<u>\$ 509,453</u>

Investments

Interest Rate Risk – Interest rate risk is the risk that the Town will incur losses in fair value caused by changing interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Town does not have a formal credit risk policy other than restrictions to obligations allowable under the Connecticut General Statutes. As of June 30, 2017, the Town held \$1,195,197 (consisting of \$38,511 in Governmental Funds and \$1,156,686 in Fiduciary Funds) in money market and mutual funds for which ratings were not available at the end of the current fiscal year. The Short Term Investment Fund is rated AAAM by Standard & Poor’s.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Town’s deposits will not be able to recover the value of its investments that are in possession of an outside party. The Town’s investments held in mutual funds and certificates of deposit are not subject to custodial credit risk as the Town’s investment is not directly exposed to custodial credit risk.

	2017				2016
	Fair Market Value	Maturity Not Applicable	Investment Maturities (in years)		Fair Market Value
			Less Than 1	1-5	
Governmental Funds					
Certificates of deposit	\$ 266,287	\$ -	\$ -	\$ 266,287	\$ 263,623
Externally managed pool	38,511	38,511	-	-	26,132
	<u>\$ 304,798</u>	<u>\$ 38,511</u>	<u>\$ -</u>	<u>\$ 266,287</u>	<u>\$ 289,755</u>
Fiduciary Funds					
Certificates of deposit	\$ 17,062	\$ -	\$ 1,400	\$ 15,662	\$ 19,723
Mutual funds	1,156,686	1,156,686	-	-	1,069,796
	<u>\$ 1,173,748</u>	<u>\$ 1,156,686</u>	<u>\$ 1,400</u>	<u>\$ 15,662</u>	<u>\$ 1,089,519</u>

Fair Value Measurements

The Town utilizes the market approach as the valuation technique to measure fair value of its financial assets. GAAP establishes a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (“observable inputs”) and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (“unobservable inputs”) and requires that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

- Level 1 - Valuation based on unadjusted quoted prices in active markets for identical assets the Town has the ability to access. Since valuations are based on quoted prices readily and regularly available in an active market, valuation of these assets does not entail significant judgment.
- Level 2 - Valuation based on quoted prices for similar assets in active markets; quoted prices for similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Town's own assumptions about assumptions that market participants might use.

The Town's investments are measured on a recurring basis using Level 1 information (market quotations for investments that have quoted prices in active markets). The Town has no financial assets measured using Level 2 or Level 3 at June 30, 2017.

Note 4 - Capital Assets

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

	<u>2017</u>	<u>2016</u>
Governmental Activities:		
General government	\$ 19,009	\$ 19,056
Highway	87,721	80,893
Public safety	60,433	60,258
Education	<u>164,226</u>	<u>169,766</u>
	<u>\$ 331,389</u>	<u>\$ 329,973</u>

Changes in the Town's capital assets used in governmental activities are as follows:

	<u>Balance at July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2017</u>
Capital assets not being depreciated:				
Land	\$ 671,177	\$ -	\$ -	\$ 671,177
Total capital assets not being depreciated	<u>671,177</u>	<u>-</u>	<u>-</u>	<u>671,177</u>
Capital assets being depreciated:				
Buildings and improvements	8,065,871	53,892	-	8,119,763
Infrastructure	853,573	161,109	-	1,014,682
Machinery and equipment	<u>3,025,733</u>	<u>523,010</u>	<u>95,191</u>	<u>3,453,552</u>
Total capital assets being depreciated	<u>11,945,177</u>	<u>738,011</u>	<u>95,191</u>	<u>12,587,997</u>
Less accumulated depreciation for:				
Buildings and improvements	3,065,999	188,349	-	3,254,348
Infrastructure	216,769	20,061	-	236,830
Machinery and equipment	<u>2,149,995</u>	<u>122,979</u>	<u>71,264</u>	<u>2,201,710</u>
Total accumulated depreciation	<u>5,432,763</u>	<u>331,389</u>	<u>71,264</u>	<u>5,692,888</u>
Total depreciable capital assets, net	<u>6,512,414</u>	<u>406,622</u>	<u>23,927</u>	<u>6,895,109</u>
Capital assets, net	<u>\$ 7,183,591</u>	<u>\$ 406,622</u>	<u>\$ 23,927</u>	<u>\$ 7,566,286</u>

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Note 5 – Taxes Receivable and Deferred Inflows of Resources

Taxes receivable at June 30, 2017, for the General Fund, including the applicable allowance for collection losses, are as follows:

	<u>General Fund</u>
Property tax	\$ 355,523
Interest and lien fees on taxes	<u>225,036</u>
Total gross receivables	<u>580,559</u>
Allowance for collection losses	<u>(186,000)</u>
Total net receivables	<u>\$ 394,559</u>

To reflect that a portion of property taxes, interest, and lien fees receivable at June 30, 2017, are not considered available to liquidate general fund liabilities of the current period, the General Fund column of the governmental funds Balance Sheet reports property tax revenue, unavailable for expenditure in the current fiscal year of \$378,950, as a deferred inflow of resources.

Note 6 – Pension Plans

Connecticut State Teachers' Retirement System

Description of System

Teachers within the Town's school system participate in a retirement system administered by the Connecticut State Teachers' Retirement Board. This Connecticut State Teachers' Retirement System (the "System") is a cost sharing, multiple employer defined benefit pension system with a special funding situation.

The System is considered a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106 or by calling (860) 702-3480.

The System is administered under the provisions of Chapter 167a of the Connecticut General Statutes (CGS). Participation in the System is restricted to certified staff employed in the public schools of Connecticut and members of the professional staff of the State Department of Education or the board of Governors of Higher Education and their constituent units. Participation in the System is mandatory for certified personnel of local boards of education who are employed for an average of at least one-half of a school day. Members of the professional staff of the State Department of Education or the Board of Governors of Higher Education and their constituent units may elect to participate in this system, the State Employees' Retirement System, or the Alternate Retirement System (TIAA-CREF).

Summary of Significant Accounting Policies

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources, and expense associated with the State's requirement to contribute to the System, information about the System's fiduciary net position and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Benefits Provided

The benefits provided to participants by the System are as follows:

Normal Benefit: A member 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 is eligible for vested benefits of 2% of average annual salary times years of credited service (maximum benefit is 75% of average annual salary.)

Prorated Benefit: A member who completes 10 years of Connecticut public school service is eligible for a vested benefit commencing at age 60. The benefit is 2% less 0.1% for each year less than 20 years of average annual salary times years of credited service.

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

Contribution Requirements

The pension contributions made by the State to the System are determined on an actuarial reserve basis as described in CGS Sections 10-1831 and 10-183z.

Participants are required to contribute 7.25% of their annual salary rate to the System as required by CGS Section 10-183b (7). For the 2016/2017 school year, \$76,456 mandatory contributions were deducted from the salaries of teachers who were participants of the System during that school year. The estimated covered payroll for the Town is \$1,054,570. The Town had 15 active participants in the System at June 30, 2017.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following key actuarial assumptions:

Inflation	2.75 Percent
Salary increases, including inflation	3.25-6.50 Percent
Long-term investment rate of return, net of pension investment expense, including inflation	8.00 Percent

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

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

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

The long-term expected rate of return on pension 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 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 asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	21.0%	5.8%
Developed non-U.S. equities	18.0%	6.6%
Emerging markets (non-U.S.)	9.0%	8.3%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Core fixed income	7.0%	1.3%
High yield bonds	5.0%	3.9%
Emerging market bond	5.0%	3.7%
Inflation linked bond fund	3.0%	1.0%
Cash	6.0%	0.4%

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that 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's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability of the System, calculated using the discount rate of 8.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate.

	<u>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
Sensitivity of the system's proportionate share of the net pension liability related to the Town	<u>\$ 5,215,807</u>	<u>\$ 3,822,885</u>	<u>\$ 3,218,120</u>

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

The State makes all contributions to the System on behalf of employees of the participating districts. Therefore, participating employers are considered to be in a special funding situation as defined by Governmental Accounting Standards Board No. 68 and the State is treated as a non-employer contributing entity in the System. Since the districts do not contribute directly to the System, there is no net pension liability or deferred inflows or outflows to report in the financial statements of the Town. The portion of the net pension liability that was associated with the Town was \$3,822,885 and 100% of the collective net pension liability is allocated to the State.

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

The Town recognized the total pension expense associated with the Town as well as revenue in an amount equal to the non-employer contributing entities' total proportionate share of the collective pension expense associated with the Town. For the fiscal year ended June 30, 2017, the Town recognized \$416,906 as the amount expended by the State on behalf of the Town to meet the State's funding requirements.

Defined Contribution Plan

The Town maintains a defined contribution money purchase plan that covers all full-time employees of the Town, excluding certified teachers. The plan is a single-employer contribution pension plan administered and amended by the trustees of the "Town of Cornwall Employee Pension Plan." Current participants total 24 employees.

Plan Description

The plan covers employees who have completed one year of service in which 1,000 hours is worked and have attained age 21. The plan is integrated with life insurance at the option of the participant and is an approved prototype plan.

The participants become 100% vested after 7 years of service. Normal retirement age is at 65. All active eligible participants and any terminated participants who complete 500 hours during the plan year prior to their termination date will receive a contribution equal to 7% compensation. There were no voluntary participant contributions during the year. Those terminating for reasons of death, disability, or retirement will share in the allocation, regardless of hours. Employer contributions, net of forfeitures, for the fiscal year ended June 30, 2017, totaled \$35,719. The contribution is calculated on gross compensation paid for the calendar year. The plan allows for amendment by the Town as employer.

Assets of the fund are invested as directed by plan participants in mutual funds provided by the trustee. The employer pays the costs of plan administration.

Service Incentive Program (CVFD)

The Town established the Cornwall VFD Service Incentive Program on behalf of volunteers of the Cornwall Volunteer Fire Department (CVFD). Under this program, the Town annually contributes \$1,000 per eligible volunteer. The total contribution for the year ended June 30, 2017 was \$13,563, net of forfeitures and was paid in the subsequent period. 31 individuals qualified for the benefit. Such volunteers become fully vested after five years of service. The normal retirement age for receiving benefits is age 62, although participants may apply for hardship distributions under certain circumstances as prescribed by the United States Department of Labor.

The plan is administered by a board consisting of three members appointed by the President of the Cornwall Volunteer Fire Department. Since the trust fund established to hold plan assets is subject to claims of the Town's general creditors, the plan is reported as an expendable trust fund.

Significant Accounting Policies

Basis of Accounting: Financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the period that the contributions are due.

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Method Used in Value Investments: Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

Note 7 - Long-Term Obligations

Landfill Closure

During 1994-1995, the Town ceased all operations at its landfill site. State and federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the landfill site for 30 years after the closure date of February 1996. The Town has recognized the remaining estimated postclosure care costs of \$63,047 in the Government-wide financial statements. Current year expenditures were recognized in the General Fund in the amount of \$4,162. Changes in the estimated total current cost of postclosure care may occur and are reported in the periods in which the change is probable and can be reasonably estimated. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Long-Term Obligation Activity

General Obligation Bonds of \$1,500,000 were issued on April 24, 2017, with an interest rate of 2.325%. The bonds mature serially through April 1, 2027.

General Obligation Bonds of \$1,900,000 were issued on June 1, 2012, to refund an earlier bond issue, with interest rates varying from 1.0% to 3.0%, which results in an average weighted interest rate of 2.0%. The bonds mature serially through August 15, 2023.

The following table summarizes changes in the Town's long-term indebtedness for the year ending June 30, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds (2017)	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 150,000
General obligation bonds (2012)	1,315,000	-	(155,000)	1,160,000	160,000
Unamortized premiums	33,290	-	(4,162)	29,128	4,162
Landfill post-closure costs	<u>70,095</u>	<u>-</u>	<u>(7,048)</u>	<u>63,047</u>	<u>8,225</u>
Total long-term obligations	<u>\$ 1,418,385</u>	<u>\$ 1,500,000</u>	<u>\$ (166,210)</u>	<u>\$ 2,752,175</u>	<u>\$ 322,387</u>

Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2017, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 310,000	\$ 55,381
2019	310,000	50,873
2020	310,000	44,215
2021	315,000	37,352
2022	320,000	30,466
2023-2027	<u>1,095,000</u>	<u>60,790</u>
	<u>\$ 2,660,000</u>	<u>\$ 279,077</u>

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Prior Years Advance Refunding

In a prior year, the Town defeased a bond issue by creating a separate irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the Town's financial statements.

Statutory Debt Limitation

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, 2017.

Note 8 – Commitments and Contingencies

The Town is contingently liable on Regional School District No. 1 serial bonds payable, which has an outstanding balance of \$3,325,000. The amount (8.85%) attributed to the Town is \$294,319.

The Town has received State 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 expenditures disallowed under terms of the grant. Based on prior experience, Town management believes such disallowances, if any, will not be material.

Note 9 – Interfund Balances/Transfers

At June 30, 2017, interfund balances were as follows:

	<u>Due From</u>				
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Town Activity Fund</u>	<u>Dog Fund</u>	<u>Total Governmental</u>
Due to:					
General Fund	\$ -	\$ 11,000	\$ 30	\$ 4,120	\$ 15,150
Capital Projects Fund	<u>111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111</u>
Total	<u>\$ 111</u>	<u>\$ 11,000</u>	<u>\$ 30</u>	<u>\$ 4,120</u>	<u>\$ 15,261</u>

Interfund transfers for the year are summarized below:

	<u>Transfers in: Capital Projects Fund</u>	<u>Total Governmental</u>
Transfers out:		
General Fund	<u>\$ 647,000</u>	<u>\$ 647,000</u>
	<u>\$ 647,000</u>	<u>\$ 647,000</u>

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Note 10 – Governmental Fund Balances

As of June 30, 2017, governmental fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<u>Nonspendable:</u>				
Prepaid expenses	\$ 12,211	\$ -	\$ -	\$ 12,211
Permanent endowments	-	-	34,895	34,895
	<u>12,211</u>	<u>-</u>	<u>34,895</u>	<u>47,106</u>
 <u>Restricted:</u>				
Milk Fund	-	-	283	283
Food and fuel	-	-	4,646	4,646
Open space	-	-	16,251	16,251
	<u>-</u>	<u>-</u>	<u>21,180</u>	<u>21,180</u>
 <u>Committed:</u>				
Capital projects	-	1,704,025	-	1,704,025
Food and fuel	-	-	3,200	3,200
Town activities	-	-	57,097	57,097
	<u>-</u>	<u>1,704,025</u>	<u>60,297</u>	<u>1,764,322</u>
 <u>Assigned:</u>				
Subsequent year's budget	200,000	-	-	200,000
Gates Bequest	262,774	-	-	262,774
Building inspection	10,041	-	-	10,041
Dog Fund	-	-	1,750	1,750
Food and fuel	-	-	48,162	48,162
Endowment	-	-	6,011	6,011
Capital projects	-	4,628	-	4,628
	<u>472,815</u>	<u>4,628</u>	<u>55,923</u>	<u>533,366</u>
 <u>Unassigned</u>	 <u>1,736,893</u>	 <u>-</u>	 <u>-</u>	 <u>1,736,893</u>
	 <u>\$ 2,221,919</u>	 <u>\$ 1,708,653</u>	 <u>\$ 172,295</u>	 <u>\$ 4,102,867</u>

Note 11 – Risk Management

The Town is exposed to various risks of loss relating to liability, theft, or impairment of assets, errors or omissions, injuries to employees, and natural disasters. Commercial liability and property insurance coverage is purchased to protect against losses from these risks. Additionally, employee health coverage is purchased from a commercial carrier. The Town does not maintain a self-insurance fund. There was no significant reduction coverage from the prior year, and no claims have exceeded insurance coverage in the past three years.

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

The Town currently is a member of the Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool currently operating as a common risk management and insurance program for a comprehensive workers' compensation insurance program through its workers' compensation pool, as well as liability insurance. The Town pays an annual premium to the pool for its coverage. The agreement for the formation of CIRMA provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000,000 for each insured event to an unlimited excess limit. The pooling agreement allows CIRMA to make additional assessments to make the pool self-sustaining. The Town cannot estimate the amount of such additional assessments and has not been notified that any assessments are forthcoming. CIRMA publishes its own financial report, which can be obtained from: CIRMA, 900 Chapel Street, 9th Floor, New Haven, CT 06510.

Note 12 – Recently Issued Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 81, Irrevocable Split-Interest Agreements. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

GASB issued Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for periods beginning after June 15, 2017.

GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84, Fiduciary Activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

Town of Cornwall, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 86, Certain Debt Extinguishment Issues. This Statement improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87, Leases. This Statement improves the 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 reporting periods beginning after December 15, 2019.

**REQUIRED SUPPLEMENTARY
INFORMATION
(UNAUDITED)**

TOWN OF CORNWALL, CONNECTICUT

**CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.00%	0.00%	0.00%
Town's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>3,822,885</u>	<u>3,001,850</u>	<u>2,774,609</u>
Total	<u>\$ 3,822,885</u>	<u>\$ 3,001,850</u>	<u>\$ 2,774,609</u>
Town's covered-employee payroll	<u>\$ 1,054,570</u>	<u>\$ 1,098,440</u>	<u>\$ 1,083,159</u>
Town's proportionate share of the net pension liability as a percentage of its covered payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
System fiduciary net position as a percentage of the total pension liability	<u>52.26%</u>	<u>59.50%</u>	<u>61.56%</u>

Notes to Connecticut State Teachers' Retirement System

Method and Assumptions used in Calculations of Actuarially Determined Contributions

The actuarially determined contributions in the schedule of employer contributions are calculated as of June 30 each biennium for the fiscal years ending two and three years after the valuation date. The following actuarial methods and assumptions were used to determine the most recent contributions reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percent of pay, closed
Single equivalent amortization period	20.4 years
Asset valuation method	4-year smoothed market
Inflation	2.75 percent
Salary increase	3.25-6.50 percent, including inflation
Investment rate of return	8.00 percent, net of investment related expense

See accompanying Independent Auditors' Report.

TOWN OF KENT, CONNECTICUT

FINANCIAL INFORMATION

Excerpted from the
Annual Financial Report of
The Town of Kent, Connecticut
Year Ended June 30, 2017

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Danbury, CT 06810

INDEPENDENT AUDITORS' REPORT

To the Board of Finance
Town of Kent, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kent, Connecticut (the "Town"), as of and for the year ended June 30, 2017, 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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund 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 4 through 10, and the schedule of the Town's proportionate share of the net pension liability – Teachers Retirement Plan on page 46 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 General Fund budgetary comparison detail schedules and the combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The General Fund budgetary comparison detail schedules and the combining and individual nonmajor fund financial 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 General Fund budgetary comparison detail schedules and the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other schedules section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2017, 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.

Sandra E. Welwood, LLC

Danbury, Connecticut
October 1, 2017

TOWN OF KENT, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2017

The management of the Town of Kent, Connecticut (the "Town"), is pleased to present this overview of the financial activities of the Town for the fiscal year ended June 30, 2017. The information presented below should be considered in conjunction with the Town's financial statements that follow:

FINANCIAL HIGHLIGHTS

On a government-wide basis, the Town's assets and deferred outflows of \$25,884,738 exceeded its liabilities and deferred inflows of \$4,232,010 at June 30, 2017, resulting in total net position of \$21,652,728. Of that, \$16,448,532 was invested in capital assets while \$5,146,817 represented unrestricted net position, available to meet ongoing government obligations. The Town's net position increased \$2,980,141 or 16% during the fiscal year.

The Town's governmental funds reported, on a current financial resources basis, a combined ending fund balance of \$5,031,015, an increase of \$321,750 or 6.8%, during the fiscal year. The General Fund operating surplus for this fiscal year was \$199,708. The General Fund balance at June 30, 2017, was \$2,553,625 of which \$225,000 is committed for expenditures in the 2017-2018 fiscal year, \$29,099 is committed for Schaghticoke Litigation expenses, and \$48,042 is committed for Maple Street Debt Service.

The unassigned fund balance of \$2,251,484 of the General Fund represents 18.6% of the General Fund budgeted appropriations for the fiscal year ending June 30, 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of 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 a broad overview of the Town's finances, similar to those used by private-sector businesses. The Statement of Net Position and the Statement of Activities, which are the government-wide statements, report information about Town finances as a whole. All revenues and charges are reported as soon as the underlying event 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 distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues, called "governmental activities" from other functions that are intended to recover all or a significant portion of their costs through user fees and charges, referred to as "business-type" activities". The governmental activities of the Town include general government, public safety, public works, health and welfare, recreation, sanitation, and education activities. The Kent Sewer Commission operates the Town's only business-type activity.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Town of Kent, Connecticut
Management's Discussion and Analysis (Unaudited)
June 30, 2017 (continued)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain and control accountability over resources that have been segregated for specific activities or objectives. In order to comply with finance-related legal requirements, the Town, like other state and local governments, uses fund accounting. All of the Town's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, that is, the Town's most basic services. Unlike the government-wide financial statements, however, the funds focus on the current year's cash receipts and expenditures and the balances of expendable resources at the end of the year. Consequently, the governmental fund statements provide a near or short-term view of the Town's finances that 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. This comparison is facilitated by a reconciliation schedule of both statements, found on pages 14 and 16 of this report.

The Town maintains various governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Capital Projects Fund, each of which is considered to be a major fund. The remaining 15 governmental funds are combined into a single aggregated presentation in the governmental fund financial statements as other funds.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided on page 17 of this report to demonstrate compliance with the authorized budget.

The basic governmental fund financial statements can be found on pages 13 to 17 of this report.

Proprietary Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The information provided for proprietary funds is the same type as for government-wide financial statements but in more detail.

The proprietary fund statements provide separate information for the Kent Sewer Operating Fund, the Town's enterprise fund.

The proprietary fund financial statements can be found on pages 18 to 20 of this report.

Fiduciary Funds are used to account for resources held by the Town for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to provide services to the Town. The accounting used for fiduciary fund is much like that used for proprietary funds.

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

Town of Kent, Connecticut
Management's Discussion and Analysis (Unaudited)
June 30, 2017 (continued)

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 to 45 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve as a useful indicator of a government's financial position. The Town's net position was \$21,652,728 at June 30, 2017.

	Net Position					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<u>Assets</u>						
Current assets	\$ 5,696,424	\$ 5,020,483	\$ 968,581	\$ 926,842	\$ 6,665,005	\$ 5,947,325
Capital assets	15,535,119	13,441,568	3,410,896	3,519,532	18,946,015	16,961,100
Noncurrent assets	-	-	218,791	218,534	218,791	218,534
	<u>21,231,543</u>	<u>18,462,051</u>	<u>4,598,268</u>	<u>4,664,908</u>	<u>25,829,811</u>	<u>23,126,959</u>
<u>Deferred outflows of resources</u>	<u>54,927</u>	<u>69,255</u>	<u>-</u>	<u>-</u>	<u>54,927</u>	<u>69,255</u>
<u>Liabilities</u>						
Current liabilities	1,162,973	847,886	24,549	27,312	1,187,522	875,198
Noncurrent liabilities	1,449,398	2,874,401	1,595,090	774,028	3,044,488	3,648,429
	<u>2,612,371</u>	<u>3,722,287</u>	<u>1,619,639</u>	<u>801,340</u>	<u>4,232,010</u>	<u>4,523,627</u>
<u>Deferred inflows of resources</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net position</u>						
Net investment in capital assets	13,602,520	10,069,900	2,846,012	2,954,648	16,448,532	13,024,548
Restricted	57,379	57,379	-	-	57,379	57,379
Unrestricted	<u>5,014,200</u>	<u>4,681,740</u>	<u>132,617</u>	<u>908,920</u>	<u>5,146,817</u>	<u>5,590,660</u>
	<u>\$ 18,674,099</u>	<u>\$ 14,809,019</u>	<u>\$ 2,978,629</u>	<u>\$ 3,863,568</u>	<u>\$21,652,728</u>	<u>\$ 18,672,587</u>

The largest portion of the Town's net position is 76% and reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, and infrastructure assets), which is reported net of any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to its citizens; consequently those 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. Unrestricted net position decreased \$443,843 or 8%, during the fiscal year.

Town of Kent, Connecticut
Management's Discussion and Analysis (Unaudited)
June 30, 2017 (continued)

	Changes in Net Position					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Program revenues						
Charges for services	\$ 448,762	\$ 469,294	\$ 398,896	\$ 419,891	\$ 847,658	\$ 889,185
Operating grants and contributions	1,046,163	895,153	-	-	1,046,163	895,153
Capital grants and contributions	1,979,850	365,287	-	-	1,979,850	365,287
General revenues						
Property taxes	10,970,030	10,602,949	-	-	10,970,030	10,602,949
Grants and contributions not restricted to specific programs	360,987	158,905	-	-	360,987	158,905
Investment income	36,174	16,447	534	394	36,708	16,841
Miscellaneous	103,186	55,891	-	-	103,186	55,891
Total revenues	<u>14,945,152</u>	<u>12,563,926</u>	<u>399,430</u>	<u>420,285</u>	<u>15,344,582</u>	<u>12,984,211</u>
Expenses						
General government	1,122,490	1,142,658	-	-	1,122,490	1,142,658
Public safety	315,387	311,559	-	-	315,387	311,559
Public works	1,734,919	1,760,704	-	-	1,734,919	1,760,704
Health and welfare	134,238	132,076	-	-	134,238	132,076
Recreation	244,845	254,317	-	-	244,845	254,317
Sanitation	106,066	109,393	441,837	397,160	547,903	506,553
Education	8,185,854	7,669,136	-	-	8,185,854	7,669,136
Interest on long-term debt	78,805	109,346	-	-	78,805	109,346
Transfers	(842,532)	(30,187)	842,532	30,187	-	-
Total expenses	<u>11,080,072</u>	<u>11,459,002</u>	<u>1,284,369</u>	<u>427,347</u>	<u>12,364,441</u>	<u>11,886,349</u>
Change in net position	3,865,080	1,104,924	(884,939)	(7,062)	2,980,141	1,097,862
Net position, July 1	<u>14,809,019</u>	<u>13,704,095</u>	<u>3,863,568</u>	<u>3,870,630</u>	<u>18,672,587</u>	<u>17,574,725</u>
Net position, June 30	<u>\$ 18,674,099</u>	<u>\$ 14,809,019</u>	<u>\$ 2,978,629</u>	<u>\$ 3,863,568</u>	<u>\$ 21,652,728</u>	<u>\$ 18,672,587</u>

Governmental Activities

Governmental activities increased the Town's net position by \$3,865,080. The largest portion of the Town's governmental activities revenues, 73.4%, was derived from property taxes, 13.3% from capital grants and contributions, 7% from operating grants and contributions, and 6.3% from all other sources.

Revenues of governmental activities increased \$2,381,226 or 18.9% from the previous year. Significant factors affecting this increase include grant funds received for Carter Road bridge work, grant funds received for construction of the Kent Visitor Center and state reimbursements for work done on the KCS roof two years ago. Additionally, positive variances in property tax collection, interest and lien fees, interest on investments, P & Z fees, fees collected by the Town Clerk and a \$30,000 signing bonus for renewing the contract with American Tower regarding the cell tower.

Expenses decreased \$378,930 or 3.3% from the previous year. Significant factors affecting this decrease are principally related to decreases in education spending on capital projects as well as a reduction in interest on long term debt. A variance in the Public Works Department spending was a result of the mild winter.

**Town of Kent, Connecticut
Management's Discussion and Analysis (Unaudited)
June 30, 2017 (continued)**

Business-Type Activities

Business-type activities decreased the Town's net position by \$884,939 principally related to shifting the Maple Street Extension debt service from Government Activities to Business-Type Activities.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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. The unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2017, the Town's governmental funds reported combined ending fund balances of \$5,031,015. Of this amount, \$57,726 was nonspendable and held in permanent funds; \$2,286,892 was restricted for capital projects; \$27,601 was restricted by permanent funds; \$105,171 was committed through special revenue funds; and \$302,141 was committed for specific purposes. The remaining \$2,251,484 was unassigned.

The general fund is the chief operating fund of the Town. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The General Fund's unassigned fund balance of \$2,251,484 represented 20.5% of total general fund budgetary basis expenditures. The General Funds' total fund balance of \$2,553,625 represented 23.3% of total general fund budgetary basis expenditures. For the fiscal year, the General Fund's fund balance increased \$213,421. See "General Fund Budgetary Highlights" for further discussion.

The fund balance of the capital projects fund was \$2,286,892 at June 30, 2017, an increase of \$114,335 from the previous fiscal year. It is important to note that the focal point of capital projects in FY 2016/2017 was the Carter Road bridge and the Kent Visitor's Center, both of which were largely funded with grants.

Proprietary Funds: The Town's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Net position of the Sewer Commission's fund was \$2,978,629 at June 30, 2017. The factors affecting the funds are discussed in the Business-Type Activities section of this report.

GENERAL FUND BUDGETARY HIGHLIGHTS

The fund balance of the Town's General Fund increased by \$213,421 or 9.1% during the fiscal year. The original budget proposed and adopted in May 2016 included an appropriation of \$225,000 from the available fund balance. Actual revenues exceeded budgetary estimates by \$119,427 and actual expenditures were \$80,281 less than appropriations. As a result, \$0 of the General Fund balance was used to balance the budget.

Town of Kent, Connecticut
Management's Discussion and Analysis (Unaudited)
June 30, 2017 (continued)

The primary factors affecting the budget results were; tax collection resulting in a positive variance of \$127,337; intergovernmental revenues resulting in a positive variance of \$92,535; departmental revenues resulting in a negative variance of \$13,967, and other revenues resulting in a negative variance of \$129,747. Expenditures were principally aligned with budgeted amounts with the exception of an additional capital appropriation in the amount of \$125,272. This appropriation was necessary to complete the funding of Bridge #18 after the State of Connecticut "froze" the LoCIP funding that was being included as part of the original spending plan for that project. The Board of Education variance was the largest at \$73,236 related for the most part to amounts returned to the Town by Region One subsequent to their FY 2016 audit.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounted to \$18,946,015 (net of accumulated depreciation). The investment in capital assets included land, buildings and improvements, machinery and equipment, vehicles, and infrastructure. The increase in the Town's investment in capital assets for the fiscal year was \$1,984,915.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 1,378,530	\$ 1,378,530	\$ -	\$ -	\$ 1,378,530	\$ 1,378,530
Construction in progress	2,487,166	185,876	-	-	2,487,166	185,876
Buildings and improvements	8,125,518	8,259,166	1,138,340	1,197,549	9,263,858	9,456,715
Land improvements	85,113	93,642	-	-	85,113	93,642
Machinery and equipment	242,572	321,398	143,175	153,009	385,747	474,407
Vehicles	468,780	366,016	-	-	468,780	366,016
Infrastructure	<u>2,747,440</u>	<u>2,836,940</u>	<u>2,129,381</u>	<u>2,168,974</u>	<u>4,876,821</u>	<u>5,005,914</u>
	<u>\$ 15,535,119</u>	<u>\$ 13,441,568</u>	<u>\$ 3,410,896</u>	<u>\$ 3,519,532</u>	<u>\$ 18,946,015</u>	<u>\$ 16,961,100</u>

Major capital asset additions during FY 2016/2017 include the Kent Visitor Center, Carter Road improvements, and the purchase of a new 2017 Freightliner 114SD for the Public Works department.

Debt Administration

At June 30, 2017, the Town's long-term debt included general obligation bond debt outstanding totaling \$1,910,000. The Town's general obligation debt is backed by the full faith and credit of the Town. General obligation bonds totaling \$580,000 were repaid during the fiscal year.

Including \$485,227 of Regional School District No. 1 debt, for which the Town is contingently liable, the Town's outstanding debt is significantly below the statutory debt limit of \$74,808,671 (seven times the base for debt limitation computation).

Additional information on the Town's long-term obligations can be found in Note 8 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the Town's budget for the 2018 fiscal year:

- The State fiscal crisis; the effect it is having on state aid to municipalities and the possible assessment by the state of one third of the teachers retirement cost.
- Requests from local Associations and Organizations for increased appropriations.
- Elimination by the state of their cost share portion of the resident state trooper program.
- Estimated future capital costs for the Kent Center School.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Board of Selectmen at 41 Kent Green Boulevard, P.O. Box 678, Kent, CT 06757.

TOWN OF KENT, CONNECTICUT

**STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 4,940,621	\$ 964,458	\$ 5,905,079
Investments	338,209	-	338,209
Receivables	417,247	4,123	421,370
Other assets	347	-	347
Restricted cash and investments	-	218,791	218,791
Noncurrent assets:			
Capital assets not being depreciated	3,865,696	-	3,865,696
Capital assets, net of accumulated depreciation	11,669,423	3,410,896	15,080,319
Total assets	21,231,543	4,598,268	25,829,811
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	54,927	-	54,927
<u>Liabilities</u>			
Accounts payable	515,911	3,359	519,270
Accrued liabilities	1,523	-	1,523
Accrued interest payable	41,959	-	41,959
Unearned revenue	33,580	-	33,580
Noncurrent liabilities:			
Due within one year	570,000	21,190	591,190
Due in more than one year	1,449,398	1,595,090	3,044,488
Total liabilities	2,612,371	1,619,639	4,232,010
<u>Net Position</u>			
Net investments in capital assets	13,602,520	2,846,012	16,448,532
Permanent endowments:			
Endowments - nonexpendable	57,379	-	57,379
Unrestricted	5,014,200	132,617	5,146,817
Total net position	\$ 18,674,099	\$ 2,978,629	\$ 21,652,728

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,122,490	\$ 261,392	\$ -	\$ -	\$ (861,098)	\$ -	\$ (861,098)
Public safety	315,387	3,179	-	-	(312,208)	-	(312,208)
Public works	1,734,919	-	284,619	1,979,850	529,550	-	529,550
Parks and recreation	244,845	38,891	-	-	(205,954)	-	(205,954)
Health and welfare	134,238	-	-	-	(134,238)	-	(134,238)
Sanitation	106,066	96,131	-	-	(9,935)	-	(9,935)
Education	8,185,854	49,169	761,544	-	(7,375,141)	-	(7,375,141)
Interest on long-term debt	78,805	-	-	-	(78,805)	-	(78,805)
	<u>11,922,604</u>	<u>448,762</u>	<u>1,046,163</u>	<u>1,979,850</u>	<u>(8,447,829)</u>	<u>-</u>	<u>(8,447,829)</u>
Business-Type Activities:							
Sewer Fund	441,837	398,896	-	-	-	(42,941)	(42,941)
Total	<u>\$ 12,364,441</u>	<u>\$ 847,658</u>	<u>\$ 1,046,163</u>	<u>\$ 1,979,850</u>	<u>(8,447,829)</u>	<u>(42,941)</u>	<u>(8,490,770)</u>
General revenues:							
Property taxes, interest, and lien fees					10,970,030	-	10,970,030
Grants and contributions not restricted to specific programs					360,987	-	360,987
Unrestricted investment earnings					36,174	534	36,708
Miscellaneous					103,186	-	103,186
Transfer of clean water loan to Sewer Operating Fund					853,174	(853,174)	-
Transfers					(10,642)	10,642	-
Total general revenues and transfers					<u>12,312,909</u>	<u>(841,998)</u>	<u>11,470,911</u>
Change in net position					3,865,080	(884,939)	2,980,141
Net position, beginning of year					<u>14,809,019</u>	<u>3,863,568</u>	<u>18,672,587</u>
Net position, end of year					<u>\$ 18,674,099</u>	<u>\$ 2,978,629</u>	<u>\$ 21,652,728</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 2,581,458	\$ 2,230,995	\$ 128,168	\$ 4,940,621
Investments	266,287	-	71,922	338,209
Receivables	156,465	257,915	2,867	417,247
Due from other funds	4,268	-	741	5,009
Other	-	-	347	347
Total assets	\$ 3,008,478	\$ 2,488,910	\$ 204,045	\$ 5,701,433
<u>Liabilities</u>				
Accounts and other payables	\$ 305,355	\$ 202,018	\$ 8,538	\$ 515,911
Due to other funds	-	-	5,009	5,009
Unearned revenue	33,580	-	-	33,580
Other liabilities	1,523	-	-	1,523
Total liabilities	340,458	202,018	13,547	556,023
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	114,395	-	-	114,395
Total deferred inflows of resources	114,395	-	-	114,395
<u>Fund Balances</u>				
Nonspendable	-	-	57,726	57,726
Restricted	-	2,286,892	27,601	2,314,493
Committed	302,141	-	105,171	407,312
Unassigned	2,251,484	-	-	2,251,484
Total fund balances	2,553,625	2,286,892	190,498	5,031,015
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,008,478	\$ 2,488,910	\$ 204,045	\$ 5,701,433

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT

**GOVERNMENTAL FUNDS
BALANCE SHEET
(CONTINUED)
JUNE 30, 2017**

Reconciliation of the Balance Sheet-Government Funds to the Statement of Net Position:

Fund balances - total governmental funds	\$	5,031,015
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	\$	27,197,450
Less accumulated depreciation		<u>(11,662,331)</u>
Net capital assets		15,535,119
Other long-term assets are not available to pay for current period expenditures and, therefore, are not recorded in the funds:		
Property tax receivables - accrual basis change		114,395
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds payable		(1,910,000)
Bond premium		(22,598)
Deferred charge on refunding		54,927
Compensated absences		(47,549)
Accrued interest payable		(41,959)
Teacher severance		<u>(39,251)</u>
Net position of governmental activities	\$	<u>18,674,099</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
<u>Revenues</u>				
Property taxes	\$ 10,894,735	\$ -	\$ -	\$ 10,894,735
Interest and lien fees	65,805	-	-	65,805
Intergovernmental	1,259,101	1,979,850	16,156	3,255,107
Charges for services	275,997	1,444	178,697	456,138
Investment income	26,413	9,319	440	36,172
Other	209,091	-	18,614	227,705
Total revenues	12,731,142	1,990,613	213,907	14,935,662
<u>Expenditures</u>				
Current:				
General government	961,712	286,541	95,006	1,343,259
Public safety	299,770	-	9,902	309,672
Public works	1,495,620	-	-	1,495,620
Health and welfare	124,825	-	9,413	134,238
Recreation	191,055	-	5,506	196,561
Sanitation	106,066	-	-	106,066
Board of Education	7,784,758	-	87,932	7,872,690
Debt service	659,345	-	-	659,345
Capital outlay	-	2,472,209	13,610	2,485,819
Total expenditures	11,623,151	2,758,750	221,369	14,603,270
Excess (deficiency) of revenues over (under) expenditures	1,107,991	(768,137)	(7,462)	332,392
<u>Other Financing Sources (Uses)</u>				
Transfers in	31,044	882,472	32,500	946,016
Transfers out	(925,614)	-	(31,044)	(956,658)
Total other financing sources (uses)	(894,570)	882,472	1,456	(10,642)
Net change in fund balances	213,421	114,335	(6,006)	321,750
Fund balances, beginning of year	2,340,204	2,172,557	196,504	4,709,265
Fund balances, end of year	\$ 2,553,625	\$ 2,286,892	\$ 190,498	\$ 5,031,015

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$	321,750
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Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay		2,752,174
Depreciation expense		(658,623)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds, and revenues recognized in the funds are not reported in the Statement of Activities:

Increase in property tax receivable - accrual basis change		9,490
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized and deferred in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Bond payments		580,000
Amortization of premium and deferred charges on refunding		(8,432)
Change in accrued interest		8,436
Transfer of clean water loan to WPCA Fund		853,174

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences		(4,133)
Teacher severance		11,244

Change in net position of governmental activities	\$	<u>3,865,080</u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts			Actual	Variance with Final Budget Positive (Negative)
	Original	Transfers	Final		
<u>Revenues</u>					
Property taxes	\$ 10,767,398	\$ -	\$ 10,767,398	\$ 10,894,735	127,337
Interest and lien fees	40,500	-	40,500	65,805	25,305
Intergovernmental	421,178	-	421,178	513,713	92,535
Investment income	8,000	-	8,000	25,964	17,964
Departmental	261,700	-	261,700	247,733	(13,967)
Other	1,256,882	-	1,256,882	1,127,135	(129,747)
Total revenues	12,755,658	-	12,755,658	12,875,085	119,427
<u>Expenditures</u>					
Current:					
General government	1,021,119	(8,955)	1,012,164	961,712	50,452
Public safety	294,572	7,700	302,272	299,770	2,502
Public works	1,540,493	200	1,540,693	1,495,620	45,073
Health and welfare	139,889	-	139,889	124,825	15,064
Recreation	199,354	1,055	200,409	191,055	9,354
Sanitation	115,937	-	115,937	106,066	9,871
Education	7,162,606	-	7,162,606	7,089,370	73,236
Debt service	669,988	-	669,988	669,987	1
Total expenditures	11,143,958	-	11,143,958	10,938,405	205,553
Excess of revenues over expenditures	1,611,700	-	1,611,700	1,936,680	324,980
<u>Other Financing Uses</u>					
Transfers out	(1,611,700)	-	(1,611,700)	(1,736,972)	(125,272)
Excess of revenues over expenditures and other financing uses	\$ -	\$ -	\$ -	199,708	\$ 199,708
Fund balance, beginning of year				2,276,776	
Fund balance, end of year				\$ 2,476,484	

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Business-Type Activities Enterprise Funds Sewer Operating Fund
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 964,458
Accounts receivable	4,123
Total current assets	968,581
Noncurrent assets:	
Restricted cash and investments	218,791
Capital assets, net of accumulated depreciation:	
Plant and pumping station	3,410,896
Total assets	4,598,268
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	3,359
Current portion of notes payable	21,190
Total current liabilities	24,549
Noncurrent liabilities:	
Permanent maintenance agreements	218,791
Notes payable, less current portion	1,376,299
Total liabilities	1,619,639
<u>Net Position</u>	
Net investment in capital assets	2,013,407
Unrestricted	965,222
Total net position	\$ 2,978,629

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds Sewer Operating Fund
Operating revenues:	
Charges for services	\$ 398,896
Operating expenses:	
Payroll and payroll taxes	135,064
Materials and supplies	2,750
Administration and operation	95,896
Outside services	27,301
Insurance	28,942
Depreciation	108,636
Total operating expenses	398,589
Operating income	307
Nonoperating revenue (expenses):	
Investment income	534
Interest expense	(43,248)
Total nonoperating revenue (expenses)	(42,714)
Income before transfers	(42,407)
Transfer in	10,642
Transfer of debt balance from governmental activities	(853,174)
	(842,532)
Change in net position	(884,939)
Net position, beginning of year	3,863,568
Net position, end of year	\$ 2,978,629

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds Sewer Operating Fund
Cash flows from operating activities:	
Receipts from customers	\$ 402,379
Payments to suppliers and personnel	(304,745)
Net cash provided by operating activities	97,634
Cash flows from capital and related financing activities:	
Receipts from other funds	10,642
Principal payments of clean water fund loans	(20,569)
Interest paid on capital debt	(43,248)
Net cash provided by capital and related financing activities	(53,175)
Cash flows from investing activities:	
Investment income	762
Net cash provided by investing activities	762
Net increase in cash and cash equivalents	45,221
Cash and cash equivalents, beginning of year	919,237
Cash and cash equivalents, end of year	\$ 964,458
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 307
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	108,636
(Increase) decrease in investments	(257)
(Increase) decrease in accounts receivable	3,483
Increase (decrease) in accounts payable	(14,535)
Net cash provided by operating activities	\$ 97,634

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<u>Assets</u>		
Cash and cash equivalents	<u>\$ 2,137</u>	<u>\$ 33,377</u>
Total assets	2,137	<u><u>\$ 33,377</u></u>
<u>Liabilities</u>		
Due to beneficiaries	<u>-</u>	<u><u>\$ 33,377</u></u>
<u>Net Position</u>		
Held in trust for other purposes	<u><u>\$ 2,137</u></u>	

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Private Purpose Trust Funds
Additions:	
Interest and dividends	\$ 11
Deductions:	
Scholarships awarded	100
Change in net position	(89)
Net position held in trust, beginning of year	2,226
Net position held in trust, end of year	\$ 2,137

The notes to the financial statements are an integral part of this statement.

TOWN OF KENT, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Town of Kent, Connecticut (the “Town”) was incorporated in 1739. It operates under a Board of Selectmen, Town Meeting, Board of Finance form of government and provides a full range of services including public safety (police and fire), public works, health and welfare, recreation, sanitation, education, and general administrative services to its residents.

Accounting principles generally accepted in the United States of America require that the reporting entity include: 1) the primary government, 2) organizations for which the primary government is financially accountable, and 3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The following related organizations, to which the Town appropriates funds annually, do not meet the above criteria and are not included in the reporting entity:

Kent Volunteer Fire Department. – The Kent Volunteer Fire Department has a separate elected board and provides services to residents, generally within the geographic boundaries of the Town. It is excluded from the reporting entity because the Town does not have the ability to exercise influence or control over the daily operations or approve budgets.

Kent Library Association – The Town has no financial, operational, or managerial control over this organization.

Basis of Presentation

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town’s accounting policies are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Agency funds, however, 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 reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance. Revenues are recognized when program eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the Town.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for resources to be used for capital expenditures or for the acquisition or construction of capital facilities, improvements and/or equipment and accounts for financial resources designated for future appropriation for capital expenditures, or for the acquisition or construction of capital facilities, improvements and/or equipment. Capital outlays are financed by appropriations from the general fund, intergovernmental grants, and long-term debt obligations.

The Town reports the following major proprietary fund:

The *Sewer Operating Fund* accounts for the operations of the Town's wastewater treatment system. The major sources of revenue for this fund are sewer assessments and use charges.

Additionally, the Town reports the following fund types:

The *Private Purpose Trust Funds* are used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments.

The *Agency Funds* account for monies from various self-funding school activity programs.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund are charges to customers for services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash Equivalents

For purposes of reporting cash flows, all savings, checking, money market accounts, and certificates of deposit with an original maturity of less than three months are considered to be cash equivalents.

Investments

Investments are stated at fair value.

Prepaid Expenses

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

Inventory

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used in accordance with the consumption method. On the governmental fund financial statements, inventories are presented at cost on a first-in, first-out basis and are recorded as expenditures when used.

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 noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal balances."

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and enterprise fund financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$10,000 with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment, and infrastructure assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	40 - 50
Building improvements	20 - 40
Land improvements	15 - 40
Infrastructure	25 - 50
Sewer system infrastructure	50 - 100
Machinery and equipment	5 - 25
Vehicles	10 - 12

Unearned Revenue

In the government-wide and fund financial statements, this liability represents resources that have been received but not yet earned.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports a deferred charge on refunding in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. For governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources (revenue) in the period in which the amounts become available.

Compensated Absences and Teachers' Severance

Town employees accumulate, by prescribed formula, vacation and paid-time-off time for subsequent use or for payment upon termination or retirement. In addition, Board of Education teachers with at least 20 years of service are entitled to severance pay by prescribed formula. Vacation and severance pay expenses to be paid in future periods are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for amounts expected to be paid with available resources, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the fund financial statements, governmental fund types 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.

Fund Equity and Net Position

Equity in the government-wide financial statements is defined as "net position" and is classified in the following categories:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position – Net position is restricted because it is externally imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This component consists of net position that does not meet the definition of "Restricted Net Position" or "Net Investment in Capital Assets".

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Governmental Accounting Standards Board Statement No. 54 (GASB 54) defines the different types of fund balances that the Town must use for its governmental funds. GASB 54 requires the fund balances to be properly reported within one of the following categories for financial reporting purposes.

Nonspendable Fund Balance – represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

Restricted Fund Balance – represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributors, or laws and regulations of their governments.

Committed Fund Balance – represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority. The Board of Selectmen is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance – represents amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts by the Town Charter.

Unassigned Fund Balance – represents fund balance in the General Fund in excess of nonspendable, restricted, committed, and assigned fund balance. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

It is the Town's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The Town does not have a minimum fund balance policy.

Property Taxes

Property taxes are assessed as of October 1, levied on the following July 1 and are due in two installments, July 1 and January 1. Supplemental motor vehicle taxes are due in full January 1. Taxes are overdue on August 1 and February 1. Interest at the rate of 1.5% per month accrues on all overdue taxes. Assessments for real and personal property, including motor vehicles, are computed at 70% of appraised market value. Liens are filed by the last day of the fiscal year.

Property tax revenues are recognized when they become available. Available means due or past due and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The Town defines the current period to mean within 60 days after year end. Property taxes receivable not expected to be collected during the available period are reflected in deferred revenue in the fund financial statements. The entire receivable is recorded as revenue in the government-wide financial statements. Property taxes collected prior to June 30 that are applicable to the subsequent years' assessment are reflected as advance tax collections in both the fund financial statements and the government-wide financial statements. An allowance based on historical collection experience is provided for uncollectible taxes.

Accounting 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 of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information

The Town follows these procedures in establishing budgetary data reflected in the financial statements:

Department heads, officers, and agencies of the Town file estimates of expenditures to be made and revenues to be collected in the upcoming year to the Board of Finance. The Board of Finance recommends budgets, as revised, for adoption at the annual Town meeting in May or, if a petition is filed with the Town Clerk in accordance with Section 7-7 of the Connecticut General Statutes, at Town referendum.

The budget is legally adopted by a vote at the Annual Town Budget meeting referendum.

The Board of Finance is authorized to transfer budgeted amounts between departmental appropriations of up to \$20,000 per department per year. Subsequent appropriations and appropriations of more than \$20,000 for any one department per year must be approved by Town Meeting referendum.

The legal level of control (the level at which expenditures may not legally exceed appropriations) is at the department level.

Appropriations for capital projects do not lapse until completions of the applicable projects. All General Fund unexpended appropriations lapse at year end.

There were no supplemental budgetary appropriations for the fiscal year ended June 30, 2017.

The Town does not have legally adopted annual budgets for its special revenue funds because budgetary control is alternatively achieved by constraints imposed by the project authorization and grant awards related to these funds. The Town does not have legally adopted budgets for its fiduciary funds.

The Town's budgeting system requires accounting for certain transactions to be on a basis other than GAAP. The major difference between the budgetary basis and GAAP basis is that encumbrances are recognized as a charge against a budget appropriation in the year in which the purchase order is issued, and, accordingly, encumbrances outstanding at year end are recorded in budgetary reports as expenditures of the current year, whereas, on a GAAP basis encumbrances are recorded as reservations of fund balance.

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

As explained above, the Town’s budgetary fund structure accounts for certain transactions differently from that utilized in reporting in conformity with GAAP. A reconciliation of revenues, expenditures, and fund balance of the General Fund between the accounting treatment required by GAAP and budgetary requirements is as follows:

	<u>Fund balance</u> <u>beginning</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing</u> <u>sources (uses)</u>	<u>Fund balance</u> <u>ending</u>
Balance, GAAP basis	\$ 2,340,204	\$ 12,731,142	\$ (11,623,151)	\$ (894,570)	\$ 2,553,625
Reclassifications	-	918,044	(60,642)	(857,402)	-
State Teachers’ retirement on behalf payments	-	(745,388)	745,388	-	-
GASB 54 reclassification and adjustment	<u>(63,428)</u>	<u>(28,713)</u>	<u>-</u>	<u>15,000</u>	<u>(77,141)</u>
Balance, budgetary basis	<u>\$ 2,276,776</u>	<u>\$ 12,875,085</u>	<u>\$ (10,938,405)</u>	<u>\$ (1,736,972)</u>	<u>\$ 2,476,484</u>

Special Revenue Funds

The Town does not have legally adopted annual budgets for the Special Revenue Funds. Budgets for the various Special Revenue Funds, which are utilized to account for specific grant programs, are established in accordance with the requirements of the grantor agencies. Such budgets carry over until completion of the grants.

Capital Project Funds

Legal authorization for expenditures of the Capital Project Funds is provided by Town ordinances and/or intergovernmental grant agreements. Capital appropriations do not lapse until completion of the applicable projects.

Note 3 – Cash, Cash Equivalents, and Investments – All Funds

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a “qualified public depository” as defined by the Statutes, or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit, in an “out of state bank” as defined by the Statutes, which is not a “qualified public depository”.

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF) and the State Tax Exempt Proceeds Fund (TEPF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer's Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

Deposits

Based on the criteria described in GASB Statement No. 40, Deposits and Investment Risk Disclosures, \$2,668,587 of the Town's bank balance of \$3,202,804 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 2,321,434
Uninsured and collateral held by the pledging bank's trust department, not in the Town's name	<u>347,153</u>
Total amount subject to custodial credit risk	<u>\$ 2,668,587</u>

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2017, the Town's cash equivalents amounted to \$3,612,206. The following table provides a summary of the Town's cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations.

State of Connecticut Short-Term Investment Fund (STIF)	<u>Standard & Poor's</u> AAAm
--	--

Investments

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Investment Maturities (Years)</u>		
		<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-10</u>
Certificates of deposit	N/A	\$ 474,830	\$ -	\$ 474,830
Total investments		<u>\$ 474,830</u>	<u>\$ -</u>	<u>\$ 474,830</u>

Investment Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Credit Risk – The Town has no investment policy that would limit its investment choices due to credit risk other than State statutes governing investments in obligations of any state or political subdivision or in obligations of the State of Connecticut or political subdivision.

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Concentration of Credit Risk – The Town places no limit on the amount invested in any one issuer. No more than 5% of the Town’s investments were invested in any one issuer in which credit risk was applicable.

Interest Rate Risk – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Fair Value Measurements

The Town utilizes the market approach as the valuation technique to measure fair value of its financial assets. GAAP establishes a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (“observable inputs”) and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (“unobservable inputs”) and requires that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuation based on unadjusted quoted prices in active markets for identical assets the Town has the ability to access. Since valuations are based on quoted prices readily and regularly available in an active market, valuation of these assets does not entail significant judgment.
- Level 2 - Valuation based on quoted prices for similar assets in active markets; quoted prices for similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Town’s own assumptions about assumptions that market participants might use.

The Town’s investments are measured on a recurring basis using Level 1 information (market quotations for investments that have quoted prices in active markets). The Town has no financial assets measured using Level 2 or Level 3 at June 30, 2017.

Note 4 – Receivables

Receivables by type at year end for the Town’s governmental fund financial statements, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
Receivables:				
Taxes	\$ 143,239	\$ -	\$ -	\$ 143,239
Interest and liens	35,420	-	-	35,420
State grant receivable	-	247,915	-	247,915
Other	<u>1,793</u>	<u>10,000</u>	<u>2,867</u>	<u>14,660</u>
Gross receivables	180,452	257,915	2,867	441,234
Less allowance for collection losses	<u>(23,987)</u>	<u>-</u>	<u>-</u>	<u>(23,987)</u>
	<u>\$ 156,465</u>	<u>\$ 257,915</u>	<u>\$ 2,867</u>	<u>\$ 417,247</u>

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

To reflect that a portion of property taxes, interest, and lien fees receivable at June 30, 2017, are not considered available to liquidate general fund liabilities of the current period, the General Fund column of the governmental funds Balance Sheet reports property tax revenue, unavailable for expenditure in the current fiscal year of \$114,395, as a deferred inflow of resources.

Note 5 – Governmental Fund Balances

The components of fund balance for the governmental funds at June 30, 2017, are as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Nonspendable:</u>				
Inventory	\$ -	\$ -	\$ 347	\$ 347
Trusts	-	-	57,379	57,379
	<u>-</u>	<u>-</u>	<u>57,726</u>	<u>57,726</u>
<u>Restricted:</u>				
Capital projects	-	2,286,892	-	2,286,892
General government	-	-	3,467	3,467
Endowment	-	-	14,786	14,786
Education	-	-	9,348	9,348
	<u>-</u>	<u>2,286,892</u>	<u>27,601</u>	<u>2,314,493</u>
<u>Committed:</u>				
Subsequent year's budget	225,000	-	-	225,000
General government	-	-	75,705	75,705
Public safety	-	-	6,903	6,903
Recreation	-	-	9,582	9,582
Health and welfare	-	-	7,125	7,125
Schaghticoke litigation	29,099	-	-	29,099
Maple Street extension	48,042	-	-	48,042
Education	-	-	5,856	5,856
	<u>302,141</u>	<u>-</u>	<u>105,171</u>	<u>407,312</u>
<u>Unassigned</u>	<u>2,251,484</u>	<u>-</u>	<u>-</u>	<u>2,251,484</u>
	<u>\$ 2,553,625</u>	<u>\$ 2,286,892</u>	<u>\$ 190,498</u>	<u>\$ 5,031,015</u>

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Note 6 – Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance at <u>July 1, 2016</u>	Increases	Decreases	Balance at <u>June 30, 2017</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,378,530	\$ -	\$ -	\$ 1,378,530
Construction in progress	<u>185,876</u>	<u>2,301,290</u>	-	<u>2,487,166</u>
Total capital assets not being depreciated	<u>1,564,406</u>	<u>2,301,290</u>	-	<u>3,865,696</u>
Capital assets being depreciated:				
Buildings and improvements	13,226,833	269,209		13,496,042
Land improvements	127,939	-	-	127,939
Machinery and equipment	1,010,932	-	-	1,010,932
Vehicles	876,081	181,675	-	1,057,756
Infrastructure	<u>7,639,085</u>	<u>-</u>	<u>-</u>	<u>7,639,085</u>
Total capital assets being depreciated	<u>22,880,870</u>	<u>450,884</u>	<u>-</u>	<u>23,331,754</u>
Less accumulated depreciation for:				
Buildings and improvements	4,967,667	402,857	-	5,370,524
Land improvements	34,297	8,529	-	42,826
Machinery and equipment	689,534	78,826	-	768,360
Vehicles	510,065	78,911	-	588,976
Infrastructure	<u>4,802,145</u>	<u>89,500</u>	<u>-</u>	<u>4,891,645</u>
Total accumulated depreciation	<u>11,003,708</u>	<u>658,623</u>	<u>-</u>	<u>11,662,331</u>
Total capital assets being depreciated, net	<u>11,877,162</u>	<u>(207,739)</u>	<u>-</u>	<u>11,669,423</u>
Governmental activities capital assets, net	<u>\$ 13,441,568</u>	<u>\$ 2,093,551</u>	<u>\$ -</u>	<u>\$ 15,535,119</u>
Business-Type Activities				
Capital assets being depreciated:				
Buildings and improvements	\$ 2,075,328	\$ -	\$ -	\$ 2,075,328
Machinery and equipment	245,568	-	-	245,568
System infrastructure	<u>2,442,787</u>	<u>-</u>	<u>-</u>	<u>2,442,787</u>
Total capital assets being depreciated	<u>4,763,683</u>	<u>-</u>	<u>-</u>	<u>4,763,683</u>
Less accumulated depreciation for:				
Buildings and improvements	877,779	59,209	-	936,988
Machinery and equipment	92,559	9,834	-	102,393
System infrastructure	<u>273,813</u>	<u>39,593</u>	<u>-</u>	<u>313,406</u>
Total accumulated depreciation	<u>1,244,151</u>	<u>108,636</u>	<u>-</u>	<u>1,352,787</u>
Total capital assets being depreciated, net	<u>3,519,532</u>	<u>(108,636)</u>	<u>-</u>	<u>3,410,896</u>
Business-type activities capital assets, net	<u>\$ 3,519,532</u>	<u>\$ (108,636)</u>	<u>\$ -</u>	<u>\$ 3,410,896</u>

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:		
General government		\$ 45,050
Public works		239,299
Recreation		48,284
Public safety		5,715
Education		<u>320,275</u>
Total depreciation expense – governmental activities		<u>\$ 658,623</u>
Business-type activities:		
Sewer operating		<u>\$ 108,636</u>
Total depreciation expense – business-type activities		<u>\$ 108,636</u>

Note 7 – Interfund Receivables, Payables, and Transfers

Interfund receivables and payables that resulted from various interfund transactions as of June 30, 2017, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Funds	Nonmajor Funds	\$ 741
General Fund	Nonmajor Funds	<u>4,268</u>
Total		<u>\$ 5,009</u>

All balances are expected to be repaid within a year.

Interfund transfers are generally used to supplement revenues of other funds. The transfers that occurred during the year are as follows:

	<u>Transfers In</u>				<u>Total Transfers Out</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Operating Fund</u>	
Transfers out:					
General Fund	\$ -	\$ 882,472	\$ 32,500	\$ 10,642	\$ 925,614
Nonmajor Governmental Funds	<u>31,044</u>	-	-	-	<u>31,044</u>
Total transfers in	<u>\$ 31,044</u>	<u>\$ 882,472</u>	<u>\$ 32,500</u>	<u>\$ 10,642</u>	<u>\$ 956,658</u>

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Note 8 – Long -Term Obligations

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 2,490,000	\$ -	\$ 580,000	\$ 1,910,000	\$ 570,000
Premium on general obligation bonds	28,494	-	5,896	22,598	-
Clean water loan	853,174	-	853,174	-	-
Compensated absences	43,416	4,133	-	47,549	-
Teachers' severance	<u>50,495</u>	<u>14,383</u>	<u>25,627</u>	<u>39,251</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 3,465,579</u>	<u>\$ 18,516</u>	<u>\$ 1,464,697</u>	<u>\$ 2,019,398</u>	<u>\$ 570,000</u>
Business-type activities:					
Clean water loan	<u>\$ 564,884</u>	<u>\$ 853,174</u>	<u>\$ 20,569</u>	<u>\$ 1,397,489</u>	<u>\$ 21,190</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations of the Town for which full faith and credit are pledged and are payable from taxes levied on all taxable properties located within the Town.

General obligation bonds currently outstanding are as follows:

Description	Date of Issue	Date of Maturity	Interest Rate (%)	Amount of Original Issue	Balance Outstanding June 30, 2017
General obligation bonds:					
Kent Fire Department Project	09/08	09/18	avg 3.13%	\$ 1,250,000	\$ 250,000
Kent Center School Refunding	04/12	02/21	1-2.25%	<u>4,055,000</u>	<u>1,660,000</u>
Total general obligation bonds				<u>\$ 5,305,000</u>	<u>\$ 1,910,000</u>

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 570,000	\$ 37,920
2019	560,000	26,581
2020	395,000	16,563
2021	<u>385,000</u>	<u>8,663</u>
Total	<u>\$ 1,910,000</u>	<u>\$ 89,725</u>

Overlapping Debt

The Town is a member of Regional School District No.1, which provides education facilities for the Towns of Canaan, Cornwall, Kent, North Canaan, Salisbury, and Sharon. As of June 30, 2017, the outstanding bonded indebtedness of the District was \$3,325,000. The Town's share will be 14.6% of the remaining balance. These are general obligations of Regional School District No. 1 and its member towns.

At June 30, 2017, the Town is contingently liable for Regional School District No. 1 debt in the amount of \$485,227.

Statutory Debt Limitation

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, 2017.

Clean Water Fund Loans Payable

The United States Department of Agriculture under the Clean Water Fund Program issued project loan obligations. The loan proceeds financed the sanitary sewer construction projects. The obligation will be paid from future user fees.

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Project loan obligations payable to the United States Department of Agriculture mature as follows:

	Governmental Activities	
	<u>Clean Water Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 11,541	\$ 27,365
2019	11,916	26,990
2020	12,303	26,603
2021	12,703	26,203
2022-2026	69,985	124,545
2027-2031	82,121	112,409
2032-2036	96,361	98,169
2037-2041	113,072	81,458
2042-2046	132,680	61,850
2047-2051	155,688	38,842
2052-2055	<u>143,625</u>	<u>11,849</u>
Total	<u>\$ 841,995</u>	<u>\$ 636,283</u>

	Business Type Activities	
	<u>Clean Water Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 9,649	\$ 15,276
2019	9,914	15,011
2020	10,187	14,738
2021	10,467	14,458
2022-2026	56,815	67,810
2027-2031	65,068	59,557
2032-2036	74,521	50,104
2037-2041	85,347	39,278
2042-2046	97,745	26,880
2047-2051	112,567	12,680
2052	<u>23,214</u>	<u>655</u>
Total	<u>\$ 555,494</u>	<u>\$ 316,447</u>

Teachers' Severance

Under the teachers' contract agreement between the Kent Board of Education (BOE) and the Kent Center Faculty Association (KCFA), a severance benefit was offered to members of KCFA who have been employed by the BOE for at least 20 years. Teachers who are eligible shall receive a severance benefit equal to 15% of their basic salary. At June 30, 2017, liabilities totaling \$39,251 for five teachers qualifying for the contract severance benefit are accrued in the government-wide Statement of Net Position.

Note 9 – Employee Retirement Plans

Defined Contribution Plan

The Town provides retirement benefits through a single-employer defined contribution pension plan for all eligible employees except certified personnel of the Board of Education who are covered by the State of Connecticut Teachers' Retirement System. The Board of Selectmen has oversight and fiduciary responsibility for the plan.

All eligible employees who have completed one year of service with a minimum of 1,000 hours during the year and who have reached age 21 are eligible for inclusion in the plan. The plan provides that benefits are 100% vested at all times with respect to all of the amounts allocated to employees' accounts. The Town contributes an amount equal to 5% of each eligible employee's base compensation. During the year, the Town's contributions totaled \$13,754.

Connecticut State Teachers' Retirement System

Plan Description

Teachers within the Town's school system participate in a retirement system administered by the Connecticut State Teachers' Retirement Board. This Connecticut State Teachers' Retirement System (the "System") is a cost sharing, multiple employer defined benefit pension system with a special funding situation.

The System is considered a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106 or by calling (860) 702-3480.

The System is administered under the provisions of Chapter 167a of the Connecticut General Statutes (CGS). Participation in the System is restricted to certified staff employed in the public schools of Connecticut and members of the professional staff of the State Department of Education or the board of Governors of Higher Education and their constituent units. Participation in the System is mandatory for certified personnel of local boards of education who are employed for an average of at least one-half of a school day. Members of the professional staff of the State Department of Education or the Board of Governors of Higher Education and their constituent units may elect to participate in this system, the State Employees' Retirement System, or the Alternate Retirement System (TIAA-CREF).

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Summary of Significant Accounting Policies

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources, and expense associated with the State's requirement to contribute to the System, information about the System's fiduciary net position and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided: 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 employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary).

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement: Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

Contributions

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 approved, amended and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

The statutes require the State of Connecticut to contribute 100% of each school districts' required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

Participants are required to contribute 7.25% of their annual salary rate to the System as required by CGS Section 10-183b (7). For the 2016/2017 school year, \$142,851 mandatory contributions were deducted from the salaries of teachers who were participants of the System during that school year. The estimated covered payroll for the Town is \$1,970,441. The Town had 27 active participants in the System at June 30, 2017.

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Actuarial Assumptions

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

Inflation	2.75%
Salary increases, including inflation	3.25-6.50%
Long-term investment rate of return, net of pension investment expense, including inflation	8.00%

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

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

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

<u>Asset Class</u>	<u>Long-Term Expected</u>	
	<u>Target Allocation</u>	<u>Real Rate of Return</u>
Large cap U.S. equities	21.0%	5.8%
Developed non-U.S. equities	18.0%	6.6%
Emerging markets (non-U.S.)	9.0%	8.3%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Core fixed income	7.0%	1.3%
High yield bonds	5.0%	3.9%
Emerging market bond	5.0%	3.7%
Inflation linked bond fund	3.0%	1.0%
Cash	6.0%	0.4%

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Discount Rate

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Town's proportionate share of the net pension liability is \$0 and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

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

The State makes all contributions to the System on behalf of employees of the participating districts. Therefore, participating employers are considered to be in a special funding situation as defined by Governmental Accounting Standards Board No. 68 and the State is treated as a non-employer contributing entity in the System. Since the districts do not contribute directly to the System, there is no net pension liability or deferred inflows or outflows to report in the financial statements of the Town. The portion of the net pension liability that was associated with the Town was \$6,835,035 and 100% of the collective net pension liability is allocated to the State.

The Town recognized the total pension expense associated with the Town as well as revenue in an amount equal to the non-employer contributing entities' total proportionate share of the collective pension expense associated with the Town. For the fiscal year ended June 30, 2017, the Town recognized \$745,388 as the amount expended by the State on behalf of the Town to meet the State's funding requirements.

Note 10 – Contingent Liabilities

There are various suits and claims pending against the Town, none of which, individually or in the aggregate, is believed by Town management to result in a judgment or judgments that would have a material adverse effect on the Town's financial statements.

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.

Town of Kent, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

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

Note 11 – Jointly Governed Organizations

The Town is a participant in three jointly governed organizations as described below:

Housatonic Resource Recovery Authority

The Town and ten other local municipalities each appoint the governing board of the Housatonic Resource Recovery Authority, with which the Town contracts for waste management services. Each town is awarded voting rights based upon population.

Lake Waramaug Interlocal Commission

The Lake Waramaug Interlocal Commission (the Commission) was created by the towns of Kent, Warren, and Washington to jointly finance and conduct projects for the purpose of controlling water pollution and improving water quality. The Town appoints one member of the five member Commission. The Town expended \$1,594 for the operation of the Commission for the year ended June 30, 2017.

Lake Waramaug Authority

The Lake Waramaug Authority (the Authority) was created by the towns of Kent, Warren, and Washington to enforce water safety. The Authority is comprised of three members from each town. The Town expended \$2,422 for the operation of the Authority for the year ended June 30, 2017.

Note 12 – Operating Leases

The Town has entered into operating leases for office equipment that expire at various dates through July 2021. At June 30, 2017, the minimum annual future rental commitments under operating leases are as follows:

2018	\$ 14,874
2019	4,632
2020	4,632
2021	<u>3,474</u>
Total	<u>\$ 27,612</u>

Note 13 – Recently Issued Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 81, Irrevocable Split-Interest Agreements. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

GASB issued Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for periods beginning after June 15, 2017.

GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84, Fiduciary Activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 86, Certain Debt Extinguishment Issues. This Statement improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87, Leases. This Statement improves the 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 reporting periods beginning after December 15, 2019.

**REQUIRED SUPPLEMENTARY
INFORMATION
(UNAUDITED)**

TOWN OF KENT, CONNECTICUT

**CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.00%	0.00%	0.00%
Town's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>6,835,035</u>	<u>5,280,686</u>	<u>4,880,935</u>
Total	<u>\$ 6,835,035</u>	<u>\$ 5,280,686</u>	<u>\$ 4,880,935</u>
Town's covered-employee payroll	<u>\$ 1,970,441</u>	<u>\$ 1,935,841</u>	<u>\$ 1,971,669</u>
Town's proportionate share of the net pension liability as a percentage of its covered payroll	0.00%	0.00%	0.00%
System fiduciary net position as a percentage of the total pension liability	52.26%	59.50%	61.51%

Notes to Connecticut State Teacher's Retirement System

Method and Assumptions used in Calculations of Actuarially Determined Contributions

The actuarially determined contributions in the schedule of employer contributions are calculated as of June 30 each biennium for the fiscal years ending two and three years after the valuation date. The following actuarial methods and assumptions were used to determine the most recent contributions reported in that schedule.

Actuarial cost method	Entry age
Amortization method	Level percent of pay, closed
Single equivalent amortization period	20.4 years
Asset valuation method	4-year smoothed market
Inflation	2.75 percent
Salary increase	3.25-6.50 percent, including inflation
Investment rate of return	8.00 percent, net of investment related expense

See accompanying Independent Auditors' Report.

TOWN OF NORTH CANAAN, CONNECTICUT

FINANCIAL INFORMATION

Excerpted from the
Annual Financial Report of
The Town of North Canaan, Connecticut
Year Ended June 30, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Finance
The Town of North Canaan, Connecticut

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of North Canaan, CT, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of North Canaan, CT'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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of North Canaan, CT, as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparison for the General Fund 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 3–9 and pension schedules on pages 34-35 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

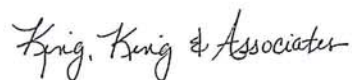
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of North Canaan, CT's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and other supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the Town of North Canaan, CT's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of North Canaan, CT's internal control over financial reporting and compliance.



King, King & Associates, P.C., CPAs
Winsted, CT
December 11, 2017

TOWN OF NORTH CANAAN, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

As management of the Town of North Canaan, CT, we offer readers of the Town of North Canaan, CT's financial statements this narrative overview and analysis of the financial activities of the Town of North Canaan, CT for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

- The assets of the Town of North Canaan, CT exceeded its liabilities at the close of the most recent fiscal year by \$13,714,120 (*net position*). The government's total net position increased by \$770,392. Of this amount, \$3,531,651 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. Restricted Net Position of \$942,197 is restricted for various programs such as road improvements, façade improvement program, Douglas Library, and other purposes.
- As of the close of the current fiscal year, the Town of North Canaan, CT's governmental funds reported combined ending fund balances of \$3,787,309, an increase of \$920,610 in comparison with the prior year. Of this amount, \$1,693,312 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,718,960 or 15.2% percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of North Canaan, CT's basic financial statements. The Town of North Canaan, CT'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 of North Canaan, CT's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town of North Canaan, CT's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator whether the financial position of the Town of North Canaan, CT is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position is 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 periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of North Canaan, CT that are principally supported by intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of North Canaan, CT include education, public safety, general government, library, highway, sanitation, health and welfare, and recreation.

TOWN OF NORTH CANAAN, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

The government-wide financial statements can be found on pages 10-11 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 of North Canaan, CT, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of North Canaan, CT 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 a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government'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.

The Town of North Canaan, CT, maintains eighteen (18) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund from the prior year.

The Town of North Canaan, CT, adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town of North Canaan's own programs.

The basic fiduciary fund financial statements can be found on pages 16-17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-33 of this report.

TOWN OF NORTH CANAAN, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of North Canaan, CT, assets exceeded liabilities by \$13,714,120 at the close of the most recent fiscal year.

	<u>2017</u>	<u>2016</u>
Current and Other Assets	\$ 5,497,817	\$ 4,362,017
Capital Assets	9,876,552	10,341,704
Total Assets	<u>\$ 15,374,369</u>	<u>\$ 14,703,721</u>
 Deferred Outflows of Resources	 _____ -	 _____ -
 Current Liabilities	 \$ 1,162,091	 \$ 1,053,892
Long-Term Liabilities	498,158	706,101
Total Liabilities	<u>1,660,249</u>	<u>1,759,993</u>
 Deferred Inflows of Resources	 _____ -	 _____ -
 Net Position:		
Net Investment in Capital Assets	9,240,272	9,498,078
Restricted	942,197	796,688
Unrestricted	3,531,651	2,648,962
Total Net Position	<u>\$ 13,714,120</u>	<u>\$ 12,943,728</u>

The largest portion of the Town's net position (67.4%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, and infrastructure assets such as roads and bridges). The Town uses these assets to provide services to its citizens; consequently, these assets are not available for spending.

At the end of the current fiscal year, the Town of North Canaan, CT is able to report positive balances in all categories of net position, for the government as a whole.

TOWN OF NORTH CANAAN, CONNECTICUT
 Management's Discussion and Analysis
 June 30, 2017

	<u>2017</u>	<u>2016</u>
REVENUES		
<i>Program:</i>		
Charges for services	\$ 210,820	\$ 194,603
Operating grants and contributions	3,864,362	3,761,104
Capital grants and contributions	1,945,291	-
<i>General:</i>		
Property taxes	9,108,971	8,741,315
Real estate conveyance taxes	19,265	22,402
Grants and contributions, not restricted to specific programs	76,375	78,554
Unrestricted investment earnings	10,918	8,042
Total Revenues	<u>15,236,002</u>	<u>12,806,020</u>
EXPENSES		
<i>Governmental Activities:</i>		
General government	869,876	898,918
Public safety	398,303	427,795
Public works	753,617	897,041
Health and welfare	333,671	314,712
Culture and recreation	2,188,147	402,341
Sanitation	306,022	346,077
Education	9,592,689	9,554,744
Interest on long-term debt	23,285	21,878
Total Expenses	<u>14,465,610</u>	<u>12,863,506</u>
Change in Net Position	770,392	(57,486)
Beginning Net Position	<u>12,943,728</u>	<u>13,001,214</u>
Ending Net Position	<u>\$ 13,714,120</u>	<u>\$ 12,943,728</u>

Governmental activities. Governmental activities increased the Town of North Canaan, CT's net position by \$770,392.

Key elements of this increase are as follows:

- Lower expenses than were originally budgeted.
- Current and back tax collections were higher than anticipated.

Fifty-Nine percent (59%) of the revenues of the Town were derived from property taxes, followed by thirty-Eight percent (38%) from grants and contributions, then less than two percent (2%) from charges for services and less than one percent (1%) of the Town's revenue in the fiscal year was derived from investment and other income.

TOWN OF NORTH CANAAN, CONNECTICUT

Management's Discussion and Analysis

June 30, 2017

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds. The focus of the Town of North Canaan, CT'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 of North Canaan, CT's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of North Canaan, CT's governmental funds reported combined ending fund balances of \$3,787,309, an increase of \$920,610 in comparison with the prior year. 45% of this total amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the Town of North Canaan, CT. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,718,960. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 15.2 percent of total General Fund expenditures.

The fund balance of the Town of North Canaan, CT's General Fund increased by \$618,496 during the current fiscal year. Key factors in this increase are as follows:

- Lower Town and Board of Education expenditures than budgeted.
- Current and back tax collections were higher than anticipated.
- Higher than anticipated collection for transfer station fees and building permit fees.

GENERAL FUND BUDGETARY HIGHLIGHTS

- Revenue from property taxes remained strong and higher than anticipated, as well as higher than anticipated back taxes paid.
- The Town's ability to maintain a responsible budget.
- Purchase of new equipment which has decreased the need for equipment repair expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town of North Canaan, CT's reported value in capital assets for its governmental activities as of June 30, 2017, amounts to \$9,876,552 (net of accumulated depreciation). This reported value in capital assets includes land and buildings, vehicles, machinery and equipment.

TOWN OF NORTH CANAAN, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

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

- Purchase of new computer equipment.

Capital Assets (Net of Depreciation)		
	<u>2017</u>	<u>2016</u>
Land	\$ 964,886	\$ 964,886
Buildings and Improvements	5,005,486	5,269,218
Furniture, Fixtures, & Equipment	736,045	835,320
Infrastructure	3,170,135	3,272,280
Total	<u>\$ 9,876,552</u>	<u>\$ 10,341,704</u>

Additional information on the Town of North Canaan, CT's capital assets can be found in Note 6 on page 27 of this report.

Long-term debt. At the end of the current fiscal year, the Town of North Canaan, CT had long-term debt outstanding of \$707,379.

Outstanding Debt

	<u>2017</u>	<u>2016</u>
G.O. Bonds	\$ 258,644	\$ 323,003
Notes Payable	320,565	444,100
Capital Lease Obligation	57,071	76,523
Compensated Absences	2,900	2,900
Teachers' Severance	68,199	66,916
Total	<u>\$ 707,379</u>	<u>\$ 913,442</u>

The Town of North Canaan, CT's total debt decreased \$206,063 (22.5 percent) during the current fiscal year. Additional information on the Town of North Canaan, CT's long-term debt can be found in Note 7 on pages 28-30 of this report.

TOWN OF NORTH CANAAN, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Increase to Regional School Budget and lack of State budget caused cuts to local school and town budgets.
- Increased threat of losing State funding will continue to be a variable in our local budget.
- Mill rate held due to restore of most State funding and large cuts to local government and local school budgets.

All of these factors were considered in preparing the Town of North Canaan, CT's budget for the 2018 fiscal year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Town of North Canaan, CT's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Finance, Town of North Canaan Town Hall, and 100 Pease Street, North Canaan, CT 06018.

TOWN OF NORTH CANAAN, CONNECTICUT
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 2,665,563
Investments	998,010
Receivables, net of allowances:	
Property Tax	570,407
Interest and Lien Fees on Taxes	217,372
Federal and State Grants	968,823
Other Receivables	5,919
Other Assets	71,723
Total Current Assets	5,497,817
<i>Noncurrent Assets:</i>	
<i>Capital Assets:</i>	
Land and Nondepreciable Assets	964,886
Depreciable Assets, Net of Depreciation	8,911,666
Total Noncurrent Assets	9,876,552
Total Assets	15,374,369
Deferred Outflows of Resources	-
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	687,737
Unearned Grant Revenue	42,345
Line of Credit	222,788
Current Portion of Long-Term Obligations	209,221
Total Current Liabilities	1,162,091
<i>Noncurrent Liabilities:</i>	
Noncurrent Portion of Long-Term Obligations	498,158
Total Noncurrent Liabilities	498,158
Total Liabilities	1,660,249
Deferred Inflows of Resources	-
Net Position	
Net Investment in Capital Assets	9,240,272
Restricted for:	
Road Improvements	38,452
Façade Improvement Program	35,991
Douglas Library	740,038
Union Station Project	44,035
Other Purposes	83,681
Unrestricted	3,531,651
Total Net Position	\$ 13,714,120

The notes to the financial statements are an integral part of this statement

TOWN OF NORTH CANAAN, CONNECTICUT
Statement of Activities
For the Year Ended June 30, 2017

	Program Revenues			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
<i>Governmental Activities:</i>				
General Government	\$ 869,876	\$ 36,907	\$ -	\$ -
Public Safety	398,303	53,339	-	(832,969)
Public Works	753,617	-	668,493	(344,964)
Health and Welfare	333,671	10,908	174,168	(85,124)
Culture and Recreation	2,188,147	-	144,904	(148,595)
Sanitation	306,022	38,585	-	(97,952)
Education	9,592,689	71,081	2,876,797	(267,437)
Interest on Long-Term Debt	23,285	-	-	(6,644,811)
Total Governmental Activities	\$ 14,465,610	\$ 210,820	\$ 3,864,362	\$ 1,945,291
				(8,445,137)

General Revenues:

Property Taxes and Assessments	9,108,971
Real Estate Conveyance Taxes	19,265
Grants and Contributions not Restricted to Specific Programs	76,375
Unrestricted Investment Income	10,918
Total General Revenues, Special Items, and Transfers	9,215,529
Change in Net Position	770,392
Net Position - Beginning	12,943,728
Net Position - Ending	\$ 13,714,120

The notes to the financial statements are an integral part of this statement

TOWN OF NORTH CANAAN, CONNECTICUT

Governmental Funds

Balance Sheet

June 30, 2017

	General Fund	Capital Nonrecurring	Douglas Library	Union Station Project	Nonmajor Funds	Total Governmental Funds
Assets						
Cash and Cash Equivalents	\$ 1,627,492	\$ 842,124	\$ 59,154	\$ 12,729	\$ 124,064	\$ 2,665,563
Investments	-	309,053	679,937	-	9,020	998,010
Taxes Receivable, net of Allowance	570,407	-	-	-	-	570,407
Federal & State Grants Receivable	7,303	-	-	943,909	17,611	968,823
Other Receivables	273	-	-	-	5,646	5,919
Interfund Receivables	102,302	-	-	-	38,452	140,754
Other Assets	45,350	-	2,750	23,000	623	71,723
Total Assets	<u>\$ 2,353,127</u>	<u>\$ 1,151,177</u>	<u>\$ 741,841</u>	<u>\$ 979,638</u>	<u>\$ 195,416</u>	<u>\$ 5,421,199</u>
Liabilities						
Accounts Payable	\$ 61,095	\$ -	\$ 1,803	\$ 622,400	\$ 2,439	\$ 687,737
Line of Credit	-	-	-	222,788	-	222,788
Unearned Grant Revenue	-	-	-	37,683	4,662	42,345
Interfund Payables	38,452	-	-	52,732	49,570	140,754
Total Liabilities	<u>99,547</u>	<u>-</u>	<u>1,803</u>	<u>935,603</u>	<u>56,671</u>	<u>1,093,624</u>
Deferred Inflows of Resources						
Unavailable Revenue:						
Property Taxes and Interest	534,620	-	-	-	-	534,620
Property Rehabilitation Loans	-	-	-	-	5,646	5,646
Total Deferred Inflows of Resources	<u>534,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,646</u>	<u>540,266</u>
Fund Balances						
Nonspendable:						
Inventory	-	-	-	-	623	623
Restricted For:						
Road Improvements	-	-	-	-	38,452	38,452
Façade Improvement Program	-	-	-	-	35,991	35,991
Douglas Library	-	-	740,038	-	-	740,038
Union Station Project	-	-	-	44,035	-	44,035
Nonmajor Fund Purposes	-	-	-	-	83,681	83,681
Committed to Capital Projects	-	532,559	-	-	-	532,559
Assigned to:						
Capital Outlay	-	618,618	-	-	-	618,618
Future Appropriation	-	-	-	-	-	-
Unassigned	1,718,960	-	-	-	(25,648)	1,693,312
Total Fund Balances	<u>1,718,960</u>	<u>1,151,177</u>	<u>740,038</u>	<u>44,035</u>	<u>133,099</u>	<u>3,787,309</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,353,127</u>	<u>\$ 1,151,177</u>	<u>\$ 741,841</u>	<u>\$ 979,638</u>	<u>\$ 195,416</u>	

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,876,552
Deferred revenue for property taxes and rehabilitation loans are reported in the funds but accrued as revenue in the government-wide statements and added to net position.	540,266
The governmental fund Balance Sheet includes revenues that will only be available to pay current period liabilities.	
Adjustments are necessary to accrue receivables of all earned revenues.	217,372
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(707,379)</u>

Net Position of Governmental Activities \$ 13,714,120

The notes to the financial statements are an integral part of this statement

TOWN OF NORTH CANAAN, CONNECTICUT

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2017

	General Fund	Capital Nonrecurring	Douglas Library	Union Station Project	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Property Taxes	\$ 8,917,151	\$ -	\$ -	\$ -	\$ -	\$ 8,917,151
Interest and Lien Fees	81,458	-	-	-	-	81,458
Federal and State Grants	3,051,929	-	21,247	1,945,291	428,593	5,447,060
Investment Income	6,279	4,455	85,086	-	184	96,004
Departmental	123,152	-	38,571	-	75,281	237,004
Other	43,011	-	-	-	37,767	80,778
Total Revenues	12,222,980	4,455	144,904	1,945,291	541,825	14,859,455
Expenditures:						
Current:						
General Government	838,954	-	-	-	1,866	840,820
Public Safety	389,683	-	-	-	8,620	398,303
Public Works	346,362	-	-	-	201,065	547,427
Health and Welfare	159,905	-	-	-	173,766	333,671
Culture and Recreation	124,069	-	138,806	1,888,376	25,134	2,176,385
Sanitation	306,022	-	-	-	-	306,022
Education	8,963,975	-	-	-	124,103	9,088,078
Debt Service	192,263	-	-	-	35,595	227,858
Capital Outlay	20,281	-	-	-	-	20,281
Total Expenditures	11,341,514	-	138,806	1,888,376	570,149	13,938,845
Excess/(Deficiency) of Revenues Over Expenditures	881,466	4,455	6,098	56,915	(28,324)	920,610
Other Financing Sources/(Uses):						
Transfers In	-	152,000	90,740	-	20,230	262,970
Transfers Out	(262,970)	-	-	-	-	(262,970)
Total Other Financing Sources/(Uses)	(262,970)	152,000	90,740	-	20,230	-
Net Change in Fund Balances	618,496	156,455	96,838	56,915	(8,094)	920,610
Fund Balances - Beginning	1,100,464	994,722	643,200	(12,880)	141,193	2,866,699
Fund Balances - Ending	\$ 1,718,960	\$ 1,151,177	\$ 740,038	\$ 44,035	\$ 133,099	\$ 3,787,309

The notes to the financial statements are an integral part of this statement.

TOWN OF NORTH CANAAN, CONNECTICUT
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds \$ 920,610

**Amounts reported for *governmental activities* in the Statement of Activities
 are different because:**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which depreciation exceeded capital outlays in the current period are as follows:

<i>Capital Outlays</i>	17,102
<i>Depreciation Expense</i>	(482,254)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Tax Revenue	110,362
Loan Revenue	(1,491)

The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

<i>Bond principal payments</i>	64,359
<i>Notes principal payments</i>	123,535
<i>Capital lease principal payments</i>	19,452

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

<i>Change in teachers' severance liability</i>	(1,283)
--	---------

Change in net position of governmental activities. **\$ 770,392**

TOWN OF NORTH CANAAN, CONNECTICUT
 Budgetary Comparison Statement-General Fund
 For The Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance Favorable/ (Unfavorable)
Revenues:				
Property Taxes	\$ 8,664,816	\$ 8,664,816	\$ 8,917,151	\$ 252,335
Interest and Lien Fees	90,000	90,000	81,458	(8,542)
Federal and State Grants	2,581,862	2,581,862	2,531,955	(49,907)
Investment Income	2,500	2,500	6,279	3,779
Departmental	77,300	77,300	123,152	45,852
Other	34,500	34,500	43,011	8,511
Total Revenues	11,450,978	11,450,978	11,703,006	252,028
Expenditures:				
General Government	859,146	864,169	836,854	(27,315)
Public Safety	389,358	397,709	396,183	(1,526)
Public Works	389,400	356,415	346,362	(10,053)
Health and Welfare	162,106	161,819	159,905	(1,914)
Culture and Recreation	213,940	243,209	240,639	(2,570)
Sanitation	329,360	307,708	306,022	(1,686)
Education	8,612,990	8,612,990	8,448,001	(164,989)
Debt Service	181,285	181,285	178,263	(3,022)
Capital Outlay	8,000	20,281	20,281	-
Total Expenditures	11,145,585	11,145,585	10,932,510	(213,075)
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	305,393	305,393	770,496	465,103
Other Financing Sources/(Uses):				
Use of Fund Surplus	-	-	-	-
Transfers Out	(152,000)	(152,000)	(152,000)	-
Net Change in Fund Balance, Budgetary Basis	\$ 153,393	\$ 153,393	618,496	\$ 465,103
Fund Balance, Beginning of Year			1,100,464	
Fund Balance, End of Year			\$ 1,718,960	

The notes to the financial statements are an integral part of this financial statement.

TOWN OF NORTH CANAAN, CONNECTICUT
 Fiduciary Funds
 Statement of Fiduciary Net Position
 June 30, 2017

	Private-Purpose <u>Trust Funds</u>	Agency <u>Funds</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$ 3,136	\$ 29,042	\$ 32,178
Total Assets	<u>\$ 3,136</u>	<u>\$ 29,042</u>	<u>\$ 32,178</u>
 Deferred Outflows of Resources	 <u>-</u>	 <u>-</u>	 <u>-</u>
Liabilities			
Due to Others	\$ 63	\$ 29,042	\$ 29,105
Total Liabilities	<u>63</u>	<u>29,042</u>	<u>29,105</u>
 Deferred Inflows of Resources	 <u>-</u>	 <u>-</u>	 <u>-</u>
Net Position			
Held in Trust for Other Purposes	3,073	-	3,073
Total Net Position	<u>\$ 3,073</u>	<u>\$ -</u>	<u>\$ 3,073</u>

The notes to the financial statements are an integral part of this statement

TOWN OF NORTH CANAAN, CONNECTICUT
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

	<u>Private-Purpose Trust Funds</u>
Additions:	
Contributions	\$ -
Investment Income	<u>5</u>
Total Additions	<u>5</u>
Deductions:	
Trust Distributions	<u>72</u>
Total Deductions	<u>72</u>
Change in Net Position	(67)
Net Position - Beginning	<u>3,140</u>
Net Position - Ending	<u>\$ 3,073</u>

The notes to the financial statements are an integral part of this statement

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of North Canaan, Connecticut (the “Town”) have been prepared in conformance with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing the governmental accounting and financial reporting principles. The Town’s significant accounting policies are described below.

Reporting Entity

The Town was incorporated in 1858. It operates under a Board of Selectmen, Town Meeting, Board of Finance form of government and provides a full range of services including public safety, public works, sanitation, health and welfare, culture and recreation, education, and general administrative services to its residents.

The Town’s financial statements include the accounts of all Town controlled operations. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Town of North Canaan (the primary government) and its component units. The basic criteria for inclusion of a component unit in a governmental unit’s reporting entity for financial reporting is the exercise of oversight responsibility. Oversight responsibility is determined on the basis of financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters and scope of public service. Currently, there are no entities considered component units of the Town. The Town includes all funds, agencies, boards, commissions, and authorities that are controlled by or dependent on the Town’s executive and legislative branches. The financial statements presented herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from the Town of North Canaan.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

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

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF NORTH CANAAN, CONNECTICUT

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Their revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred. Exceptions to this general rule include: compensated absences, debt service, and claims and judgments that are recorded only when payment is due.

Property taxes when levied, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government, or specifically identified.

Governmental Funds are those through which most governmental functions typically are financed. The governmental funds are as follows:

The *General Fund* is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another manner. Revenues are derived primarily from property taxes, state grants, licenses, permits, charges for services, and earnings on investments.

The *Capital Nonrecurring Fund* accounts for financial resources that have been segregated for various acquisitions and capital projects.

The *Douglas Library Fund* accounts for the financial activity of the Town's Library. Income comes from user fees, investments, governmental grants, and Town appropriations.

The *Union Station Project Fund* accounts for the financial activity of a grant-financed capital project.

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, and other governments. Fiduciary funds are not included in the government-wide statements. The fiduciary funds are as follows:

Private-Purpose Trust Funds are used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments.

Agency Funds account for monies held as a custodian for outside groups and agencies.

Amounts reported as *program revenues* include 1) charges to members and residents for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions.

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 of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Cash and Cash Equivalents - The deposit of public funds is controlled by the Connecticut General Statutes. The Town maintains separate accounts with depositories where necessary. Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested in various interest-bearing accounts, certificates of deposit, and pooled investment funds that may be deemed to be cash equivalents based on maturity date or availability of conversion to cash. Cash and cash equivalents are stated at cost, which approximates market value and have maturities of three months or less.

Receivables and Payables - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Town has established an allowance for estimated uncollectible motor vehicle and personal property taxes and interest in the amount of \$64,000. Property taxes are assessed of October 1 and billed the following July. Real and personal property bills are payable in two installments, July 1 and January 1. Motor vehicle taxes are payable in one installment on July 1, with the Motor vehicle supplemental bills payable on January 1. Assessments for real and personal property, including motor vehicles, are computed at seventy percent of the market value. Liens are filed within two years of the original due date. Assessments are due and payable as of May 1 following the levy, but may be paid in installments with interest over the life of the bond issues. All properties are levied until the assessment is paid in full.

Investments - In general, State of Connecticut Statutes allow the Town to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust, in obligations of any state or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. Funds received to be held in a trust fund may be placed in a custodian account of any qualified public depository which has been designated as a depository of the municipality.

Inventories - All materials and supplies are recorded as expenditures in the year purchased. Materials and supplies held at year-end are not considered material to these financial statements.

Advances to and from other funds - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables and payables. They arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Capital Assets - Capital assets, which include equipment, fixtures, and other long-lived assets, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$4,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & Improvements	15-50
Furniture, Equipment & Vehicles	3-30
Infrastructure	25-40

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

Compensated absences - Employees accumulate, by prescribed formula, vacation for subsequent use or for payment upon termination or retirement. Expenses to be paid in future periods are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for amounts expected to be paid with available resources, for example, as a result of employee resignations or retirements. Board of Education employees with 20 or more years of employment will receive twenty dollars per day of unused sick time upon retirement or death while employed. The obligation payable upon death is not recorded as it is not reasonably estimable.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, 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 recognized as an expense in the period they are incurred.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports revenues which are unavailable for spending as deferred inflows of resources in the governmental funds balance sheet.

Fund equity and net position– Net position represents the difference between assets, deferred inflows of resources, liabilities, and deferred outflows of resources. In the government-wide statement of net position, net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents the net position of the Town, which is not restricted for any project or other purpose.

When both restricted and unrestricted resources are available for certain expenses, the Town expends restricted resources first and uses unrestricted resources when the restricted funds are depleted.

In the fund financial statements, fund balances of governmental funds are classified in the following five separate categories:

Nonspendable Fund Balance – Indicates amounts that cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Examples are items that are not expected to be converted to cash including inventories and prepaid expenditures.

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

Restricted Fund Balance – Indicates amounts that are restricted to specific purposes. The spending constraints placed on the use of fund balance amounts are externally imposed by creditors, grantors, contributors or, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Indicates amounts that can be used only for specific purposes pursuant to constraints imposed by formal budgetary action of the Board of Finance and Town Meeting in accordance with provisions of the Connecticut General Statutes.

Assigned Fund Balance – Indicates amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by action of Town Officials.

Unassigned Fund Balance – Represents the remaining fund balance after amounts are set aside for all other classifications.

The Town has not established a formal policy for its use of restricted and unrestricted (committed, assigned, unassigned) fund balance; however, the Town generally used restricted fund balance first if the expenditure meets the restricted purpose, followed by committed, assigned and unassigned amounts.

The Town has not formally enacted legislation or Board policies requiring it to maintain a minimum fund balance.

Encumbrances – Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized on a very limited basis in the general fund, to recognize expenditures associated with capital projects that have been scheduled but not completed during the fiscal year as a result of unforeseeable scheduling projects.

Fair Value of Financial Instruments

In accordance with GASB Statement No. 72, the Town is required to measure the fair value of its assets and liabilities under a three-level hierarchy, as follows:

Level 1: Quoted market prices for identical assets or liabilities to which an entity has access to at the measurement date.

Level 2: Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets in markets that are not active;
- c. Observable inputs other than quoted prices for the assets or liability;
- d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity; and *unobservable inputs* reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

Certificates of Deposit are reported at amortized cost and are excluded from the fair value disclosures.

Review for Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through December 11, 2017, which represents the date that these statements were available to be issued.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information and Accounting

The Town of North Canaan follows these procedures in establishing its annual budget:

Department heads, officers and agencies of the Town file estimates of expenditures to be made and revenues to be collected in the upcoming year to the Board of Finance. These estimates, as revised by the Board of Finance, are recommended as the annual operating budget for adoption at the Town meeting in May. Upon the adoption of the budget, the Board of Finance is authorized to transfer appropriated amounts between departments, and to authorize additional departmental appropriations totaling less than \$20,000. Town meeting approval is required whenever additional appropriations for a department exceed \$20,000 in the aggregate. The legal level of control at which expenditures may not exceed appropriations is at the departmental level. Appropriations for capital projects do not lapse until completion of the applicable projects. All General Fund unencumbered appropriations lapse at year-end.

The Town does not have legally adopted annual budgets for its remaining governmental and fiduciary funds, as budgetary control is alternatively achieved by constraints imposed by various means including intergovernmental grant agreements, bond ordinances, Connecticut General Statutes, and donor instruments.

Budgetary/GAAP Reconciliation

The Town of North Canaan prepares its annual budget on a basis of accounting (budget basis), which differs in some respects from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the Town's method (budget basis) in the *Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund* to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis are that unbudgeted grants and capital expenditures are not included in the budget statements and are recorded as revenues and expenditures in the GAAP statements. Certain interfund transfers are also recorded as expenditures for the budget statements rather than operating transfers in the GAAP statements. The budget as presented has been amended by the Board of Finance throughout the year.

Adjustments necessary to reconcile the budget basis to GAAP basis are presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources/(Uses)</u>	<u>Change</u>
Balance, Budgetary Basis	\$ 11,703,006	\$ 10,932,510	\$ (152,000)	\$ 618,496
Revenue adjustments for:				
Unbudgeted Grants	519,974	-	-	519,974
Expenditure adjustments for:				
Unbudgeted Grants	-	519,974	-	(519,974)
Encumbrances	-	-	-	-
Transfers Out	-	(110,970)	(110,970)	-
Balance, GAAP Basis	<u>\$ 12,222,980</u>	<u>\$ 11,341,514</u>	<u>\$ (262,970)</u>	<u>\$ 618,496</u>

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

Deficit Fund Equity

The following nonmajor funds had deficit fund balances as of June 30, 2017:

Elementary School Lunch Fund	\$ (3,985)
Tobey Hill Bridge	(21,440)
Sodom Road Bridge	(223)

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a “qualified public depository” as defined by Statute or in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit in an “out of state bank” as defined by the Statutes, which is not a “qualified public depository”

Cash and cash equivalents at June 30, 2017 consisted of:

	Governmental <u>Funds</u>	Fiduciary <u>Funds</u>	<u>Total</u>
Deposits	\$ 2,665,563	\$ 41,978	\$ 2,707,541

Credit Risk – The Town does not have an investment policy that limits investment choices further than the Connecticut General Statutes. Generally, credit risk is defined as the risk that an issuer of a debt type investment will not fulfill its obligation to the holder. This is measured by assignment of a rating by a nationally recognized rating organization. Ratings are not available for the Douglas Library Fund’s bond mutual funds.

Interest Rate Risk - The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of June 30, 2017, the Town had the following investments subject to interest rate risk:

	<u>Fair Value</u>	Investment Maturities (In Years)		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
Certificates of Deposit	\$ 362,590	\$ 44,517	\$ 318,073	\$ -

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town has an agreement with the bank requiring pledged assets as collateral to manage custodial credit risk. At year-end, the Town’s carrying amount of deposits was \$3,060,331 and the bank balance was \$3,426,551. Of the bank balance, Federal Depository Insurance Corporation insured \$768,147.

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

As of June 30, 2017, \$2,658,404 of the Town's bank balance of \$3,426,551 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	127,499
Uninsured and collateral held by pledging bank's Trust department not in the Town's name		<u>2,530,905</u>
Total	\$	<u>2,658,404</u>

Custodial Credit Risk - Investments. This is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Town's investments are held in various trustee accounts in the Town's name. The Town's mutual funds are not subject to custodial credit risk, as the Town's investment is not directly exposed to custodial credit risk.

The following is a summary of assets measured at fair value:

<u>Description</u>	June 30, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-Term Investments	\$ 13,025	\$ 13,025	\$ -	\$ -
Mutual Funds	573,012	573,012	-	-
Corporate Stock	<u>49,383</u>	<u>49,383</u>	-	-
Total	<u>\$ 635,420</u>	<u>\$ 635,420</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4 – RECEIVABLES

As of June 30, 2017, Town receivable balances were as follows:

	General <u>Fund</u>	Union Station <u>Project</u>	Nonmajor <u>Funds</u>	<u>Total</u>
Property Taxes	\$ 630,407	\$ -	\$ -	\$ 630,407
State of Connecticut	7,303	943,909	17,611	968,823
Other	<u>273</u>	<u>-</u>	<u>5,646</u>	<u>5,919</u>
Total Gross Receivables	<u>637,983</u>	<u>943,909</u>	<u>23,257</u>	<u>1,605,149</u>
Allowance for Collection Losses	<u>(60,000)</u>	<u>-</u>	<u>-</u>	<u>(60,000)</u>
Total Net Receivables	<u>\$ 577,983</u>	<u>\$ 943,909</u>	<u>\$ 23,257</u>	<u>\$ 1,545,149</u>

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

NOTE 5 – INTERFUND ADVANCES

Interfund advances that resulted from various interfund transactions were as follows:

	Due To:				
	General Fund	Town Aid Road	Douglas Library	Dog Fund	Total
<u>Due From:</u>					
General Fund	\$ -	\$ 38,452	\$ -	\$ -	\$ 38,452
Union Station	52,732	-	-	-	52,732
NCES Café Fund	20,396	-	-	-	20,396
Sodom Road Bridge	223	-	-	-	223
Tobey Hill Bridge Fund	28,951	-	-	-	28,951
Total	\$ 102,302	\$ 38,452	\$ -	\$ -	\$ 140,754

Interfund Transfers during the year ended June 30, 2017 were as follows:

	Transfers In:					Total
	Capital Nonrecurring	Douglas Library	Dog Fund	Canaan Railroad Days	Beautification Trust Fund	
<u>Transfers Out:</u>						
General Fund	\$ 152,000	\$ 90,740	\$ 6,500	\$ 11,830	\$ 1,900	\$ 262,970

Transfers are used to account for unrestricted revenues from the General Fund used to finance various programs accounted for in other funds in accordance with budget authorizations.

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

NOTE 6 – CAPITAL ASSETS

The following is a summary of the change in capital assets as of June 30, 2017:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets, not being depreciated				
Land	\$ 964,886	\$ -	\$ -	\$ 964,886
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>964,886</u>	<u>-</u>	<u>-</u>	<u>964,886</u>
Capital assets, being depreciated				
Buildings & Improvements	9,810,184	-	-	9,810,184
Furniture, Fixtures, & Equipment	2,810,274	17,102	-	2,827,376
Infrastructure	<u>3,913,193</u>	<u>-</u>	<u>-</u>	<u>3,913,193</u>
Total capital assets, being depreciated	<u>16,533,651</u>	<u>17,102</u>	<u>-</u>	<u>16,550,753</u>
Less accumulated depreciation for:				
Buildings & Improvements	4,540,966	263,732	-	4,804,698
Furniture, Fixtures & Equipment	1,974,954	116,377	-	2,091,331
Infrastructure	<u>640,913</u>	<u>102,145</u>	<u>-</u>	<u>743,058</u>
Total accumulated depreciation	<u>7,156,833</u>	<u>482,254</u>	<u>-</u>	<u>7,639,087</u>
Total capital assets, being depreciated	<u>9,376,818</u>	<u>(465,152)</u>	<u>-</u>	<u>8,911,666</u>
<i>Capital assets, net</i>	<u>\$ 10,341,704</u>	<u>\$ (465,152)</u>	<u>\$ -</u>	<u>\$ 9,876,552</u>

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

General Government	\$ 31,829
Public Works	185,909
Culture and Recreation	11,762
Education	<u>252,754</u>
Total	<u>\$ 482,254</u>

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

NOTE 7 – LONG-TERM LIABILITIES

The Town issues general obligation bonds to provide financing for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. Bonds payable are secured by the general revenue raising powers of the Town. The Town also has secured bank financing for several capital projects and acquisitions.

At June 30, 2017, the Town of North Canaan, CT had various general obligation bonds and notes outstanding.

\$150,000 Note dated June 15, 2011, payable to the Canaan Foundation, Inc., for the purchase of, and secured by, property known as the Catherine G. Roraback Building at 115 Main St, North Canaan, CT; due in fifteen \$10,000 annual principal installments beginning in July 2011; final maturity date July 2025; 4% interest beginning July 2014.	\$ 90,000
\$260,000 School Window Project bank note, dated May 8, 2013, due in quarterly principal installments of \$6,500, totaling \$26,000 annually; final maturity July 1, 2022; interest at 2.06%.	130,000
\$86,767 Public Works Truck unsecured bank note, dated January 25, 2013, due in annual principal and interest installments of \$18,323; final maturity July 20, 2017; interest at 2.20%.	17,899
\$158,000 General Obligation Statutory Installment Bond dated October 31, 2013, due in quarterly principal installments of \$3,950, totalling \$15,800 annually; final maturity January 1, 2024; interest at 2.875%.	106,650
\$642,665 School Boiler System bank note, due in quarterly principal installments of \$17,500, totalling \$70,000 annually; final maturity September 2018; variable interest rate established by the bank currently 3.25%.	82,666
\$49,776 Wood Chipper General Obligation Statutory Installment Bond, due in annual payments, including principal and interest, of \$17,015: payments begin September 15, 2015, final maturity date September 15, 2017; interest at 1.95%.	16,685
\$201,971 Truck General Obligation Statutory Installment Bond, due in annual payments, including principal and interest, of \$35,520: payments begin September 15, 2015, final maturity date September 15, 2020; interest at 1.95%	135,309
	\$ 579,209

The annual debt service requirements of the Town's general obligation bonds, and notes payable are as follows:

<u>Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 189,229	\$ 13,961	\$ 203,190
2019	97,960	9,740	107,700
2020	85,956	7,581	93,537
2021	86,614	5,506	92,120
2022	51,800	3,419	55,219
2023-2027	67,650	4,795	72,445
Total	\$ 579,209	\$ 45,002	\$ 624,211

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Compensated Absences	\$ 2,900	\$ -	\$ -	\$ 2,900	\$ -
Teachers' Severance	66,916	1,283	-	68,199	-
G.O. Bonds & Bank Notes	767,103	-	187,894	579,209	189,229
Capital Lease Obligation	<u>76,523</u>	<u>-</u>	<u>19,452</u>	<u>57,071</u>	<u>19,992</u>
Total	<u>\$ 913,442</u>	<u>\$ 1,283</u>	<u>\$ 207,346</u>	<u>\$ 707,379</u>	<u>\$ 209,221</u>

The General Fund has historically been used to liquidate long-term liabilities.

Capital Lease Obligations

The Town entered into a lease-purchase agreement for a phone system during 2014. The phone system has been recorded as an \$11,874 equipment acquisition for capital asset reporting purposes which represents the present value of future minimum lease payments at the date of lease inception. Depreciation for the year of \$1,187 is included in governmental depreciation expense of the current fiscal year. The present value of future minimum lease payments is as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 2,773
2019	1,155
Less amount representing interest	<u>(179)</u>
	<u>\$ 3,749</u>

The Town entered into a lease-purchase agreement for a backhoe during 2016. The backhoe has been recorded as an \$88,900 equipment acquisition for capital asset reporting purposes which represents the present value of future minimum lease payments at the date of lease inception. Depreciation for the year of \$8,890 is included in governmental depreciation expense of the current fiscal year. The present value of future minimum lease payments is as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 18,580
2019	18,580
2020	18,579
2021	1
Less amount representing interest	<u>(2,418)</u>
	<u>\$ 53,322</u>

Line of Credit

The Town has an unsecured \$250,000 bank line of credit with a variable interest rate to provide short-term financing, on an as needed basis, of ordinary operating expenses of the Town. The balance of the line of credit at June 30, 2017 was \$222,788.

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

Teachers' Severance

The collective bargaining agreement between the North Canaan Board of Education (BOE) and the North Canaan Faculty Association (the "Association") provides a severance benefit to members of the Association who have been employed by the BOE for at least twenty years. Eligible members receive fifteen percent of their basic salary upon retirement. In addition, the BOE has offered one-time severance packages to individual teachers. At June 30, 2017, a \$68,199 liability for the amount of severance benefits earned by eligible teachers is reflected in the government-wide statement of net position.

Operating Lease

The Town Board of Education entered into an operating lease for two multifunction printers during a prior year. At the end of the lease term, the lease agreement provides an option to purchase the printers at fair market value, to renew the lease, or to return the printer. Lease payments during the current fiscal year totaled \$13,320. The following is a summary of the subsequent payment requirements.

<u>Year</u>	<u>Amount</u>
2018	\$ 13,320
2019	2,220

NOTE 8 – RISK MANAGEMENT

The Town is exposed to various risks of loss involving torts, theft of, damage to, and destruction of assets, errors and omissions, injuries of employees, natural disaster and public official liabilities. The Town generally obtains commercial insurance for these risks. Coverage has not been significantly reduced and settled claims have not exceeded commercial coverage in any of the last three fiscal years.

NOTE 9 – LITIGATION AND CONTINGENCIES

The Town is not a defendant in any lawsuits that, in the opinion of Town Management, in consultation with the Town Attorney, will have an adverse, material effect on the Town's financial position.

The Town participates in several Federal and State assisted grants programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of certain of these programs for or including the year ended June 30, 2017 have not yet been conducted. Accordingly, the Town's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

NOTE 10 – CONSTRUCTION COMMITMENTS

As of June 30, 2017, the Town has incurred costs of \$2,293,300 to assist the Connecticut Railroad Historical Association (the "Association") in rebuilding the Canaan Union Station. The Town has secured Federal grant funds through the State of Connecticut to finance 80% of the costs of the project. It also has secured State grant funds to finance project costs. The total cost of the project will be financed primarily with Federal and State grant funds. The Town is not expected to contribute any additional funding to this project.

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

NOTE 11 – RETIREMENT BENEFITS

Defined Contribution Retirement Plan

The Town established and may amend a retirement benefit for eight full-time municipal employees called the Town of North Canaan Money Purchase Plan. Due to the nature of the benefit, which provides that contributions are made to employee owned accounts, there are no assets accumulated in a trust that meets the criteria in GASB Statement No. 73, and the Town does not include a Pension Trust Fund in its financial statements and does not have a pension benefit obligation to employees. The Town contributed \$22,948 in the current fiscal year.

Connecticut State Teacher's Retirement System

Certified teachers in the Town are eligible to participate in the State of Connecticut's Teacher's *Plan Description*: Teachers, principals, superintendents, or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System (the "System"). The System is a cost sharing multiple-employer defined benefit pension plan administered by the Connecticut State Teachers' Retirement Board (CTRB). Chapter 167a of the State Statutes grants authority to establish and amend the benefited terms to the CTRB Board. The CTRB issues a publicly available financial report that can be obtained at www.ct.gov, or by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106. *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% of the average annual salary times years of credited service (maximum benefit is 75% of average annual salary during the 3 highest years of salary).

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement: Employees are eligible for service-related disability regardless of length of service. Five years of credited service is required for non-service-related disability or eligibility. Disability benefits are calculated as 2% of average annual salary times years of credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

Contributions: Per Connecticut General Studies Section 10-183z, contribution requirements of active employees and the State of Connecticut are approved, amended, and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

Employer (School Districts): School District employers are not required to make contributions to the plan. The statutes require the State of Connecticut to contribute 100% of each school districts' required contributions, which are actuarially determined as an amount, that, when combined with employee contributions, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability. The contributions made by the State on behalf of the District for the year ended June 30, 2017 were estimated to be \$451,878, and were recognized as revenues and expenditures in the General Fund.

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

Employees: Participants are required to contribute 7.25% of their annual salary to the System as required by the CGS Section 10-183b(7). For the year ended June 30, 2017 the certified teachers' contribution to the Connecticut Teachers Retirement Board was \$139,654. Covered payroll for the town for the year ended June 30, 2017 was approximately \$1,926,262.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions: At June 30, 2017 the Town reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows due to the statutory requirement that the State pay 100% of the required contribution. The amount recognized by the Town as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportionate share of the net pension liability	\$	-
State's proportionate share of the net pension liability associated with the Town		<u>6,598,173</u>
Total	\$	<u>6,598,173</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At June 30, 2017, the Town had no proportionate share of the net pension liability.

For the year ended June 30, 2017, the Town recognized benefits expense and contribution revenue of \$451,878 in the governmental funds for on-behalf amounts for the benefits provided by the State. In the government-wide financial statements, the Town recognized \$719,554 for pension expense related to actuarial liabilities for on-behalf amounts for the benefits provided by the State.

Actuarial Assumptions: The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2015 through June 30, 2016. The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	2.75 Percent
Salary increases, including inflation	3.25-6.50 Percent
Long-term investment rate of return, net of pension investment expense, including inflation.	8.00 Percent

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

TOWN OF NORTH CANAAN, CONNECTICUT
Notes to the Financial Statements

after July 1, 2007, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 5% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3%, and if the return on the assets in the previous year was less than 8.5%, the maximum increase is 1.0%.

The long-term expected rate of return on pension investments was determined using a log-normal distributions analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension 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 asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap U.S. Equities	21.00%	5.80%
Developed Non-U.S. Equities	18.00%	6.60%
Emerging Markets (Non-U.S.)	9.00%	8.30%
Core Fixed Income	7.00%	1.30%
Inflation Linked Bond Fund	3.00%	1.00%
Emerging Market Bond	5.00%	3.70%
High-Yield Bonds	5.00%	3.90%
Real Estate	7.00%	5.10%
Private Equity	11.00%	7.60%
Alternative Investments	8.00%	4.10%
Cash	<u>6.00%</u>	0.40%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that 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's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension 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 Town's proportionate share of the net pension liability is \$0 and therefore the change in the discount rate would only impact the amount recorded by the State of Connecticut.

TOWN OF NORTH CANAAN, CONNECTICUT
 State Teacher's Retirement System
 Proportionate Share of Net Pension Liability and Schedule of Contributions
 Last Three Fiscal Years

Schedule of Proportionate Share of Net Pension Liability	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.00%	0.00%	0.00%
Town's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State of Connecticut's proportionate share of the net pension liability associated with the Town	<u>6,598,173</u>	<u>5,097,775</u>	<u>4,711,872</u>
Total	<u>\$ 6,598,173</u>	<u>\$ 5,097,775</u>	<u>\$ 4,711,872</u>
Town's covered-employee payroll	<u>\$ 1,926,262</u>	<u>\$ 1,829,572</u>	<u>\$ 1,781,407</u>
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll.	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

See accountant's report.

TOWN OF NORTH CANAAN, CONNECTICUT
State Teacher's Retirement System
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
June 30, 2017

Actuarial Cost Method	Entry Age
Amortization Period	Level percent of salary, closed
Remaining Amortization Period	17.6 years
Asset Valuation Method	4 year smoothed market
Inflation	2.75%
Salary Increases	3.25%-6.5% average, including inflation
Investment Rate of Return	8.00%, net of pension plan investment expense, including inflation

TOWN OF SALISBURY, CONNECTICUT

FINANCIAL INFORMATION

Excerpted from the
Annual Financial Report of
The Town of Salisbury, Connecticut
Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Finance
Town of Salisbury, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Salisbury, Connecticut (the "Town"), as of and for the year ended June 30, 2017, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund 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 information on pages 3 through 9, and the required supplementary information on pages 43 through 45, 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 General Fund budgetary comparison detail, combining and individual nonmajor fund financial statements, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The General Fund budgetary comparison detail, combining and individual nonmajor fund financial statements, and other 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 General Fund budgetary comparison detail, combining and individual nonmajor fund financial statements, and other 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 15, 2017, 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.

Sandra E. Welwood, LLC

Danbury, Connecticut
December 15, 2017

TOWN OF SALISBURY, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2017

This Management's Discussion and Analysis offers readers of the Town of Salisbury, Connecticut (the "Town"), financial statements a narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. The information presented here should be considered in conjunction with the Town's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

On a government-wide basis, the Town's assets of \$31,105,125 exceeded its liabilities at June 30, 2017, resulting in total net position of \$28,347,741. Total net position for Government Activities was \$27,099,766 at fiscal year-end and total net position for Business-Type Activities was \$1,247,975.

The Town's governmental funds, reported on a current financial resources basis, combined ending fund balance was \$8,844,934, an increase of \$453,157 for the year. The General Fund operating increase for the year was \$243,599. The General Fund balance was \$2,404,925, of which \$513,191 was assigned for subsequent year's operations.

The unassigned fund balance was \$1,297,557, which is 9.4% of total General Fund expenditures.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report also contains other supplementary information.

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 private-sector businesses.

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

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flow in some future fiscal period (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (Governmental Activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (Business-Type Activities). The Governmental Activities of the Town include general government, public safety, public works, and recreation. The Business-Type Activities of the Town include the sewer usage enterprise fund.

The government-wide financial statements can be found on pages 10-11 of this report.

Town of Salisbury, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for special activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the Town are divided into three categories: governmental funds, proprietary 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 that is the Town's most basic services. However, unlike the government-wide financial statements, the funds focus on (1) cash and other financial resources that can be readily converted to cash flow in and out, and (2) balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a near or short-term view of the Town's finances that may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for the 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 funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Transfer Station, Other Capital Projects, Bridge Repair, Bauer, Bissell, and Small Cities Funds, which are considered to be major funds. Data from 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 Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

Proprietary Funds – The Town maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for the Sewer Enterprise Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Sewer Commission is the only activity in the proprietary fund financial statements; therefore, is considered a major fund, and information for the fund is shown separately.

The basic proprietary fund statements are found on pages 16-18 of this report.

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

The basic fiduciary fund statements can be found on pages 19-20 of this report.

Town of Salisbury, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

Notes to the Financial Statements

The notes to the basic 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 21-42 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time the change in net position may be a useful indicator of the Town's financial position and an important determinant of its ability to finance services in the future. In the case of the Town, net position is \$28,347,741 at June 30, 2017.

By far the largest portion of the Town's assets is its investment in capital assets (e.g., land, building, machinery, and equipment). It is presented in the Statement of Net Position less any related debt used to acquire those assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets, net of accumulated depreciation, 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.

	<u>Net Position</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current and other assets	\$ 10,045,880	\$ 770,014	\$ 10,815,894
Capital assets, net of accumulated depreciation	<u>19,797,817</u>	<u>491,414</u>	<u>20,289,231</u>
Total assets	<u>29,843,697</u>	<u>1,261,428</u>	<u>31,105,125</u>
<u>Liabilities</u>			
Current liabilities	380,387	13,453	393,840
Long-term liabilities	<u>2,363,544</u>	<u>-</u>	<u>2,363,544</u>
Total liabilities	<u>2,743,931</u>	<u>13,453</u>	<u>2,757,384</u>
<u>Net position</u>			
Net investment in capital assets	17,542,443	491,414	18,033,857
Restricted – Permanent Funds	3,179,028	-	3,179,028
Unrestricted	<u>6,378,295</u>	<u>756,561</u>	<u>7,134,856</u>
Total net position	<u>\$ 27,099,766</u>	<u>\$ 1,247,975</u>	<u>\$ 28,347,741</u>

Town of Salisbury, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

The Town's net position increased by \$1,162,055 overall during the fiscal year with net position of Governmental Activities increasing by \$1,131,653 and Business-Type Activities increasing by \$30,402. The increase in Governmental Activities is mainly attributable to the General Fund operating surplus.

<u>Change in Net Position</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Revenues</u>			
Program revenue:			
Charges for services	\$ 1,472,436	\$ 447,119	\$ 1,919,555
Operating grants and contributions	1,600,279	-	1,600,279
Capital grants and contributions	208,045	-	208,045
General revenue:			
Property taxes	13,415,626	-	13,415,626
Grants not restricted to specific programs	78,392	-	78,392
Investment earnings	392,062	1,805	393,867
Other	-	-	-
Total revenues	<u>17,166,840</u>	<u>448,924</u>	<u>17,615,764</u>
<u>Expenses</u>			
General government	1,980,236	-	1,980,236
Public safety	692,399	-	692,399
Public works	1,511,829	-	1,511,829
Sanitation/waste removal	1,003,799	418,522	1,422,321
Health and welfare	525,820	-	525,820
Recreation	669,579	-	669,579
Other	5,683	-	5,683
Education	9,611,669	-	9,611,669
Interest on long-term debt	34,173	-	34,173
Total expenses	<u>16,035,187</u>	<u>418,522</u>	<u>16,453,709</u>
Change in net position	<u>\$ 1,131,653</u>	<u>\$ 30,402</u>	<u>\$ 1,162,055</u>

Town of Salisbury, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

Governmental Activities

Approximately 78% of the revenues were derived from property taxes, followed by 11% from operating and capital grants, 9% from service charges, and 2% from all other.

Business-Type Activities

Business-type activities increased the Town's net position by \$30,402. The increase was primarily due to charges for services exceeding operating expenses.

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

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.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the General Fund total fund balance was \$2,404,925. Of this total fund balance, \$513,191 is assigned for the subsequent year's budget and \$594,177 is restricted, committed, and assigned for other activities. The remaining balance of \$1,297,557 is unassigned.

The fund balance of the Town's General Fund increased by \$243,599 during the current fiscal year. The primary reason for this increase was that fund balance was not used as budgeted.

Proprietary Funds

The Town's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. The Town has one proprietary fund.

Unrestricted net position of the Sewer Enterprise Fund at the end of the year amounted to \$756,561.

GENERAL FUND BUDGETARY HIGHLIGHTS

Due to revenues being substantially higher than the budgeted amounts, the Town was able to operate at a surplus of \$389,097 in excess of the final budgeted amount.

A statement of revenues and expenditures, budget and actual, can be found on page 15 of this report.

Town of Salisbury, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2017, amounted to \$19,797,817 and \$491,414, respectively. This investment in capital assets included land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges.

<u>Capital Assets (Net of Accumulated Depreciation)</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 1,392,466	\$ -	\$ 1,392,466
Construction in progress	3,163,741	185,956	3,349,697
Buildings and improvements	9,580,044	61,358	9,641,402
Machinery and equipment	857,037	224,983	1,082,020
Infrastructure	3,008,654	-	3,008,654
Vehicles	<u>1,795,875</u>	<u>19,117</u>	<u>1,814,992</u>
Total	<u>\$ 19,797,817</u>	<u>\$ 491,414</u>	<u>\$ 20,289,231</u>

Long-Term Obligations

At the end of the current fiscal year, the Town had total outstanding obligations of \$2,363,544 as follows:

<u>Outstanding Obligations</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General obligation bonds	\$ 2,170,000	\$ -	\$ 2,170,000
Notes payable	85,374	-	85,374
Net pension liability	<u>108,170</u>	<u>-</u>	<u>108,170</u>
Total	<u>\$ 2,363,544</u>	<u>\$ -</u>	<u>\$ 2,363,544</u>

The Town's total debt had a net decrease of \$236,227 during the current fiscal year.

Additional information on the Town's long-term obligations can be found in Note 9.

Town of Salisbury, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

ECONOMIC FACTORS FOR NEXT YEAR'S BUDGET

The Connecticut DOT has approved the final design for the Route 44/41 intersection project in downtown Lakeville. The project is expected to cost approximately \$1,000,000, with Salisbury's share of 20% being approximately \$200,000. This project will include numerous safety, pedestrian, and landscaping improvements in the downtown area. Construction is expected to finish in the fall of 2017.

The Towns of Salisbury and Sharon have appointed a Transfer Station Building Committee, which has decided on a design for the new facility. This design has been given to the Towns for approval. It is expected that the costs will be approximately \$1,850,000 for each town.

The Town has almost finished with remediation of the former Decker's Laundry site at 17 Perry Street. The State of Connecticut has awarded the Town a STEAP grant for \$500,000 and an EPA Brownfields of \$200,000; these funds will be used for investigation, demolition of the building, and site remediation. The Town does not anticipate additional costs for this project in the next fiscal year.

In 2016, the Town approved the purchase of two parcels of Pope Properties in the Salisbury Village, consisting of 56 and 6 acres for \$1,600,000. The Town expects to close on the purchase sometime in the fall of 2017.

The Town of Salisbury received a \$641,700 grant from the State of Connecticut for the rehabilitation of a portion of Twin Lakes Road. The Town is expected to contribute up to \$71,300 to the cost of the project. It should be completed in the spring of 2018.

The WPCA is consulting with engineers to update code requirements at its plant. Engineer costs are expected to be below \$40,000.

The Town authorized the use of \$513,191 of fund balance from the General Fund for the 2017-2018 fiscal year. The mill rate for the 2017-2018 fiscal year was set at 11.1 mills.

All of the above factors were considered in preparing the Town's budget for the 2017-2018 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview for 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 Office of the Treasurer, Town of Salisbury, 27 Main Street, PO Box 548, Salisbury CT 06068.

TOWN OF SALISBURY, CONNECTICUT

**STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 4,948,315	\$ 724,165	\$ 5,672,480
Investments	4,111,354	-	4,111,354
Receivables:			
Taxes	218,029	-	218,029
Other	145,580	45,849	191,429
Due from Sewer Enterprise Fund	5,445	-	5,445
Long-term receivables	617,157	-	617,157
Capital assets:			
Capital assets, not being depreciated	4,556,207	-	4,556,207
Capital assets, net of accumulated depreciation	15,241,610	491,414	15,733,024
Total assets	29,843,697	1,261,428	31,105,125
<u>Liabilities</u>			
Accounts payable	375,417	8,008	383,425
Due to General Fund	-	5,445	5,445
Accrued interest	4,139	-	4,139
Unearned revenue	831	-	831
Noncurrent liabilities:			
Due within one year	206,663	-	206,663
Due in more than one year	2,156,881	-	2,156,881
Total liabilities	2,743,931	13,453	2,757,384
<u>Net Position</u>			
Net investment in capital assets	17,542,443	491,414	18,033,857
Restricted - Permanent Funds	3,179,028	-	3,179,028
Unrestricted	6,378,295	756,561	7,134,856
Total net position	\$ 27,099,766	\$ 1,247,975	\$ 28,347,741

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ (1,980,236)	\$ 630,558	\$ 155,772	\$ -	\$ (1,193,906)	\$ -	\$ (1,193,906)
Public safety	(692,399)	45,916	-	-	(646,483)	-	(646,483)
Public works	(1,511,829)	-	284,374	208,045	(1,019,410)	-	(1,019,410)
Sanitation/waste removal	(1,003,799)	484,879	188,040	-	(330,880)	-	(330,880)
Health and welfare	(525,820)	207,846	500	-	(317,474)	-	(317,474)
Recreation	(669,579)	35,205	-	-	(634,374)	-	(634,374)
Other	(5,683)	-	-	-	(5,683)	-	(5,683)
Education	(9,611,669)	68,032	971,593	-	(8,572,044)	-	(8,572,044)
Interest on long-term debt	(34,173)	-	-	-	(34,173)	-	(34,173)
Total governmental activities	<u>(16,035,187)</u>	<u>1,472,436</u>	<u>1,600,279</u>	<u>208,045</u>	<u>(12,754,427)</u>	<u>-</u>	<u>(12,754,427)</u>
Business-Type Activities:							
Sewer	(418,522)	447,119	-	-	-	28,597	28,597
Total primary government	<u>\$ (16,453,709)</u>	<u>\$ 1,919,555</u>	<u>\$ 1,600,279</u>	<u>\$ 208,045</u>	<u>(12,754,427)</u>	<u>28,597</u>	<u>(12,725,830)</u>
General revenues:							
Property taxes, interest, and lien fees					13,415,626	-	13,415,626
Grants and contributions not restricted to specific programs					78,392	-	78,392
Interest and investment earnings					392,062	1,805	393,867
Total general revenues					<u>13,886,080</u>	<u>1,805</u>	<u>13,887,885</u>
Change in net position					1,131,653	30,402	1,162,055
Net position, beginning of year					<u>25,968,113</u>	<u>1,217,573</u>	<u>27,185,686</u>
Net position, end of year					<u>\$ 27,099,766</u>	<u>\$ 1,247,975</u>	<u>\$ 28,347,741</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General Fund	Transfer Station Fund	Other Capital Projects Fund	Bridge Repair Fund	Bauer Fund	Bissell Fund	Small Cities Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets									
Cash and cash equivalents	\$ 2,085,390	\$ 249,743	\$ 1,385,462	\$ 309,698	\$ 47,764	\$ 107,651	\$ -	\$ 762,607	\$ 4,948,315
Investments	209,399	-	-	-	1,699,168	1,774,978	-	427,809	4,111,354
Receivables:									
Taxes	218,029	-	-	-	-	-	-	-	218,029
Other	121,017	-	17,078	854	-	-	-	12,076	151,025
Long-term receivables	-	-	-	-	-	-	617,157	-	617,157
Due from other funds	300,179	-	-	-	-	-	-	-	300,179
Total assets	\$ 2,934,014	\$ 249,743	\$ 1,402,540	\$ 310,552	\$ 1,746,932	\$ 1,882,629	\$ 617,157	\$ 1,202,492	\$ 10,346,059
Liabilities									
Accounts payable	\$ 339,972	\$ 35,445	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 375,417
Unearned revenue	831	-	-	-	-	-	-	-	831
Due to other funds	-	-	88,226	-	-	57,614	-	154,339	300,179
Total liabilities	340,803	35,445	88,226	-	-	57,614	-	154,339	676,427
Deferred Inflows of Resources									
Unavailable revenue - taxes	188,286	-	-	-	-	-	-	-	188,286
Unavailable revenue - long term receivables	-	-	-	-	-	-	636,412	-	636,412
Nonspendable	-	-	-	-	1,353,118	1,413,092	-	456,418	3,222,628
Restricted	49,287	214,298	1,241,471	310,552	393,814	411,923	-	602,610	3,223,955
Committed	430,750	-	72,843	-	-	-	-	100,102	603,695
Assigned	627,331	-	-	-	-	-	-	35,715	663,046
Unassigned	1,297,557	-	-	-	-	-	(19,255)	(146,692)	1,131,610
Total fund balances	2,404,925	214,298	1,314,314	310,552	1,746,932	1,825,015	(19,255)	1,048,153	8,844,934
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,934,014	\$ 249,743	\$ 1,402,540	\$ 310,552	\$ 1,746,932	\$ 1,882,629	\$ 617,157	\$ 1,202,492	

Amounts reported in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	19,797,817
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	824,698
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds and notes payable	(2,214,557)
Net pension liability	(153,126)
Net position of governmental activities	\$ 27,099,766

-12- The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Transfer Station Fund	Other Capital Projects Fund	Bridge Repair Fund	Bauer Fund	Bissell Fund	Small Cities Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:									
Property taxes	\$ 13,358,057	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,358,057
Intergovernmental	1,304,240	188,040	122,289	85,756	-	-	-	30,119	1,730,444
Investment earnings	11,334	671	2,300	675	147,047	202,467	-	27,568	392,062
Donations	155,772	-	-	-	-	-	-	-	155,772
Local	665,763	484,879	-	-	-	-	-	322,294	1,472,936
Total revenues	15,495,166	673,590	124,589	86,431	147,047	202,467	-	379,981	17,109,271
Expenditures:									
Current:									
General government	1,726,616	-	-	-	-	-	-	-	1,726,616
Public safety	366,866	-	-	-	-	-	-	213,553	580,419
Public works	1,242,408	-	-	-	-	-	-	-	1,242,408
Sanitation/waste removal	27,686	913,777	-	-	-	-	-	-	941,463
Health and welfare	312,034	-	-	-	-	71,606	-	142,180	525,820
Recreation	634,048	-	-	-	-	-	-	-	634,048
Education	9,209,280	-	-	-	-	-	-	113,176	9,322,456
Other	30,385	-	-	-	12,275	949	-	7,030	50,639
Capital outlay	214,344	-	468,512	102,340	-	-	-	619,057	1,404,253
Debt service	-	23,045	204,947	-	-	-	-	-	227,992
Total expenditures	13,763,667	936,822	673,459	102,340	12,275	72,555	-	1,094,996	16,656,114
Excess of revenues over (under) expenditures	1,731,499	(263,232)	(548,870)	(15,909)	134,772	129,912	-	(715,015)	453,157
Other financing sources (uses):									
Proceeds from issuance of bonds	2,170,000	-	-	-	-	-	-	-	2,170,000
Payment of bond anticipation notes	(2,170,000)	-	-	-	-	-	-	-	(2,170,000)
Transfers in	19,255	282,058	777,247	573,592	-	-	-	487,850	2,140,002
Transfers out	(1,507,155)	(50,000)	(563,592)	-	-	-	(19,255)	-	(2,140,002)
Total other financing sources (uses)	(1,487,900)	232,058	213,655	573,592	-	-	(19,255)	487,850	-
Net change in fund balances	243,599	(31,174)	(335,215)	557,683	134,772	129,912	(19,255)	(227,165)	453,157
Fund balances, beginning of year	2,161,326	245,472	1,649,529	(247,131)	1,612,160	1,695,103	-	1,275,318	8,391,777
Fund balances, end of year	\$ 2,404,925	\$ 214,298	\$ 1,314,314	\$ 310,552	\$ 1,746,932	\$ 1,825,015	\$ (19,255)	\$ 1,048,153	\$ 8,844,934

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds \$ 453,157

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period:

Capital outlay	1,431,175
Depreciation expense	<u>(1,049,023)</u>
	<u>382,152</u>

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Debt issued or incurred:	
Issuance of debt	(2,170,000)
Principal repayments:	
Bond anticipation notes	2,340,000
Notes payable	<u>21,271</u>
	<u>191,271</u>

Some revenues and expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as revenues and expenditures in governmental funds:

Revenues:	
Taxes, interest and liens	57,569
Expenses:	
Net pension liability	44,956
Accrued interest payable	<u>2,548</u>
	<u>105,073</u>

Change in net position of governmental activities \$ 1,131,653

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY BASIS - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 13,352,358	\$ 13,352,358	\$ 13,358,057	\$ 5,699
Intergovernmental	480,537	480,537	377,810	(102,727)
Investment earnings	2,500	2,500	11,334	8,834
Donations	106,000	106,000	155,772	49,772
Local	570,031	570,031	665,763	95,732
Total revenues	<u>14,511,426</u>	<u>14,511,426</u>	<u>14,568,736</u>	<u>57,310</u>
Expenditures:				
Current:				
General government	1,923,537	1,923,537	1,726,616	196,921
Public safety	670,486	670,486	639,716	30,770
Public works	1,463,238	1,463,238	1,242,408	220,830
Sanitation/waste removal	310,058	310,058	309,744	314
Health and welfare	353,373	353,373	347,034	6,339
Recreation	633,801	633,801	634,048	(247)
Education	8,508,931	8,508,931	8,450,842	58,089
Other	46,500	46,500	30,385	16,115
Capital outlay	287,000	287,000	484,344	(197,344)
Debt service	460,000	460,000	460,000	-
Total expenditures	<u>14,656,924</u>	<u>14,656,924</u>	<u>14,325,137</u>	<u>331,787</u>
Net change in fund balance	<u>\$ (145,498)</u>	<u>\$ (145,498)</u>	243,599	<u>\$ 389,097</u>
Fund balance, beginning of year			<u>2,161,326</u>	
Fund balance, end of year			<u>\$ 2,404,925</u>	

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Business-Type Activities</u>
	<u>Sewer Enterprise Fund</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 724,165
Sewer usage receivable	45,849
Noncurrent assets:	
Capital assets:	
Depreciable, net of accumulated depreciation	491,414
Total assets	<u>1,261,428</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	8,008
Due to General Fund	5,445
Total liabilities	<u>13,453</u>
<u>Net Position</u>	
Net investment in capital assets	491,414
Unrestricted	756,561
Total net position	<u>\$ 1,247,975</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>Business-Type Activities</u>
	<u>Sewer Enterprise Fund</u>
Operating revenues	
Sewer usage fees	\$ 447,119
Total operating revenues	<u>447,119</u>
Operating expenses	
Wages and benefits	232,285
Utilities	42,014
Operating expenses	110,472
Administrative expenses	10,948
Depreciation	22,803
Total operating expenses	<u>418,522</u>
Non-operating income	
Interest income	1,805
Total non-operating income	<u>1,805</u>
Change in net position	30,402
Net position, beginning of year	<u>1,217,573</u>
Net position, end of year	<u>\$ 1,247,975</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Business-Type Activities</u>
	<u>Sewer Enterprise Fund</u>
Cash flows from operating activities	
Cash received from the following:	
Sewer usage fees	\$ 440,122
Cash paid for the following:	
Wages and benefits	(232,285)
Utilities	(42,014)
Operating expenses	(113,976)
Administrative expenses	(10,948)
Net cash provided by operating activities	<u>40,899</u>
Cash flows from capital & related investing activities	
Purchases of equipment	(251,971)
Net cash provided by capital and related investing activities	<u>(251,971)</u>
Cash flows from investing activities	
Interest income	1,805
Net cash provided by investing activities	<u>1,805</u>
Net increase in cash and cash equivalents	(209,267)
Cash and cash equivalents, beginning of year	<u>933,432</u>
Cash and cash equivalents, end of year	<u>\$ 724,165</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 28,597
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	22,803
Change in assets and liabilities	
Sewer usage receivable	(6,996)
Accounts payable	(8,675)
Due to General Fund	5,170
Net cash provided by operating activities	<u>\$ 40,899</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
<u>Assets</u>		
Cash and cash equivalents	\$ -	\$ 45,531
Investments	1,058,576	-
Total assets	<u>1,058,576</u>	<u>45,531</u>
<u>Liabilities</u>		
Due to student groups	-	45,531
Total liabilities	<u>-</u>	<u>45,531</u>
<u>Net Position</u>		
Total net position held in trust for pension benefits	<u>\$ 1,058,576</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Pension Trust Fund</u>
Additions:	
Employer contributions	\$ 26,639
Investment income:	
Interest and dividends	<u>35,062</u>
	<u>61,701</u>
Deductions:	
Fees and expenses	<u>4,019</u>
	<u>4,019</u>
Change in net position	57,682
Net position, beginning of year	<u>1,000,894</u>
Net position, end of year	<u>\$ 1,058,576</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Town of Salisbury, Connecticut (the “Town”) was incorporated October 1741 under the provisions of the Connecticut General Statutes. It operates under a Board of Selectmen form of government with a Board of Finance, a Board of Education, various other boards and commissions, and provides a full range of services including public safety, public works, health and welfare, parks and recreation, education, and general administrative services to its residents. The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments.

Accounting principles generally accepted in the United States of America require that the reporting entity include: 1) the primary government, 2) organizations for which the primary government is financially accountable, and 3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The basic financial statements of the reporting entity include only the funds of the Town (the primary government) as no component units exist based on operational or financial relationships with the Town.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town’s accounting policies are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effects of interfund activity have been removed from these statements. Exceptions to this general rule are charges between the enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental Activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from Business-Type Activities, which rely to a significant extent on fees and charges for support.

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

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

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

The various funds included in the financial statements are described below:

Governmental Funds

General Fund - the primary operating fund of the Town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal grants, licenses, permits, charges for services, and interest income.

Special Revenue Funds - account for revenue derived from specific sources (other than capital projects) that are restricted by legal and regulatory provisions to finance specific activities.

Capital Project Funds - account for all financial resources used for the acquisition or construction of capital assets not being financed by proprietary funds.

Permanent Funds - used to report resources that are legally restricted to the extent that only income, and not principal, may be used for purposes that support the Town's programs.

Proprietary Funds

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. These funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The following is the Town's proprietary fund:

Enterprise Fund - accounts for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, and other governments. Fiduciary funds are not included in the government-wide financial statements. The fiduciary funds are as follows:

Pension Trust Fund - used to account for the activities of the Town's defined benefit plan, which accumulates resources for pension benefit payments to qualified employees.

Agency Funds - account for monies held by the Town as a custodian for outside groups and agencies.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, charges for services, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance. Revenues are recognized when the eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the Town or specifically identified.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the funds are charges to customers for services. Operating expenses for the funds include the cost of operations and maintenance, provision for doubtful accounts, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the following major governmental funds:

The **General Fund** is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Transfer Station Fund** accounts for financial resources designated for the operation of the Salisbury/Sharon Transfer Station.

The **Other Capital Projects Fund** accounts for smaller, short-term capital projects that are funded through capital grants or General Fund transfers. This fund is also used to account for proceeds of bond anticipation notes and general obligation bonds used for authorized bonded projects such as acquisition and construction of capital facilities, which have not been established in a separate fund.

The **Bridge Repair Fund** was established to account for intergovernmental grants received and expended for the repair of the Amesville bridge.

The **Bauer Fund** accounts for permanently restricted funds held by the Town and used for general assistance, recreation, and maintenance of Bauer Park as allowed under the fund.

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

The **Bissell Fund** accounts for permanently restricted funds held by the Town to be spent on medical expenses of Town residents.

The **Small Cities Fund** relates to intergovernmental grants received and reflects the Town's activities related to those grants.

Additionally, the Town reports the following major proprietary fund:

The **Sewer Enterprise Fund** accounts for the operations of the Town's waste water treatment system.

Accounting 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 of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments

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

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Town deposits may not be returned to it. The Town's policy for custodial credit risk is to invest in obligations allowable under the Connecticut General Statutes. In general for most of the funds, this includes deposits in allowable banks, obligations of the United States of America, and obligations of any State or political subdivision, which is tax exempt.

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Town does not have a formal credit risk policy other than restrictions to obligations allowable under the Connecticut General Statutes.

Interest Rate Risk – Interest rate risk is the risk that the Town will incur losses in fair value caused by changing interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk – Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Town follows the limitations specified in the Connecticut General Statutes. Generally, the Town's deposits cannot be 75% or more of the total capital of any one depository.

Fair Value Measurements

The Town utilizes the market approach as the valuation technique to measure fair value of its financial assets. GAAP establishes a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity ("observable inputs") and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances ("unobservable inputs") and requires that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuation based on unadjusted quoted prices in active markets for identical assets the Town has the ability to access. Since valuations are based on quoted prices readily and regularly available in an active market, valuation of these assets does not entail significant judgment.
- Level 2 - Valuation based on quoted prices for similar assets in active markets; quoted prices for similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Town's own assumptions about assumptions that market participants might use.

The Town's investments are measured on a recurring basis using Level 1 information (market quotations for investments that have quoted prices in active markets). The Town has no financial assets measured using Level 2 or Level 3 at June 30, 2017.

Property Taxes

The Town levies property taxes each year on October 1, which are payable in four installments on July 1, October 1, January 1, and April 1. Supplemental motor vehicle taxes are due in full January 1. The bill becomes delinquent 30 days after the installment is due at which time the applicable property is subject to lien, and penalties and interest are assessed.

Under Connecticut State Statutes, the Town has the right to impose a lien on a taxpayer if any personal property tax, other than a motor vehicle tax, due to the Town is not paid within the time limited by any local charter or ordinance. The lien shall be effective for a period of 15 years from the date of filing unless discharged. A notice of tax lien shall not be effective if filed more than two years from the date of assessment for the taxes claimed to be due.

The Town establishes allowances for uncollectible taxes and interest based on historical collection experience and other factors. As of June 30, 2017, no allowance for uncollectible taxes and interest was considered necessary.

Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "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".

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in appropriate governmental funds to indicate that they are not available for appropriation and are not expendable financial resources.

Long-Term Receivables

The Town administers a loan program for individuals and families in need. Repayment of the loans is deferred, but the loans become due and payable upon sale or transfer of the property, the owner's demise, or when the subject property is no longer the applicant's principal place of residence. The notes may be paid in full or in part by the borrower at any time without penalty. As of June 30, 2017, loans receivable totaled \$617,157 under this program.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable Governmental Activities or Business-Type Activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$10,000 with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, equipment, and infrastructure assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	40 - 50
Building improvements	20
Infrastructure	50
Machinery and equipment	5 - 30
Vehicles	5 - 10

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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 expensed as incurred.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the 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 Pension Liability

The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

Unearned Revenue

In the government-wide and fund financial statements, this liability represents resources that have been received but not yet earned.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has no items that qualify for reporting in this category.

Deferred inflows of resources represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The unavailable revenues from property taxes and long-term loans are reported in the governmental funds Balance Sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Equity and Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted – This category represents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This category represents the net position of the Town which is not restricted for any project or other purpose.

Governmental Accounting Standards Board Statement #54 (GASB 54) defines the different types of fund balances that the Town must use for its governmental funds. GASB 54 requires the fund balances to be properly reported within one of the following categories for financial reporting purposes.

Nonspendable – fund balance amounts associated with inventories, prepaids, long-term receivables and payables, and amounts that are legally or contractually required to be maintained intact.

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Restricted – fund balance amounts that can be spent only for the specific purposes stipulated by external source providers or enabling legislation.

Committed – fund balance amounts that can be used only for specific purposes determined by a formal action of the Town’s highest level of decision-making authority.

Assigned – fund balance amounts intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed fund balances.

Unassigned – fund balance amounts remaining for the General Fund that are spendable or amounts necessary in other governmental funds to eliminate otherwise negative fund balance amounts in the other four categories.

The Town does not have a formal policy over the use of fund balance. In accordance with GASB 54, the Town will use restricted resources first, then unrestricted resources as needed. Unrestricted resources are used in the following order: committed; assigned; then unassigned.

Note 2 – Budgets and Budgetary Accounting

General Fund

The Town adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- a. A proposed operating budget is submitted for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted in the Town to obtain taxpayer comments.
- c. The budget is legally enacted through passage of ordinance.
- d. The Board of Finance is authorized to transfer budgeted amounts between departments within any fund; however, any major revisions that alter the total expenditures or any fund must be approved at the Town Meeting. No additional appropriations were approved at Town meetings.
- e. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgets are not employed in the other various types of funds of the Town.
- f. The Board of Education, which is not a separate legal entity, but a function of the Town, is authorized under state law to make any transfers within their budget at their discretion.

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

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"). A reconciliation of General Fund amounts presented on the budgetary basis to amounts presented in conformity with accounting principles generally accepted in the United States of America is as follows:

	<u>Fund Balance</u> <u>Beginning</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other</u> <u>Financing</u> <u>Source (Uses)</u>	<u>Fund Balance</u> <u>Ending</u>
GAAP basis	\$ 2,161,326	\$ 15,495,166	\$ (13,763,667)	\$ (1,487,900)	\$ 2,404,925
Reclassifications	-	-	(1,487,900)	1,487,900	-
Teachers' retirement system on behalf payments	-	(926,430)	926,430	-	-
Budgetary basis	<u>\$ 2,161,326</u>	<u>\$ 14,568,736</u>	<u>\$ (14,325,137)</u>	<u>\$ -</u>	<u>\$ 2,404,925</u>

Special Revenue Funds

The Town does not have legally adopted annual budgets for the Special Revenue Funds. Budgets for the various Special Revenue Funds, which are utilized to account for specific grant and other special programs, are established in accordance with the requirements of the grantor agencies or Town Boards. Such budgets generally carry over until completion of the grants and programs.

Capital Project Funds

Legal authorization for expenditures of the Capital Project Funds is provided by Town ordinances and/or intergovernmental grant agreements. Capital appropriations do not lapse until completion of the applicable projects.

Note 3 – Deposits and Investments

Cash and Cash Equivalents

The following is a summary of cash and cash equivalents at year end:

Governmental funds	\$ 4,948,315
Enterprise fund	724,165
Agency funds	<u>45,531</u>
Total cash and cash equivalents	<u>\$ 5,718,011</u>

The bank balance of the deposits was \$6,007,335 and was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 1,045,929
Uninsured and collateralized	3,967,605
Uninsured and uncollateralized	<u>993,801</u>
Total Deposits	<u>\$ 6,007,335</u>

The level of the Town's deposits varied significantly throughout the year as a result of higher cash flows during certain periods of the year. As a result, uninsured, uncollateralized amounts fluctuate during the year.

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Investments

The Town has no formally adopted investment policy that would limit its investment choices due to credit risk other than the State of Connecticut General Statutes that limit investments to obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. Governmental fund investments are as follows:

	Fair Value	Maturity not applicable	Investment Maturities (in years)		
			Less Than 1	1-5	5-10
Bank and brokered certificates of deposit	\$ 15,555	\$ -	\$ 15,555	\$ -	\$ -
U.S. Treasury bonds and notes	318,069	-	100,192	217,877	-
Corporate bonds and notes	93,353	-	-	93,353	-
Common stock	2,669,619	2,669,619	-	-	-
Mutual funds	<u>1,014,758</u>	<u>1,014,758</u>	-	-	-
	<u>\$ 4,111,354</u>	<u>\$ 3,684,377</u>	<u>\$ 115,747</u>	<u>\$ 311,230</u>	<u>\$ -</u>

Note 4 – Interfund Receivables, Payables, and Transfers

As of June 30, 2017, interfund receivables and payables were as follows:

	Due From:					
	Bissell Fund	Other Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds	Sewer Enterprise Fund	Total Funds
Due To:						
General Fund	<u>\$ 57,614</u>	<u>\$ 88,226</u>	<u>\$ 154,339</u>	<u>\$ 300,179</u>	<u>\$ 5,445</u>	<u>\$ 305,624</u>
	<u>\$ 57,614</u>	<u>\$ 88,226</u>	<u>\$ 154,339</u>	<u>\$ 300,179</u>	<u>\$ 5,445</u>	<u>\$ 305,624</u>

Transfers are used to account for unrestricted revenues collected mainly in the General Fund to finance capital projects and other programs accounted for in other funds in accordance with budget and project authorizations. Interfund transfers were as follows:

	Transfers From:				
	General Fund	Transfer Station Fund	Other Capital Projects Fund	Small Cities Fund	Total Governmental Funds
Transfers To:					
General Fund	\$ -	\$ -	\$ -	\$ 19,255	\$ 19,255
Transfer Station Fund	282,058	-	-	-	282,058
Other Capital Projects Fund	777,247	-	-	-	777,247
Bridge Repair Fund	10,000	-	563,592	-	573,592
Nonmajor Governmental Funds	<u>437,850</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>487,850</u>
Total Governmental Funds	<u>\$ 1,507,155</u>	<u>\$ 50,000</u>	<u>\$ 563,592</u>	<u>\$ 19,255</u>	<u>\$ 2,140,002</u>

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Note 5 – Capital Assets

	Balance at July 1, 2016	Increases	Decreases	Balance at June 30, 2017
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,392,466	\$ -	\$ -	\$ 1,392,466
Construction in progress	2,669,954	493,787	-	3,163,741
Total capital assets not being depreciated	<u>4,062,420</u>	<u>493,787</u>	<u>-</u>	<u>4,556,207</u>
Capital assets being depreciated:				
Buildings and improvements	17,411,075	160,200	-	17,571,275
Machinery and equipment	3,253,419	96,486	-	3,349,905
Infrastructure	4,178,180	-	-	4,178,180
Vehicles	4,082,725	680,702	-	4,763,427
Total capital assets being depreciated	<u>28,925,399</u>	<u>937,388</u>	<u>-</u>	<u>29,862,787</u>
Less accumulated depreciation:				
Buildings and improvements	7,565,112	426,119	-	7,991,231
Machinery and equipment	2,346,552	146,316	-	2,492,868
Infrastructure	1,003,038	166,488	-	1,169,526
Vehicles	2,657,452	310,100	-	2,967,552
Total accumulated depreciation	<u>13,572,154</u>	<u>1,049,023</u>	<u>-</u>	<u>14,621,177</u>
Capital assets being depreciated, net of depreciation	<u>15,353,245</u>	<u>(111,635)</u>	<u>-</u>	<u>15,241,610</u>
Total governmental activities	<u>\$ 19,415,665</u>	<u>\$ 382,152</u>	<u>\$ -</u>	<u>\$ 19,797,817</u>
Business-Type Activities				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 185,956	\$ -	\$ 185,956
Capital assets being depreciated:				
Buildings and improvements	639,657	-	-	639,657
Machinery and equipment	363,141	66,015	-	429,156
Vehicles	63,350	-	(26,350)	37,000
Total capital assets being depreciated	<u>1,066,148</u>	<u>66,015</u>	<u>(26,350)</u>	<u>1,105,813</u>
Less accumulated depreciation:				
Building and improvements	576,520	1,779	-	578,299
Machinery and equipment	189,932	14,241	-	204,173
Vehicles	37,450	6,783	(26,350)	17,883
Total accumulated depreciation	<u>803,902</u>	<u>22,803</u>	<u>(26,350)</u>	<u>800,355</u>
Business-type activities, capital assets, net of depreciation	<u>\$ 262,246</u>	<u>\$ 229,168</u>	<u>\$ -</u>	<u>\$ 491,414</u>

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

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

Governmental Activities:	
General government	\$ 280,542
Public safety	111,980
Recreation	35,531
Sanitation	62,336
Public works	269,421
Education	<u>289,213</u>
Total depreciation expense – governmental activities	<u>\$ 1,049,023</u>
Business-Type Activities:	
Sewer	<u>\$ 22,803</u>
Total depreciation expense – business-type activities	<u>\$ 22,803</u>

Note 6 – Deficit Fund Balance

As of June 30, 2017, the Highway Equipment Replacement Fund and the Small Cities Fund reported deficit fund balances of \$146,692 and \$19,255, respectively. The deficit will be satisfied through transfers from the General Fund and/or other funds.

Note 7 – Risk Management

The Town is exposed to various risks of loss involving torts, theft of, damage to, and destruction of assets, errors and omissions, injuries of employees, natural disaster, and public official liabilities. The Town generally obtains commercial insurance for these risks and any claims have not exceeded commercial coverage.

Note 8 – Contingencies

There are legal actions pending in which the Town is involved. The Town officials are of the opinion that the ultimate liabilities, if any, resulting from such lawsuits and claims will not materially affect the financial position of the Town.

The Town has agreed to guarantee a loan at a local bank in the name of Salisbury Winter Sports Association, a local nonprofit organization. The amount of the loan is \$140,000. This amount has been put into a separate bank account at the local bank and is included on these financial statements as a reserve fund in Other Capital Projects Fund.

Note 9 – Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ -	\$ 2,170,000	\$ -	\$ 2,170,000	\$ 185,000
Notes payable	106,645	-	(21,271)	85,374	21,663
Bond anticipation notes	2,340,000	-	(2,340,000)	-	-
Bond anticipation notes	-	2,170,000	(2,170,000)	-	-
Net pension liability	<u>153,126</u>	<u>-</u>	<u>(44,956)</u>	<u>108,170</u>	<u>-</u>
	<u>\$ 2,599,771</u>	<u>\$ 4,340,000</u>	<u>\$ (4,576,227)</u>	<u>\$ 2,363,544</u>	<u>\$ 206,663</u>

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

General Obligation Bonds

On May 15, 2017, the Town issued \$2,170,000 of general obligation bonds to pay off the bond anticipation notes. The bonds mature serially through May 15, 2029, and bear interest at an annual rate of 2.250%.

Payments to maturity on the general obligation bonds are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 185,000	\$ 46,791
2019	185,000	44,663
2020	180,000	40,500
2021	180,000	36,450
2022	180,000	32,400
2023	180,000	28,350
2024	180,000	24,300
2025	180,000	20,250
2026	180,000	16,200
2027	180,000	12,150
2028	180,000	8,100
2029	<u>180,000</u>	<u>4,050</u>
	<u>\$ 2,170,000</u>	<u>\$ 314,204</u>

Bond Anticipation Notes

The Town issued a Bond Anticipation Note on December 4, 2015, in the amount of \$2,340,000 maturing on September 1, 2016. A new Bond Anticipation Note in the amount of \$2,170,000 was issued on September 1, 2016, maturing on May 31, 2017.

Notes Payable

The Town financed the purchase of various vehicles and equipment with local banks. As of June 30, 2017, the total balance of the outstanding loans was \$85,374.

Principal retirement is scheduled as follows:

<u>Year Ended</u>	<u>Principal</u>
2018	\$ 21,663
2019	22,063
2020	22,470
2021	<u>19,178</u>
	<u>\$ 85,374</u>

Statutory Debt Limitation

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, 2017.

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Note 10 – Fund Balances

As of June 30, 2017, governmental fund balances are composed of the following:

	General Fund	Transfer Station Fund	Other Capital Projects Fund	Bridge Repair Fund	Bauer Fund	Bissell Fund	Small Cities Fund	Nonmajor Governmental Fund	Total Governmental Fund
<u>Nonspendable:</u>									
Health and welfare	\$ -	\$ -	\$ -	\$ -	\$ 1,353,118	\$ 1,413,092	\$ -	\$ 456,418	\$ 3,222,628
Total nonspendable	-	-	-	-	1,353,118	1,413,092	-	456,418	3,222,628
<u>Restricted:</u>									
Capital projects	-	-	1,241,471	-	-	-	-	108,051	1,349,522
General governments	19,830	-	-	-	-	-	-	-	19,830
Public works	-	-	-	310,552	-	-	-	-	310,552
Public safety	-	-	-	-	-	-	-	388,048	388,048
Sanitation/waste removal	-	214,298	-	-	-	-	-	-	214,298
Health and welfare	-	-	-	-	393,814	411,923	-	106,511	912,248
Recreation	29,457	-	-	-	-	-	-	-	29,457
	<u>49,287</u>	<u>214,298</u>	<u>1,241,471</u>	<u>310,552</u>	<u>393,814</u>	<u>411,923</u>	<u>-</u>	<u>602,610</u>	<u>3,223,955</u>
<u>Committed:</u>									
Capital projects	-	-	72,843	-	-	-	-	-	72,843
Public works	256,041	-	-	-	-	-	-	-	256,041
Public safety	32,841	-	-	-	-	-	-	-	32,841
Sanitation/waste removal	23,499	-	-	-	-	-	-	-	23,499
Health and welfare	118,369	-	-	-	-	-	-	100,102	218,471
	<u>430,750</u>	<u>-</u>	<u>72,843</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,102</u>	<u>603,695</u>
<u>Assigned</u>									
Subsequent year's budget	513,191	-	-	-	-	-	-	-	513,191
HS tuition	35,254	-	-	-	-	-	-	-	35,254
Unemployment	25,716	-	-	-	-	-	-	-	25,716
General government	19,974	-	-	-	-	-	-	-	19,974
Public works	25,000	-	-	-	-	-	-	-	25,000
Health and welfare	8,196	-	-	-	-	-	-	-	8,196
Education	-	-	-	-	-	-	-	35,715	35,715
	<u>627,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,715</u>	<u>663,046</u>
<u>Unassigned</u>	<u>1,297,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,255)</u>	<u>(146,692)</u>	<u>1,131,610</u>
	<u>\$ 2,404,925</u>	<u>\$ 214,298</u>	<u>\$ 1,314,314</u>	<u>\$ 310,552</u>	<u>\$ 1,746,932</u>	<u>\$ 1,825,015</u>	<u>\$ (19,255)</u>	<u>\$ 1,048,153</u>	<u>\$ 8,844,934</u>

Note 11 – Pension Plan and Benefits Provided

Defined Benefit Pension Plan

Plan Description

The Town has a single employer, noncontributory defined benefit pension plan administered by the Town for eligible employees except certified personnel of the Board of Education who are covered by the State of Connecticut Teachers' Retirement System. The plan is funded through a trust with the MetLife Insurance Company of Connecticut who has authority and discretion to invest the funds of the plan. The Town has the authority to amend benefit provisions. The plan is considered to be a part of the Town's financial reporting entity and is included in the Town's financial statements as a Pension Trust Fund.

All eligible employees hired before January 1, 1997, who have completed one year of service with a minimum of 20 hours per week or five months during the year are eligible for inclusion in the plan. The plan provides that effective January 1, 1994, benefits are fully vested after five years of credited service. Prior to that ten years was required. Normal retirement from Town services is at the earlier of 1) age 60 with 30 years of credited service, or 2) age 65.

Pension benefits for normal retirement under the Town's plan are calculated at 1.5% of average compensation multiplied by the number of years of credited service, less the annual annuity, if any, under MetLife Group annuity contract GR-90562. The plan also contains provisions covering early retirement and pre-retirement death and disability benefits. Any participant who made an election prior to March 31, 1998, to participate in the Town's Defined Contribution Plan had their benefit in this plan frozen as of December 31, 1997. Effective December 31, 2000, a one-time irrevocable election was offered allowing the transfer of the present value of this frozen benefit to the Defined Contribution Plan.

The Town's current pension cost is calculated to reflect the upcoming year's service accrual and to amortize the current unfunded employer past service liability over three years. As of the latest available actuarial valuation date of January 1, 2016, membership consisted of the following:

Terminated employees with vested benefits	1
Current employees:	
Vested with non-frozen benefits	3
Vested with frozen benefits	2
Non-vested with frozen benefits	0

Funding Policy

The contribution requirements of plan members are established and may be amended by the Town. Town employees are not required to contribute to the plan. The Town is required to contribute to the plan at an actuarially determined rate.

Basis of Accounting

The Pension Trust Fund's financial statements are prepared on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Investments

For the year ended June 30, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expenses, was 4.0%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for changing amounts actually invested.

Investments are valued at fair market value using quoted market prices.

Contribution Requirements

The Town makes 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. Such contribution was \$26,639 for the year ended June 30, 2017, related to covered payroll of \$170,764.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases, including inflation	5.5 Percent
Investment rate of return, net of pension investment expense	7.5 Percent

Mortality rates were based on the 1983 Group Annuity Male Mortality Table with ages set back six years for females

The long-term expected rate of return on pension investments for each major asset class as of January 1, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Insurance Contract	100.0%	4.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on those assumptions, the pension's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's net pension liability, calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Net pension liability	\$ 186,981	\$ 108,170	\$ 38,969

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

At June 30, 2017, the Town reported a liability in the government-wide Statement of Net Position for its net pension liability.

The components of the net pension liability of the Town at June 30, 2017, were as follows:

Total pension liability	\$ 1,126,065
Plan fiduciary net position	<u>1,017,895</u>
Net pension liability	<u>\$ 108,170</u>

January 1, 2016, is the actuarial valuation date upon which the total pension liability is based. There were no changes in assumptions or benefits that affected the measurement of the total pension liability since the prior measurement date.

The changes in the Town's net pension liability are as follows:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
Balances at 6/30/2016	\$ 1,092,481	\$ 939,355	\$ 153,126
Changes for the year:			
Service cost	3,010	-	3,010
Interest	78,563	-	78,563
Differences between expected and actual results	(47,989)	-	(47,989)
Contributions – employer	-	44,278	(44,278)
Contributions – employee	-	-	-
Net investment income	-	34,262	(34,262)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	-	-
Net changes	<u>33,584</u>	<u>78,540</u>	<u>(44,956)</u>
Balances at 6/30/2017	<u>\$ 1,126,065</u>	<u>\$ 1,017,895</u>	<u>\$ 108,170</u>

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

At June 30, 2017, there were no deferred outflows of resources or deferred inflows of resources in its government-wide Statement of Net Position related to pensions.

Defined Contribution Plan

Effective January 1, 1997, the Town established a defined contribution pension plan for eligible employees except certified personnel of the Board of Education who are covered by the State of Connecticut Teachers' Retirement System.

Eligible employees means all employees of the Town hired on and after January 1, 1997, and all non-certified employees of the Salisbury Board of Education hired on and after January 1, 1997, and any employees of the Town and any non-certified employees of the Board of Education hired prior to January 1, 1997, who irrevocably elect, no later than May 5, 1997, or during the period beginning January 1, 1998, and ending March 31, 1998, to cease participation in the defined benefit plan described above, with the accrued benefit earned pursuant to the defined benefit plan (if any) frozen subject to the vesting provisions of that plan as of the later of the effective date of this plan, or the first day of the plan year of that plan in which such election becomes effective.

Employees who have completed one year of service and have attained age 21 shall be eligible to participate under the plan as of the January 1 or July 1 following the date they have satisfied such requirements. The plan provides that benefits are 100% vested after one year of service with respect to all of the amounts allocated to employees' accounts.

The Town will contribute an amount equal to 9% of each eligible employee's annual compensation. The plan operates on a calendar year basis. For the fiscal year ended June 30, 2017, actual contributions by the Town were \$184,828. As of June 30, 2017, there were no securities of the Town or other related parties held in the plan. Due to the nature of the plan there is no unfunded liability.

Connecticut Teachers' Retirement System

Description of System

Teachers within the Town's school system participate in a retirement system administered by the Connecticut State Teachers' Retirement Board. This Connecticut State Teachers' Retirement System (the "System") is a cost sharing multiple employer defined benefit pension system with a special funding situation.

The System is considered a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106 or by calling (860) 702-3480.

The System is administered under the provisions of Chapter 167a of the Connecticut General Statutes (CGS). Participation in the System is restricted to certified staff employed in the public schools of Connecticut and members of the professional staff of the State Department of Education or the board of Governors of Higher Education and their constituent units. Participation in the System is mandatory for certified personnel of local boards of education who are employed for an average of at least one-half of a school day. Members of the professional staff of the State Department of Education or the Board of Governors of Higher Education and their constituent units may elect to participate in this system, the State Employees' Retirement System, or the Alternate Retirement System (TIAA-CREF).

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Summary of Significant Accounting Policies

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources, and expense associated with the State's requirement to contribute to the System, information about the System's fiduciary net position and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided

The benefits provided to participants by the System are as follows:

Normal Benefit: A member 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, is eligible for vested benefits of 2% of average annual salary times years of credited service (maximum benefit is 75% of average annual salary.)

Prorated Benefit: A member who completes 10 years of Connecticut public school service is eligible for a vested benefit commencing at age 60. The benefit is 2% less 0.1% for each year less than 20 years of average annual salary times years of credited service.

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

Contribution Requirements

The pension contributions made by the State to the System are determined on an actuarial reserve basis as described in CGS Sections 10-1831 and 10-183z.

Participants are required to contribute 7.25% of their annual salary rate to the System as required by CGS Section 10-183b (7). For the 2016/2017 school year, \$175,916 mandatory contributions were deducted from the salaries of teachers who were participants of the System during that school year. The estimated covered payroll for the Town is \$2,426,407. The Town had 34 active participants in the System at June 30, 2017.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following key actuarial assumptions:

Inflation	2.75 Percent
Salary increases, including inflation	3.25-6.50 Percent
Long-term investment rate of return, net of pension investment expense, including inflation	8.00 Percent

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (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.

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

The long-term expected rate of return on pension 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 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 asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	21.0%	5.8%
Developed non-U.S. equities	18.0%	6.6%
Emerging markets (non-U.S.)	9.0%	8.3%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Core fixed income	7.0%	1.3%
High yield bonds	5.0%	3.9%
Emerging market bond	5.0%	3.7%
Inflation linked bond fund	3.0%	1.0%
Cash	<u>6.0%</u>	0.4%
Total	<u><u>100.0%</u></u>	

Discount Rate

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that 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's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town’s proportionate share of the net pension liability of the System, calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate.

	1% Decrease <u>(7.00%)</u>	Current Discount Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
Sensitivity of the systems’s proportionate Share of the net pension liability related to the Town	\$ 10,713,133	\$ 8,495,197	\$ 6,609,936

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

The State makes all contributions to the System on behalf of employees of the participating districts. Therefore, participating employers are considered to be in a special funding situation as defined by Governmental Accounting Standards Board No. 68 and the State is treated as a non-employer contributing entity in the System. Since the districts do not contribute directly to the System, there is no net pension liability or deferred inflows or outflows to report in the financial statements of the Town. The portion of the net pension liability that was associated with the Town was \$8,495,197.

The Town recognized the total pension expense associated with the Town as well as revenue in an amount equal to the non-employer contributing entities’ total proportionate share of the collective pension expense associated with the Town. For the fiscal year ended June 30, 2017, the Town recognized \$926,430 as the amount expended by the State on behalf of the Town to meet the State’s funding requirements.

Note 12 – Recently Issued Accounting Standards

The GASB has issued new accounting standards that will become effective in future years. The Town has not yet determined what effect, if any, these new accounting standards will have on its financial statements.

GASB Statement No. 81, Irrevocable Split-Interest Agreements. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

GASB issued Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for periods beginning after June 15, 2017.

Town of Salisbury, Connecticut
Notes to Financial Statements
June 30, 2017 (continued)

GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84, Fiduciary Activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 86, Certain Debt Extinguishment Issues. This Statement improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87, Leases. This Statement improves the 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 reporting periods beginning after December 15, 2019.

Note 13 – Subsequent Events

On November 16, 2017, the Town issued a \$2,250,000 bond anticipation note with a maturity date of November 15, 2018. The note bears annual interest at 0.90% due upon maturity.

On December 14, 2017, the Town issued a \$1,600,000 bond anticipation note with a maturity date of November 15, 2018. The note bears annual interest at 1.37% due upon maturity.

**REQUIRED SUPPLEMENTARY
INFORMATION
(UNAUDITED)**

TOWN OF SALISBURY, CONNECTICUT

**PENSION TRUST FUND
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability				
Service cost	\$ 3,010	\$ 2,867	\$ 8,396	\$ 8,107
Interest	78,563	76,220	72,331	67,686
Difference between expected and actual results	(47,989)	(23,342)	(9,865)	-
Benefit payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,768)</u>
Net change in total pension liability	33,584	55,745	70,862	50,025
Total pension liability - beginning	<u>1,092,481</u>	<u>1,036,736</u>	<u>965,874</u>	<u>915,849</u>
Total pension liability - ending	<u>\$ 1,126,065</u>	<u>\$ 1,092,481</u>	<u>\$ 1,036,736</u>	<u>\$ 965,874</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 44,278	\$ 62,983	\$ 76,052	\$ 82,216
Net investment income	34,262	33,092	27,590	24,669
Benefit payments	-	-	-	(25,768)
Administrative expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	78,540	96,075	103,642	81,117
Plan fiduciary net position - beginning	<u>939,355</u>	<u>843,280</u>	<u>739,638</u>	<u>658,521</u>
Plan fiduciary net position - ending	<u>\$ 1,017,895</u>	<u>\$ 939,355</u>	<u>\$ 843,280</u>	<u>\$ 739,638</u>
Net pension liability - ending	<u>\$ 108,170</u>	<u>\$ 153,126</u>	<u>\$ 193,456</u>	<u>\$ 226,236</u>
Plan fiduciary net position as a percent of the total pension liability	<u>90.39%</u>	<u>85.98%</u>	<u>81.34%</u>	<u>76.58%</u>
Covered payroll	<u>\$ 170,764</u>	<u>\$ 161,287</u>	<u>\$ 156,328</u>	<u>\$ 152,515</u>
Net pension liability as a percent of covered payroll	<u>63.34%</u>	<u>94.94%</u>	<u>123.75%</u>	<u>148.34%</u>

See accompanying Independent Auditors' Report.

TOWN OF SALISBURY, CONNECTICUT

**PENSION TRUST FUND
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CONTRIBUTIONS**

	2017	2016	2015	2014
Actuarially determined contribution	\$ 26,639	\$ 44,278	\$ 62,983	\$ 76,052
Contribution in relation to the actuarially determined contribution	26,639	44,278	62,983	76,052
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 170,764	\$ 161,287	\$ 156,328	\$ 152,515
Contribution as a percent of covered payroll	15.60%	27.45%	40.29%	49.87%

Notes to Schedule

Valuation Date	1/1/2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level % of payroll, open
Remaining Amortization Period	3 Years
Asset Valuation Method	Fair Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.5%
Projected Salary Increases	5.5%
Mortality	1983 Group Annuity Male Mortality Table with ages set back 6 years for females

See accompanying Independent Auditors' Report.

TOWN OF SALISBURY, CONNECTICUT

**CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Town's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>8,495,197</u>	<u>6,518,289</u>	<u>6,024,852</u>
Total	<u>\$ 8,495,197</u>	<u>\$ 6,518,289</u>	<u>\$ 6,024,852</u>
Town's covered-employee payroll	<u>\$ 2,426,407</u>	<u>\$ 2,355,583</u>	<u>\$ 2,210,414</u>
Town's proportionate share of the net pension liability as a percentage of its covered payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
System fiduciary net position as a percentage of the total pension liability	<u>52.26%</u>	<u>59.50%</u>	<u>61.51%</u>

Notes to Connecticut State Teachers' Retirement System

Method and Assumptions used in Calculations of Actuarially Determined Contributions

The actuarially determined contributions in the schedule of employer contributions are calculated as of June 30 each biennium for the fiscal years ending two and three years after the valuation date. The following actuarial methods and assumptions were used to determine the most recent contributions reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percent of pay, closed
Single equivalent amortization period	20.4 years
Asset valuation method	4-year smoothed market
Inflation	2.75 percent
Salary increase	3.25-6.50 percent, including inflation
Investment rate of return	8.00 percent, net of investment related expense

See accompanying Independent Auditors' Report.

TOWN OF SHARON, CONNECTICUT

FINANCIAL INFORMATION

Excerpted from the
Annual Financial Report of
The Town of Sharon, Connecticut
Year Ended June 30, 2017



Independent Auditor's Report

To the Board of Finance of the
Town of Sharon, CT
Sharon, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sharon, CT as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Sharon CT'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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sharon, CT as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund 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 9 and the required supplementary information on page 45 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 of Sharon CT's basic financial statements. The general fund budgetary comparison detail and combining and individual nonmajor fund financial statements, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by the Connecticut State Single Audit Act and is not a required part of the basic financial statements.

The general fund budgetary comparison detail, combining and individual nonmajor fund financial statements, and other schedules and the Schedule of Expenditures of State Financial Assistance 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 nonmajor fund financial statements and the Schedule of Expenditures of State Financial Assistance 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 29, 2017, on our consideration of the Town of Sharon CT'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 of Sharon CT's internal control over financial reporting and compliance.



Sinnamon & Associates, LLC
Certified Public Accountants

December 29, 2017
Canaan Connecticut

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF SHARON, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

The Management Discussion and Analysis (MD&A) offers the readers of the Town of Sharon (the "Town") financial statements a narrative overview and analysis of the financial activities of the Town for the fiscal year ending June 30, 2017. The information presented here should be considered in conjunction with the Town's basic financial statements that follow this section. Wherever possible, reference to the financial statements is provided.

FINANCIAL HIGHLIGHTS

On a government-wide basis the Town's assets of \$22,693,765 exceeded its liabilities at June 30, 2017, resulting in a total net position of \$15,881,697. Unrestricted net position was \$5,620,631 and was available to meet ongoing government obligations. Of that amount \$5,480,197 is related to governmental activities, which include the General Fund.

The Town's governmental funds, reported on a current financial resources basis, combined ending fund balance is \$4,207,146, an increase of \$377,507 for the year. The General Fund operating surplus for the year was \$207,351 vs. a budgeted decrease of \$384,829. The General Fund balance was \$2,530,921, of which \$286,002 was assigned and committed.

At the end of the current fiscal year unassigned fund balance for the general fund was \$2,264,919 or 20.78 % of total General Fund expenditures and transfers.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report contains other supplementary information and statistical tables.

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 and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the 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 these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

TOWN OF SHARON, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government activities of the Town include general government, public safety, public works, and recreation.

The government-wide financial statements can be found on pages 10 -11 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 special activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds 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, that is the Town's most basic services. Unlike the government-wide financial statements, however, the funds focus on (1) cash and other financial resources that can be readily converted to cash flow in and out and (2) balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a near or short-term view of the Town's finances that may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of government's near-term decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains individual government funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital reserve fund, both 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 non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Town adopts an annual appropriated budget for its general funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 12 - 16 of this report.

TOWN OF SHARON, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

Proprietary Funds –

The proprietary fund is the Sewer and Water Commission

Proprietary funds provide the same type of information as the government-wide financial statements, inly in more detail. The funds are combined unto single, aggregated presentation in the proprietary fund financial statements.

The basic Proprietary fund statements can be found on pages 17 - 19 of this report.

Fiduciary Funds.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

The basic fiduciary fund statements can be found on pages 20-21 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 financial fund statements. The notes to the financial statements can be found on pages 22 - 44 of this report.

Other Information.

The required supplementary information for the Town's proportionate share of the Connecticut State Teachers Retirement Pension liability can be found on page 45 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 46 – 60 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. In the case of the Town, assets exceeded liabilities by \$15,881,697 at the close of the most recent fiscal year.

By far the largest portion of the Town's assets is its investment in capital assets (e.g., land, buildings, machinery, and equipment). It is presented in the statement of net position less any related debt used to acquire those assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets, net of accumulated depreciation, 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.

The Town's net position increased by \$489,389 during the current fiscal year.

TOWN OF SHARON, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

NET POSITION - June 30, 2017 and June 30, 2016

	June 30, 2017 Net Position			June 30, 2016 Net Position		
	Governmental Activities	Business -Type Activities	Total	Governmental Activities	Business -Type Activities	Total
ASSETS						
Current and Other Assets	\$ 5,058,727	\$ 280,434	\$ 5,339,161	\$ 4,637,014	\$ 231,588	\$ 4,868,602
Capital Assets	12,021,437	4,912,169	16,933,606	12,023,214	5,105,650	17,128,864
Non Current Assets	420,998	-	420,998	367,337	-	367,337
TOTAL ASSETS	17,501,162	5,192,603	22,693,765	17,027,565	5,337,238	22,364,803
LIABILITIES						
Current Liabilities	997,532	100,968	1,098,500	842,069	140,067	982,136
Non Current Liabilities	5,230,133	483,435	5,713,568	5,381,723	608,636	5,990,359
TOTAL LIABILITIES	6,227,665	584,403	6,812,068	6,223,792	748,703	6,972,495
NET POSITION						
Net Investment in Capital Assets	5,793,300	4,327,766	10,121,066	5,778,762	4,356,947	10,135,709
Restricted for Capital Improvements	-	140,000	140,000	-	140,000	140,000
Unrestricted	5,480,197	140,434	5,620,631	5,025,011	91,588	5,116,599
TOTAL NET POSITION	\$ 11,273,497	\$ 4,608,200	\$ 15,881,697	\$ 10,803,773	\$ 4,588,535	\$ 15,392,308

TOWN OF SHARON, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

CHANGES IN NET POSITION - June 30, 2017 and June 30, 2016

	June 30, 2017			June 30, 2016		
	Changes in Net Position			Changes in Net Position		
	Governmental Activities	Business -Type Activities	Total	Governmental Activities	Business -Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	\$ 404,309	\$ 539,300	\$ 943,609	\$ 400,743	\$ 493,545	\$ 894,288
Operating grants and contributions	1,204,398	-	1,204,398	993,027	-	993,027
Capital grants and contributions	-	-	-	115,000	-	115,000
General Revenues:						
Property Taxes	10,719,125	-	10,719,125	9,754,463	-	9,754,463
Grants and contributions, unrestricted	65,938	-	65,938	52,967	-	52,967
Other Revenues	49,604	18,067	67,671	22,398	23,133	45,531
Total Revenues	<u>12,443,374</u>	<u>557,367</u>	<u>13,000,741</u>	<u>11,338,598</u>	<u>516,678</u>	<u>11,855,276</u>
Expenses						
General Government	\$ 1,280,428	\$ -	1,280,428	\$ 1,201,808	\$ -	1,201,808
Public Safety	314,794	-	314,794	321,363	-	321,363
Public Works	1,964,657	-	1,964,657	1,830,502	-	1,830,502
Health Department	74,126	-	74,126	84,024	-	84,024
Parks and Recreation	215,628	-	215,628	225,212	-	225,212
Miscellaneous	228,008	-	228,008	253,061	-	253,061
Board of Education	7,572,380	-	7,572,380	7,177,570	-	7,177,570
Sewer and Water Commission	-	517,553	517,553	-	519,532	519,532
Interest on Long Term Debt	323,629	20,149	343,778	172,891	23,828	196,719
Total Expenses	<u>11,973,650</u>	<u>537,702</u>	<u>12,511,352</u>	<u>11,266,431</u>	<u>543,360</u>	<u>11,809,791</u>
Change in Net Position	469,724	19,665	489,389	72,167	(26,682)	45,485
Net Position, beginning	<u>10,803,773</u>	<u>4,588,535</u>	<u>15,392,308</u>	<u>10,731,606</u>	<u>4,615,217</u>	<u>15,346,823</u>
Net Position, ending	<u>\$ 11,273,497</u>	<u>\$ 4,608,200</u>	<u>\$ 15,881,697</u>	<u>\$ 10,803,773</u>	<u>\$ 4,588,535</u>	<u>\$ 15,392,308</u>

Governmental Activities.

Approximately 86% of the revenues were derived from property taxes, followed by 9.7% from operating and capital grants, 3.2% from service charges, and 1.1% from grants and investment earnings. Detailed revenue information can be found on page 46.

For the most part, increases in expenses closely paralleled inflation and growth in demand for services. Approximately 63.2% of the Town's expenses relate to education, 16.4% relate to public works, 10.7% for general government and 9.7% for all other activities.

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

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

TOWN OF SHARON, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

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, unreserved fund balance may serve as a useful measure of a government's net resources for spending at the end of a fiscal year.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the General Fund total fund balance was \$2,530,921. Of this total fund balance, \$266,002 is assigned and committed. The remaining balance of \$2,264,919 is unassigned.

The fund balance of the Town's General Fund increased by \$207,351 during the current fiscal year, compared to an expected decrease of \$384,829.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, revenues were more than budgetary estimates and expenditures were less than budgetary estimates.

A detailed schedule of revenues and expenditures, budget and actual, can be found on 46 - 51 of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The town's investment in capital assets (net of accumulated depreciation) for its governmental and as of June 30, 2017 amounted to \$12,021,437. This investment in capital assets included land, buildings and system improvements, machinery and equipment and vehicles.

CAPITAL ASSETS, Net of Depreciation
June 30, 2017 and June 30, 2016

	<u>Governmental Activities</u>	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Land	\$ 274,081	\$ 274,081
Buildings and improvements	4,302,144	4,465,547
Machinery and equipment	1,016,895	707,613
Infrastructure	<u>6,428,317</u>	<u>6,575,973</u>
Total	<u>\$ 12,021,437</u>	<u>\$ 12,023,214</u>

TOWN OF SHARON, CONNECTICUT
Management's Discussion and Analysis
June 30, 2017

Long-Term Debt

At the end of the current fiscal year, the Town had total outstanding debt of \$5,964,056 related to governmental activities and \$584,403 related to business-type activities. All of the debt is backed by the full faith and credit of the Town.

The Town's total debt had a net decrease of \$79,632 during the current fiscal year reflecting the new borrowings of \$454,654 for equipment purchases, net of the principal amount repaid against the general obligation bonds and outstanding notes payable and the refinancing of bonds as described in Note 10 and detailed on page 60.

The Water and Sewer Commission total debt had a net decrease of \$164,300 during the current fiscal year reflecting the principal amount repaid against the outstanding notes payable.

State statutes limit the amount of general obligation debt a governmental entity may issue to 7.0 times its total prior year tax collections. The current statutory debt limitation for the Town is \$74,624,900 which is significantly more than the Town's outstanding general obligation debt.

Additional information on the Town's long-term debt can be found in Note 10 on pages 36-38 and the detail schedule on page 60 of this report.

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS AND RATES

In August 2016, the Town issued \$5,375,000 of general obligation refunding bonds with an interest rate of 1.59%. The bonds were issued to fully refinance August 2011 general obligation bonds. The Town refunded the above bonds to reduce total debt service payments over the next ten years by \$128,155 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt of \$115,923)

The management of the Town of Sharon considered the following in preparation of the 2017/2018 budget:

- The State of Connecticut's budget and projected cuts to municipalities
- Projected Town needs as estimated in the 5 year capital improvement plan
- Education budgets (Region 1 & Sharon Center School)
- The budget impact of adding a seventh member to the Town road crew
- The debt service schedule of payments

All of the above factors were considered in preparing the Town's budget for the 2017-2018 fiscal year.

Requests for Information

This financial report is designed to provide a general overview for those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the First Selectman's office, Town of Sharon, PO Box 385, 63 Main Street, Sharon, Connecticut 06063.

BASIC FINANCIAL STATEMENTS

TOWN OF SHARON
STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government		Total
	Governmental Activities	Buisness-Type Activities	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 3,963,349	\$ 168,633	\$ 4,131,982
Investments	411,955	-	411,955
Inventory	827	-	827
Receivables:			
Property Taxes	667,220	-	667,220
Accounts Receivable	11,390	111,801	123,191
Accrued interest and fees on property tax	420,998	-	420,998
Due From Other Governments	3,986	-	3,986
Capital Assets, not being depreciated	274,081	69,775	343,856
Capital Assets, net of accumulated depreciation	<u>11,747,356</u>	<u>4,842,394</u>	<u>16,589,750</u>
<u>TOTAL ASSETS</u>	<u>\$ 17,501,162</u>	<u>\$ 5,192,603</u>	<u>\$ 22,693,765</u>
<u>LIABILITIES</u>			
Accounts and Other Payables	\$ 145,388	\$ -	\$ 145,388
Security Deposit	1,000	-	1,000
Due to State	103,368	-	103,368
Noncurrent Liabilities Bonds & Notes Payable:			
Due within one year	723,923	100,968	824,891
Due in more than one year	5,230,133	483,435	5,713,568
<u>TOTAL LIABILITIES</u>	<u>6,203,812</u>	<u>584,403</u>	<u>6,788,215</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Advance Tax Collections	<u>23,853</u>	<u>-</u>	<u>23,853</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	5,793,300	4,327,766	10,121,066
Restricetd Net Postion	-	140,000	140,000
Unrestricted	<u>5,480,197</u>	<u>140,434</u>	<u>5,620,631</u>
<u>TOTAL NET POSITION</u>	<u>11,273,497</u>	<u>4,608,200</u>	<u>15,881,697</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS AND AND NET POSITION</u>	<u>\$ 17,501,162</u>	<u>\$ 5,192,603</u>	<u>\$ 22,693,765</u>

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities</u>							
General Government	\$ (1,280,428)	\$ 149,097	\$ 4,000	\$ -	\$ (1,127,331)	\$ -	\$ (1,127,331)
Public Safety	(314,794)	-	-	-	(314,794)	-	(314,794)
Public Works	(1,964,657)	146,510	357,425	-	(1,460,722)	-	(1,460,722)
Health Welfare	(74,126)	6,451	-	-	(67,675)	-	(67,675)
Parks and Recreation	(215,628)	8,515	-	-	(207,113)	-	(207,113)
Miscellaneous	(228,008)	70,651	104,526	-	(52,831)	-	(52,831)
Interest on Long Term Debt	(323,629)	-	-	-	(323,629)	-	(323,629)
Board of Education	(7,572,380)	23,085	738,447	-	(6,810,848)	-	(6,810,848)
<u>Total Governmental Activities</u>	<u>(11,973,650)</u>	<u>404,309</u>	<u>1,204,398</u>	<u>-</u>	<u>(10,364,943)</u>	<u>-</u>	<u>(10,364,943)</u>
<u>Business Type Activities</u>							
Sewer and Water Commission	(537,702)	539,300	-	-	-	1,598	1,598
<u>Total Primary Government</u>	<u>\$ (12,511,352)</u>	<u>\$ 943,609</u>	<u>\$ 1,204,398</u>	<u>\$ -</u>	<u>(10,364,943)</u>	<u>1,598</u>	<u>(10,363,345)</u>
<u>General Revenues:</u>							
Property taxes					10,719,125	-	10,719,125
Grants and contributions not restricted to specific programs					65,938	-	65,938
Unrestricted investment earnings					49,604	18,067	67,671
<u>Total General Revenues</u>					<u>10,834,667</u>	<u>18,067</u>	<u>10,852,734</u>
<u>Change in net position</u>				-	469,724	19,665	489,389
<u>Net position beginning of year</u>					<u>10,803,773</u>	<u>4,588,535</u>	<u>15,392,308</u>
<u>Net position end of year</u>					<u>\$ 11,273,497</u>	<u>\$ 4,608,200</u>	<u>\$ 15,881,697</u>

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Capital and Non-Recurring Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,672,684	\$ 871,859	\$ 418,806	\$ 3,963,349
Investments	-	-	411,955	411,955
Inventory	-	-	827	827
Receivables:				
Property Taxes	667,220	-	-	667,220
Accounts Receivable	-	-	11,390	11,390
Due From Other Funds	16,210	16,130	538	32,878
Due From Other Governments	-	-	3,986	3,986
TOTAL ASSETS	3,356,114	887,989	847,502	5,091,605
DEFERRED OUTFLOWS OF RESOURCES				
	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,356,114	\$ 887,989	\$ 847,502	\$ 5,091,605
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts and Other Payables	\$ 102,332	\$ -	\$ 43,056	\$ 145,388
Due to Other Funds	16,668	-	16,210	32,878
Security Deposit	1,000	-	-	1,000
Performance Bonds	103,368	-	-	103,368
TOTAL LIABILITIES	223,368	-	59,266	282,634
DEFERRED INFLOWS OF RESOURCES				
Advance Tax Collections	23,853	-	-	23,853
Unavailable Revenue - property taxes	577,972	-	-	577,972
TOTAL DEFERRED INFLOWS OF RESOURCES	601,825	-	-	601,825
FUND BALANCES				
Nonspendable	-	-	827	827
Restricted	-	-	269,040	269,040
Committed	198,806	887,989	518,369	1,605,164
Assigned	67,196	-	-	67,196
Unassigned	2,264,919	-	-	2,264,919
TOTAL FUND BALANCES	2,530,921	887,989	788,236	4,207,146
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,356,114	\$ 887,989	\$ 847,502	\$ 5,091,605

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

<u>Total fund balances for governmental funds</u>	\$ 4,207,146
Total net position reported for governmental activities in the statement of net assets is different because of the following:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	12,021,437
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	
Property tax and receivables greater than 60 days	577,972
Interest receivable on property taxes	420,998
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	
General Obligation Bonds & Notes Payable	<u>(5,954,056)</u>
<u>Net position of governmental activities</u>	<u>\$ 11,273,497</u>

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$ 10,641,446	\$ -	\$ -	\$ 10,641,446
Intergovernmental	762,514	-	403,296	1,165,810
Investment Income	8,077	1,570	39,957	49,604
Licenses Fees and Charges	-	-	-	-
Other Revenue	363,588	-	87,737	451,325
Contributions	-	-	-	-
Sales	-	34,425	23,085	57,510
Total Revenues	11,775,625	35,995	554,075	12,365,695
<u>Expenditures:</u>				
Current:				
General Government	1,232,544	-	-	1,232,544
Public Safety	309,006	-	5,788	314,794
Public Works	1,312,903	-	358,181	1,671,084
Health Department	74,126	-	-	74,126
Parks and Recreation	215,628	-	-	215,628
Miscellaneous	154,082	-	71,926	226,008
Debt Service	710,929	110,777	-	821,706
Education	7,365,171	-	92,235	7,457,406
Capital Outlay	-	456,654	-	456,654
Total Expenditures	11,374,389	567,431	528,130	12,469,950
Excess (deficiency) of Revenues Over Expenditures	401,236	(531,436)	25,945	(104,255)
<u>Other Financing Sources (Uses):</u>				
Proceeds From Borrowing	-	454,654	-	454,654
Issuance of Refunding Bonds	5,375,000	-	-	5,375,000
Payment to Refunded Bond Escrow Agent	(5,347,892)	-	-	(5,347,892)
Transfers In	16,210	175,686	64,573	256,469
Transfers Out	(237,203)	-	(19,266)	(256,469)
Total Other Financing sources (Uses):	(193,885)	630,340	45,307	481,762
Net Change in Fund Balances	207,351	98,904	71,252	377,507
Fund Balances Beginning of Yea	2,323,570	789,085	716,984	3,829,639
Fund Balances End of Year	\$ 2,530,921	\$ 887,989	\$ 788,236	\$ 4,207,146

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances for governmental funds \$ 377,507

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

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

Expenditures for capital assets	454,654	
Depreciation expense	<u>(456,431)</u>	
Net adjustment	<u>(1,777)</u>	(1,777)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds 77,679

Proceeds from Long-Term Financing are reported as an other financing source in governmental funds, but the proceeds increase long-term liabilities in the statement of net assets (5,829,654)

Amortization of Bond Premium and Deferred Charges reported in statement of activities but not in fund statements 100,983

Principal Payments on Long-Term Financing are reported as an other financing uses in governmental funds, but the payments decrease long-term liabilities in the statement of net assets 5,744,986

Change in net position of governmental activities \$ 469,724

TOWN OF SHARON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)
	Original	Final		
Revenues:				
Property Taxes	\$10,361,733	\$10,361,733	\$10,641,446	\$ 279,713
Intergovernmental	186,923	186,923	76,464	(110,459)
Other Revenues	253,000	253,000	379,798	126,798
Interest Investments	6,500	6,500	8,077	1,577
Total Revenues	10,808,156	10,808,156	11,105,785	297,629
Expenditures:				
General Government	1,292,173	1,338,393	1,250,044	88,349
Public Safety	319,343	319,962	316,579	3,383
Public Works	1,491,340	1,496,340	1,387,903	108,437
Health Department	79,179	78,997	74,126	4,871
Parks and Recreation	255,327	255,870	235,628	20,242
Miscellaneous	179,166	181,666	179,082	2,584
Debt Service	695,160	695,160	683,821	11,339
Education	6,826,597	6,826,597	6,771,251	55,346
Total Expenditures	11,138,285	11,192,985	10,898,434	294,551
Excess of Revenues Over (Under) Expenditures	(330,129)	(384,829)	207,351	592,180
Other Financing Sources (Uses):				
Prior Year Encumbrances	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change In Fund Balance	\$ (330,129)	\$ (384,829)	207,351	\$ 592,180
Fund Balance - Beginning Of Year As Restated			2,323,570	
Fund Balance - End Of Year			\$ 2,530,921	

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017

	Business Type Activities <u>Enterprise Fund</u> <u>Sewer and Water</u> <u>Commission</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 168,633
Accounts Receivable, Net of Allowance	111,801
Capital Assets, Net of Accumulated Depreciation	
Land	69,775
Utility Plant, Net of Depreciation	<u>4,842,394</u>
<u>TOTAL ASSETS</u>	<u>\$ 5,192,603</u>
 <u>LIABILITIES</u>	
Accounts and Other Payables	\$ -
Noncurrent Liabilities Bonds Payable:	
Due within one year	100,968
Due in more than one year	<u>483,435</u>
<u>TOTAL LIABILITIES</u>	<u>584,403</u>
 <u>NET POSITION</u>	
Net Investment in Capital Assets	4,327,766
Restricted for Capital Improvements	140,000
Unrestricted	<u>140,434</u>
<u>TOTAL NET POSITION</u>	<u>4,608,200</u>
 <u>TOTAL LIABILITIES AND NET POSITION</u>	 <u>\$ 5,192,603</u>

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Business Type Activities <u>Enterprise Fund</u> <u>Sewer and Water</u> <u>Commission</u>
<u>Operating Revenue</u>	
Water Sales	\$ 379,892
Sewer Services	159,408
<u>Total Operating Revenues</u>	<u>539,300</u>
 <u>Operating Expenses</u>	
Operations Services	179,685
Chemicals	4,187
Depreciation	193,481
Electric	15,344
Repairs and Maintenance	40,738
Supplies	4,171
Telephone	3,168
Fuel	5,598
Other Costs	807
Professional Services	4,175
Wages and Payroll Taxes	17,144
Insurance	15,106
Lab Fees	11,723
Sewer Bed Cleaning	20,306
Meters	1,920
<u>Total Expenditures</u>	<u>517,553</u>
 <u>Operating Income (Loss)</u>	 <u>21,747</u>
 <u>Non-Operating Revenues (Expenses)</u>	
Interest Revenue	276
Finance Charge Revenue	17,791
Interest Expense	(20,149)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>(2,082)</u>
 <u>Change In Net Position</u>	 19,665
 <u>Net Position, Beginning</u>	 <u>4,588,535</u>
 <u>Net Position, Ending</u>	 <u>\$ 4,608,200</u>

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Business Type Activities <u>Enterprise Fund</u> <u>Sewer and Water Commission</u>
<u>Cash Flows from Operating Activities</u>	
Cash Received from Customers	\$ 543,258
Cash Payments to Suppliers	(302,753)
Cash Payments to Employees and Professional	(21,319)
<u>Net Cash Provided by Operating Activities</u>	<u>219,186</u>
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Principal Repayments	(164,300)
Capital Additions	-
Interest Paid	(20,149)
<u>Net Cash Used by Capital and Related Financing Activities</u>	<u>(184,449)</u>
 <u>Cash Flows From Investing Activities</u>	
Receipts of Interest	276
<u>Net Cash Provided by Investing Activities</u>	<u>276</u>
 <u>Net Increase in Cash</u>	35,013
 <u>Cash, Beginning of Year</u>	<u>133,620</u>
 <u>Cash, End of Year</u>	<u><u>168,633</u></u>
 <u>Reconciliation of Operating Income to</u> <u>Net Cash Provided by Operating Activities</u>	
Operating Income (Loss)	21,747
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities	
Depreciation Expense	193,481
Receipt of Other Revenue	17,791
(Increase) Decrease in Accounts Receivable	(13,833)
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 219,186</u>

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Pension Trust Funds</u>	<u>Agency Funds</u> <u>Student Activity Funds</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ -	\$ 18,720
Investments	1,245,508	-
<u>TOTAL ASSETS</u>	<u>\$ 1,245,508</u>	<u>\$ 18,720</u>
<u>LIABILITIES</u>		
Due to beneficiaries	\$ -	\$ 18,720
<u>TOTAL LIABILITIES</u>	<u>-</u>	<u>18,720</u>
<u>NET ASSETS</u>		
Net assets held in trust for pension benefits	1,245,508	-
<u>TOTAL NET ASSETS</u>	<u>1,245,508</u>	<u>-</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 1,245,508</u>	<u>\$ 18,720</u>

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Pension Trust Fund</u>
<u>ADDITIONS</u>	
Contributions	
Employer	\$ 84,772
<u>Total Contributions</u>	<u>84,772</u>
<u>Investment Income</u>	
Dividend and Interest Earnings and gains/(losses)	95,502
<u>Total Investment Income</u>	<u>95,502</u>
<u>TOTAL ADDITIONS</u>	<u>180,274</u>
<u>DEDUCTIONS</u>	
Benefits	42,536
Administrative Expense	17,256
<u>TOTAL DEDUCTIONS</u>	<u>59,792</u>
<u>CHANGE IN NET POSITION</u>	<u>120,482</u>
<u>NET POSITION BEGINNING OF YEAR</u>	<u>1,125,026</u>
<u>NET POSITION END OF YEAR</u>	<u>\$ 1,245,508</u>

The accompanying notes are an integral part of these financial statements

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

The Town of Sharon, Connecticut (the "Town") is a municipal corporation governed by a Board of Selectman, Town Meeting, Board of Finance form of government and provides the following services as authorized by State Statute: public safety, public works, health, welfare, parks, recreation, and elementary and secondary education. Under this form of Government, the town meeting is the legislative body. A town meeting is required to make appropriations, levy taxes, and borrow money. The executive branch is led by an elected three-member Board of Selectman. The Selectman oversee most of the activities not assigned specifically to another Body. An elected Board of Education oversees the public school system.

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 Town has the power to incur indebtedness by issuing bonds or notes as provided by Connecticut General Statutes.

The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The following related organizations, to which the Town appropriates funds annually, do not meet the above criteria and are not included in the reporting entity:

Regional School District #1 - This potential component unit has a separate elected board and provides educational services to residents of several local Towns which make up the region. It is excluded from the reporting entity because the Town does not have the ability to exercise influence or control over the daily operations or approve budgets.

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

Measurement Focus Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes 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 reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, charges for services, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance. Revenues are recognized when the eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the Town or specifically identified.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The various funds included in the financial statements are described below:

Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

General Fund- the primary operating fund of the Town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal grants, licenses, permits, charges for services, and interest income.

Capital Reserve Fund - accounts for all financial resources used for the acquisition or construction of major capital facilities not being financed by proprietary funds.

Proprietary Funds

Sewer and Water Commission Enterprise Fund -is used to account for the operations for the Sewer and Water Commission, which oversees the water and sewer services

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, and other governments. Fiduciary funds are not included in the government-wide statements. The fiduciary funds are as follows:

Pension Trust Fund - is used to account for the activities of the Town's pension plan which accumulates resources for pension benefit payments to qualified employees.

Agency Funds account for monies held by the Town as a custodian for outside groups and agencies.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3)

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for the funds include the cost of operations and maintenance, provision for doubtful accounts, and depreciations on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. Accounting 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 of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Cash Equivalents

The Town classifies all highly liquid investments having original maturities of three months or less as cash equivalents.

E. Interfund Transactions

The following is a description of the three basic types of interfund transactions and the related accounting policies:

Transactions to reimburse a fund for expenditures made by it or for the benefit of another fund are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund.

Transactions to shift revenues or contributions from the fund budgeted to receive them to the fund budgeted to expend them are recorded as transfers in and out.

Transactions to record equity contributions between funds are recorded in a manner such that the receiving fund records a transfer in as an addition to fund balance. The disbursing fund records the transaction as a transfer out and a reduction of fund balance.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

F. Investments

The Town's policy is to present all investments at fair market value.

G. Inventory

Purchased inventory is presented at cost (first-in, first-out). USDA donated commodities are presented at market value. inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

H. Property Taxes

The Town's property tax is levied each July 1 on the assessed value as of the prior October 1 for all real property located in the Town. Assessed values are established by the Town Assessment Board at 70 percent of estimated market value. A revaluation of all property is required to be completed no less than every five years.

Property taxes are assessed on property as of October 1. Real estate and personal property taxes are due and payable in two installments on July 1 and the following January 1, although a 30-day grace period is provided. Motor vehicle taxes are due and payable July 1, and motor vehicle supplemental taxes are due and payable January 1. Current tax collections for the year ended June 30, 2017 were 97.8% of the adjusted tax levy.

Uncollected property taxes are recorded as receivables. An allowance based on historical collection experience is provided for uncollectible taxes. Outstanding real estate tax accounts are lien-ed each year prior to June 30, with legal demands and alias tax warrants used in the collection of personal property and motor vehicle tax bills.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation.

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

Property, plant, equipment and infrastructure assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

<u>Assets</u>	<u>Years</u>
Buildings	40 - 50
Building improvements	20
Machinery and equipment	5 - 20
Infrastructure	30 - 50
Vehicles	5 - 10

J. Compensated Absences

Employees are paid under a prescribed formula for absences due to sickness or vacation. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for amounts expected to be paid with available resources.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities type 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, whether of not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the fund financial statements, governmental fund types 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 are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

L. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year end are reported as a reservation of fund balance and do not constitute expenditures or liabilities.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports a deferred charge on

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

refunding in the government-wide statement of net position. The Town had no financial statement elements meeting the criteria to be reported as deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports advance property tax collections in the government-wide statement of net position and in the governmental funds balance sheet. Advance property tax collections represent taxes inherently associated with a future period. This amount is recognized during the period in which the revenue is associated. Also, for governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources (revenue) in the period in which the amounts become available.

N. Fund Equity and Net Position

Equity in the government-wide financial statements is defined as “net position” and is classified in the following categories:

Net Investment in Capital Assets - this category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This category represents the net position of the Town, which is not restricted for any project or other purpose.

The Town follows the provisions of Governmental Accounting Standards Board Statement #54 (GASB 54), which defines the different types of fund balances that the Town must use for its governmental funds. GASB 54 requires the fund balances to be properly reported within one of the following categories for financial reporting purposes.

Nonspendable Fund Balance – includes amounts that are not in spendable form or amounts that must be maintained intact legally or contractually. The criteria includes items that are not expected to be converted to cash such as inventories, prepaid amounts and long term receivables.

Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resource providers or through enabling legislation.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the Town’s highest level of decision making authority. Commitments may be changed or lifted only by the same group taking the same formal action that imposed the constraint originally.

Assigned Fund Balance – includes amounts intended to be used by the Town for specific purposes that do not meet the criteria to be classified as restricted or committed.

Unassigned Fund Balance – includes the general fund balance amount that is not classified as nonspendable, restricted, committed or assigned.

The Town’s policy is to apply expenditures against the applicable fund balances in the order of restricted, committed, assigned, and unassigned.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget for the general fund is authorized annually by the Board of Finance. The procedures for establishing the budgetary data reflected in the general-purpose financial statements are as follows:

- The proposed operating budget for the fiscal year is compiled by the Board of Finance for submission at public hearings. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is legally enacted at the annual Town budget meeting by vote of the general public.
- Upon the request of the Board of Selectmen, the Board of Finance may, by resolution, transfer any unencumbered appropriation, balance or portion thereof, from one department, commission, board or office, to another.
- The budget is prepared on a modified accrual basis under which encumbrances are recognized as expenditures.
- Budgeted amounts are shown as originally adopted or as amended at a Board of Finance meeting during the course of the fiscal year.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
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Departments seeking additional appropriations or appropriation transfers between budgetary line items must make a written request to the Board of Finance through the Board of Selectmen. An additional appropriation to a budgetary line item requires approval at a Town meeting if it exceeds \$20,000 or is a second request by the asking board or department. An additional appropriation of \$20,000 or higher is voted by the citizens of the Town. Additional appropriations for the year ended June 30, 2017 amounted to \$54,700,.

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. A reconciliation of general fund amounts presented on the budgetary basis to amounts presented in conformity with accounting principles generally accepted in the United States of America is as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Total Budgetary Basis - Non GAAP	\$ 11,105,785	\$ 10,898,434
State on-behalf payments for Teachers Retirement	686,050	686,050
Other Presentation Differences	-	27,108
Interfund Transfers reoprtd on Non-GAAP statements as revenues and expenditures	<u>(16,210)</u>	<u>(237,203)</u>
Total GAAP Basis	<u>\$ 11,775,625</u>	<u>\$ 11,374,389</u>

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

	<u>Carrying Amount</u>	<u>Bank Balance</u>
General Fund	\$ 2,672,684	\$ 3,020,284
Capital and Non-Recurring Fund	871,859	870,239
Nonmajor Governmental Funds	418,806	498,104
Sewer and Water Commission	168,633	188,889
Agency Funds	18,720	18,720
Total Deposits	<u>4,150,702</u>	<u>4,596,236</u>
Less Certificates of deposit classified as investments	<u>(76,848)</u>	<u>(76,848)</u>
Total Cash and Cash Equivalents	<u>\$ 4,073,854</u>	<u>\$ 4,519,388</u>

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Cash Deposits – 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 does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$4,084,018 of the Town’s bank balance of \$4,596,236 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	3,625,616
Uninsured and collateralized with securities held by the pledging Bank’s trust department or agent but not in the Town’s name		458,402
	\$	<u>4,084,018</u>

All of the Town’s deposits were in qualified public institutions as defined by state statute. Under this statute, 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 reports, 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.

The level of the Town’s deposits varied significantly throughout the year as a result of higher cash flows during certain periods of the year. As a result, uninsured, uncollateralized amounts at those times were substantially higher than at year-end.

Investments

At June 30, 2017, the Town had the following investments:

Non-categorized investments – pooled accounts*:

Pension investments held by administrator	\$	1,245,508
Equities held by Sharon Cemetery Fund		320,035
Fixed Income Funds held by Sharon Cemetery Fund		15,072
Total	\$	<u>1,580,615</u>

* Categorization is not applicable since the Town does not own identifiable securities, but invests as a shareholder of the investment pool.

All of the above investments have maturities categorized as less than 1 year.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
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A reconciliation of the Town’s investments as of June 30, 2017 is as follows:

Government-wide statement of net position:	
Investments	\$ 411,955
Less: certificates of deposit classified as investments	(76,848)
	335,107
Statement of fiduciary net position:	
Pension Trust Funds	1,245,508
	\$ 1,580,615

Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair losses arising from increasing interest rates.

Credit Risk

The Town has no investment policy that would further limit its investment choices beyond those limited by Connecticut state statutes. Connecticut state 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 any political subdivision thereof, provided such obligations are rated within one of the top three rating categories of any recognized rating service. The statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the Connecticut Short Term Investment Fund (STIF). The pension trust funds may also invest in certain real estate mortgages, in certain savings banks or savings and loan associations, or in stocks or bonds or other securities selected by the trustee, with the care of a prudent investor.

The District’s investments subject to credit risk had an average rating by Standard & Poor’s as follows:

Sharon Cemetery Investments	AAA
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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 does not have a policy for custodial credit risk. The town’s investments consist primarily of investments in pooled fixed income accounts and equity securities, and are therefore not exposed to custodial credit risk as they are not evidenced by securities that exist in physical or book entry form.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Concentrations of Credit Risk

The Town does not have a policy that limits the amounts invested in any one issuer.

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 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 investments are measured on a recurring basis using level 1 information (market quotations for investments that have quoted prices in active markets). The Town has no financial assets measured using Level 2 or Level 3 at June 30, 2017.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2017 for individual major funds and all other funds in the aggregate, including the applicable allowance for collection losses, are as follows:

	<u>General Fund</u>	<u>Non-Major and Other Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Property Taxes	\$ 667,220	\$ -	\$ -	\$ 667,220
Interest due on taxes	420,998	-	-	420,998
Grants Receivable	-	3,986		3,986
Accounts Receivable	-	11,390	124,201	135,591
Total Gross Receivables	<u>1,088,218</u>	<u>15,376</u>	<u>124,201</u>	<u>1,227,795</u>
Allowance for Collection Losses	<u>-</u>	<u>-</u>	<u>12,400</u>	<u>12,400</u>
Total Net Receivables	<u>\$ 1,088,218</u>	<u>\$ 15,376</u>	<u>\$ 111,801</u>	<u>\$ 1,215,395</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of June 30, 2017, interfund receivables and payables that resulted from various interfund transactions were as follows:

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 16,210	\$ 16,668
Capital Non-Recurring Fund	16,130	-
Dog Fund	538	
Sharon Cemetery Fund	-	16,210
	<hr/>	<hr/>
Total	<u>\$ 32,878</u>	<u>\$ 32,878</u>

A summary of interfund transfers is presented as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 16,210	\$ 237,203
Capital Non-Recurring Fund	175,686	-
School Cafeteria Fund	26,000	-
Sharon Cemetery Fund	-	16,210
Town Clerk Preservation Fund	1,000	3,056
Tree Committee	15,000	-
Dog Fund	7,573	-
Green Rehab Fund	10,000	-
Revaluation Fund	5,000	-
	<hr/>	<hr/>
Total	<u>\$ 256,469</u>	<u>\$ 256,469</u>

NOTE 6 -DEFICIT FUND BALANCES

As of June 30, 2017 no funds had deficit fund balances.

NOTE 7 - POST EMPLOYMENT AND HEALTHCARE BENEFITS

The Town does not provide post employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the act, and no direct costs are incurred by the Town.

NOTE 8 - RISK MANAGEMENT

The Town is exposed to various risks of loss involving torts, theft of, damage to, and destruction of assets, errors and omissions, injuries of employees, natural disaster and public official liabilities. The Town generally obtains commercial insurance for these risks and any claims have not exceeded commercial coverage.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, not being depreciated	\$ -	\$ -	\$ -	\$ -
Land	274,081	-	-	274,081
Construction in Process	-	-	-	-
Total Capital Assets, not being depreciated	<u>274,081</u>	<u>-</u>	<u>-</u>	<u>274,081</u>
Capital Assets, being depreciated				
Building and Improvement	9,677,612	-	-	9,677,612
Machinery and Equipment	2,752,139	454,654	(67,500)	3,139,293
Infrastructure	7,382,824	-	-	7,382,824
Total Capital Assets being depreciated	<u>19,812,575</u>	<u>454,654</u>	<u>(67,500)</u>	<u>20,199,729</u>
Less Accumulated Depreciation for:				
Building and Improvement	5,212,065	163,403	-	5,375,468
Machinery and Equipment	2,044,526	145,372	(67,500)	2,122,398
Infrastructure	806,851	147,656	-	954,507
Total Accumulated Depreciation	<u>8,063,442</u>	<u>456,431</u>	<u>(67,500)</u>	<u>8,452,373</u>
Total Capital Assets, being depreciated net	<u>11,749,133</u>	<u>(1,777)</u>	<u>-</u>	<u>11,747,356</u>
Governmental Activities Capital Assets, Net	<u>\$ 12,023,214</u>	<u>\$ (1,777)</u>	<u>\$ -</u>	<u>\$ 12,021,437</u>
<u>Business Type Activities</u>				
Capital Assets, not being depreciated	\$ -	\$ -	\$ -	\$ -
Land	69,775	-	-	69,775
Total Capital Assets, not being depreciated	<u>69,775</u>	<u>-</u>	<u>-</u>	<u>69,775</u>
Capital Assets, being depreciated				
Building and Improvement	6,796,503	-	-	6,796,503
Machinery and Equipment	1,167,067	-	-	1,167,067
Total Capital Assets being depreciated	<u>7,963,570</u>	<u>-</u>	<u>-</u>	<u>7,963,570</u>
Less Accumulated Depreciation for:				
Building and Improvement	2,410,462	169,875	-	2,580,337
Machinery and Equipment	517,233	23,606	-	540,839
Total Accumulated Depreciation	<u>2,927,695</u>	<u>193,481</u>	<u>-</u>	<u>3,121,176</u>
Total Capital Assets, being depreciated net	<u>5,035,875</u>	<u>(193,481)</u>	<u>-</u>	<u>4,842,394</u>
Business Type Activities Capital Assets, Net	<u>\$ 5,105,650</u>	<u>\$ (193,481)</u>	<u>\$ -</u>	<u>\$ 4,912,169</u>

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Governmental Activities

General Governemnt Services	\$ 47,884
Public Works, including depreciation of general infrastructure assets	293,573
Education	114,974
Total Depreciation Expense - Governmental Activities	\$ 456,431

Business-Type Activities:

Sewer and Water Commission	\$ 193,481
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NOTE 10 - GENERAL LONG-TERM DEBT

The following is a summary of changes in general obligation debt during the fiscal year.

	Governmental Activities	Business-Type Activites	Total
Bonds and Debts Payable			
July 1, 2016	\$ 5,869,388	\$ 748,703	\$ 6,618,091
Additions	5,829,654	-	5,829,654
Deductions	(5,744,986)	(164,300)	(5,909,286)
Total Bonds/Debt and Related Liabilities June 30, 2017	\$ 5,954,056	\$ 584,403	\$ 6,538,459

The amortization of bond premiums for the year ended June 30,2017 amounted to \$136,018, and the amortization of deferred charges amounted to \$35,035 for the year then ended. These amounts were fully amortized to correspond with the refinancing of the related outstanding bonds. The annual principal requirements to amortize debt are as follows:

Fiscal Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2018	\$ 723,923	\$ 100,968	\$ 824,891
2019	714,286	103,757	818,043
2020	704,793	106,605	811,398
2021	693,046	62,883	755,929
2022	573,008	30,958	603,966
2022-2041	2,545,000	179,232	2,724,232
	\$ 5,954,056	\$ 584,403	\$ 6,538,459

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Bonds and Debt Payable at June 30, 2017 are comprised of the following obligations:

Bonds payable dated 08/2016 to 08/2026 payable at various annual installments, including interest at 1.59%, final payment due 8/2026 - General Fund	\$ 5,375,000
Note payable dated 7/2016 to Caterpillar, payable \$54,014.77 per year, including interest at 2.75%, final payment due 7/2020 - General Fund	206,593
Note payable dated 1/2017 to Daimler, payable \$44,783.66 per year, including interest at 4.128%, final payment due 1/2022 - General Fund	198,654
Note payable dated 7/2015 to Salisbury Bank and Trust Company, payable \$40,038.46 per year, including interest at 2.65%, final payment due 07/2020 - General Fund	149,864
Note payable dated 11/2015 to Salisbury Bank and Trust Company, payable \$1,360.31 per month, including interest at 2.51%, final payment due 12/2018 - General Fund	23,945
Note Payable dated 10/2010 to Salisbury Bank and Trust Company, payable \$930 a month, including interest at 4.25% final payment due 10/2040 - Enterprise Fund	161,822
Note payable dated 12/2000 to State of Connecticut Drinking Water Fund, payable \$1,110 a month, including interest at 2.60% final payment due 06/2020 - Enterprise Fund	38,395
Note payable dated 06/2001 to State of Connecticut Clean Water Fund, payable \$5,503 a month, including interest at 2.77%, final payment due 12/2020 - Enterprise Fund	220,021
Note payable dated 06/2004 to State of Connecticut Drinking Water Fund, payable \$2,275 a month, including interest at 2.40%, after first payment of \$27,166 in December 2004, final payment due 12/2023 - Enterprise Fund	<u>164,165</u>
Total Bonds and Notes Payable	<u>\$ 6,538,459</u>

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Refunding Bonds

In August 2016, the Town issued \$5,375,000 of general obligation refunding bonds with an interest rate of 1.59%. The bonds were issued to fully refinance August 2011 general obligation bonds. The net proceeds of \$5,317,892 (after \$57,108 in underwriter's fees and other issuance costs) were deposited in an irrevocable trust fund under an escrow agreement between the escrow Agent and the Town. The Town also deposited an additional \$30,000 to this fund for a total of \$5,347,892. The escrow Agent deposited such proceeds in a United States Treasury Money Market Fund. All investment income on and the maturing principal of the escrow securities held in the escrow deposit fund will be irrevocably deposited by the Town for payment of the refunding bonds. The Town refunded the above bonds to reduce total debt service payments over the next ten years by \$128,155 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt of \$115,923)

Sharon is a member of Regional School District #1 which also provides education for grades one through twelve for the Towns of Canaan, Cornwall, Kent, North Canaan and Salisbury. As of June 30, 2017, the outstanding indebtedness of the District was \$3,325,000. The Town of Sharon's share will be approximately 18.66% of the outstanding indebtedness, or \$620,455. Such outstanding indebtedness represents general obligations of Regional School District #1 and its member towns. However, the Town is not required to record its share in its general-purpose financial statements.

The Town's indebtedness does not exceed the legal debt limitation as established by the Connecticut General Statutes as reflected in the following schedule:

	<u>Debt</u> <u>Limitation</u>	<u>Indebtedness</u>	<u>Balance</u>
General purpose	\$23,986,575	\$ 5,954,056	\$16,795,038
Schools	47,973,150	620,455	44,556,871
Sewers	39,977,625	584,403	36,975,341
Urban renewal	34,647,275	-	32,694,171

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation, as adjusted, or \$74,624,900. Indebtedness pertaining to schools includes the Town's share of the outstanding indebtedness of Regional School District #1 of \$620,455.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11- PENSION PLANS

MONEY PURCHASE PENSION PLAN

Substantially all town and non-certified Board of Education employees are eligible to participate in a defined contribution pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. To be eligible to participate in the plan, the employee must be at least twenty one years of age and complete one year of service. Employees who work less than one thousand hours per annum are not eligible to participate. The town contributes seven percent of base compensation. Plan assets are held in investment accounts through the plan administrator. Vesting is immediate.

The Plan is accounted for using the accrual basis of accounting. Employer contributions are recognized when due. Plan assets are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. Plan investments consist of two insurance contracts with Great West Retirement Service.

Total contributions made to the plan for the year ended June 30, 2017 by the Town were \$84,772.

CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM

Plan Description

Teachers, principals, superintendents or supervisors engaged in service of public school are provided with pensions through the Connecticut State Teachers' Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Teachers' Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board. The Teachers' Retirement Board 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 if service in Connecticut.

Normal Retirement

Retirement benefits for employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary)

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Early Retirement

Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement

Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

Contributions

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 approved, amended and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

Employer (School Districts)

School District employers are not required to make contributions to the plan

Employees

Effective July 1, 1992, each teacher not covered by social security is required to contribute 6% of salary for the pension benefit. For employees covered by social security, each person is required to contribute 2.25% of compensation up to the social security taxable wages base plus 5% of compensation, if any, in excess of such base.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2017, the Town reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows due to the statutory requirement that the State pay 100% of the required contribution. The amounts recognized by the Town as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportional share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>6,290,948</u>
Total	<u>\$ 6,290,948</u>

The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At June 30, 2017, the Town had no proportionate share of the net position liability.

For the year ended June 30, 2017, the Town recognized pension expense and revenue of \$686,050 for on-behalf amounts for the benefits provided by the State.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	2.75%
Salary Increases	3.25 – 6.50% including inflation
Investment rate of return	8.00 %, net of pension plan investment Expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected 19 years using scale AA, with a two-year setback for males and females for the period after service retirement and for dependent beneficiaries.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period of July 1, 2010 – June 30, 2015.

Future cost-of-living increases for members who retire on or after September 1, 1992 are assumed to be an annual cost-of-living adjustment of 2%.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
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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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Lont-Term Expected Real Rate of Return</u>
Large Cap U.S. Equities	21.0%	7.3%
Developd Non-U.S. Equities	18.0%	7.5%
Emerging markets (non-U.S.)	9.0%	8.6%
Core Fixed Income	7.0%	1.7%
Inflation Linked Bond Fund	3.0%	1.3%
Emerging Market Bond	5.0%	4.8%
High Yield Bond	5.0%	3.7%
Real Estate	7.0%	5.9%
Private Equity	11.0%	10.9%
Alternate Investments	8.0%	0.7%
Liquidity Fund	6.0%	0.0%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that State contributions will be made at the actuarially determined contribution rates in the 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 Town's proportionate share of the net pension liability is \$0, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Pension Liabilities and Deferred Inflows/Outflows of Resources

The State makes all contributions to the Plan on behalf of employees of the participating towns and districts, therefore the State is considered to be a non-employer contributing entity in the system. Since the Town does not contribute directly to the plan, there is no net pension liability or deferred inflows or deferred outflows to be reported in the financial statements of the Town.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial statements available at www.ct.gov.

Other Information

Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented as the Town has no obligation to contribute to the plan.

NOTE 12 – RESTRICTED NET POSITION

As of June 30, 2017, the Board of Commissioners of the Water and Sewer Commission has restricted \$140,000 of Net Position for capital improvements.

NOTE 13 - CONTINGENCIES

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 allowances, if any, will not be material.

There are legal actions pending in which the Town is involved. The Town Officials are of the opinion that the ultimate liabilities, if any, resulting from such lawsuits and claims will not materially affect the financial position of the Town.

TOWN OF SHARON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – PRONOUNCEMENTS ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

- GASB Statement Number 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”
- GASB Statement Number 81 “Irrevocable Split Interest Agreements”
- GASB Statement Number 82 “Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73”
- GASB Statement Number 83 “Certain Asset Retirement Obligations”
- GASB Statement Number 84 “Fiduciary Activities”
- GASB Statement Number 86 “Certain Debt Extinguishment Issues”
- GASB Statement Number 87 “Leases”

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SHARON
Connecticut State Teachers Retirement System

Required Supplementary Information
Schedule of the Town's Proportionate Share of the Net Pension Liability

Last Three Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2016</u>
Town's proportion of the net pension liability	0.00%	0.00%	0.00%
Towns proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the town	6,290,948	4,635,777	4,284,847
Total	\$ 6,290,948	\$ 4,635,777	\$ 4,284,847
Town's covered-employee payroll	\$ 1,797,405	\$ 1,723,151	\$ 1,693,960
Town's proportionate share of the net pension liability as a percentage of covered-employee payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>52.26%</u>	<u>59.50%</u>	<u>61.51%</u>

Notes to Schedule

Changes in benefit terms	None
Changes of assumptions	During 2016, rates of withdrawal, retirement and assumed rates of salary increases were adjusted to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the system for the five year period ended June 30, 2015
Actuarial cost method	Entry Age
Amortization method	Level percent of salary, closed
Remaining amortization period	20.4 years
Asset valuation method	4 year smoothed market
Inflation	2.75%
Salary increases	3.25% - 6.50%, average, including inflation
Investment rate of return	8.00%, net of pension plan investment expense

Note: This schedule is intended to show information for ten years. Additional years information will be displayed as it becomes available