



August 12, 2014

**MEMORANDUM TO PROSPECTIVE BIDDERS**

**Re: CITY OF DERBY, CONNECTICUT  
\$10,480,000 General Obligation Bond Anticipation Notes**

**Dated: September 5, 2014      Date of Sale: Wednesday, August 20, 2014  
Due: June 4, 2015              Time of Sale: 11:30 A.M. (Eastern Time)**

***\*\*Phone Number to Place Bid: (203) 283-1110\*\****

As per the Notice of Telephone Sale, proposals may be submitted by telephone on Wednesday, August 20, 2014. 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 Wednesday, August 20, 2014.**

*The issue of notes is exempt from the provisions of Rule 15c2-12, as amended, of the Securities and Exchange Commission. No Official Statement has been prepared by or on behalf of the Issuer for this sale.*

The General Purpose Financial Statements have been excerpted from the Annual Financial Report of the City of Derby, Connecticut as of June 30, 2013. These excerpts are included in this package. Copies of the complete reports for June 30<sup>th</sup> are available upon request from Phoenix Advisors, LLC, Attention: Barry J. Bernabe, Managing Director, 53 River Street, Suite 1, Milford, Connecticut, telephone (203) 283-1110.

We trust we may be of service.

**PHOENIX ADVISORS, LLC**



## **Telephone Sale Term Sheet**

**\$10,480,000**

### **General Obligation Bond Anticipation Notes City of Derby, Connecticut**

<b>Date of Sale:</b>	Wednesday, August 20, 2014 at 11:30 A.M. (Eastern Time).
<b>Location of Sale:</b>	Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, Connecticut 06460. Telephone: (203) 283-1110
<b>Issuer:</b>	City of Derby, Connecticut (the "City").
<b>Issue:</b>	\$10,480,000 General Obligation Bond Anticipation Notes (the "Notes").
<b>Dated Date:</b>	September 5, 2014
<b>Principal and Interest Due:</b>	At maturity on June 4, 2015
<b>Purpose:</b>	The Notes are being issued to renew notes initially issued to finance various school and general purpose projects.
<b>Denominations:</b>	\$100,000, except that one such proposal for a part may include the odd \$180,000 of principal amount.
<b>Redemption:</b>	The Notes are not subject to redemption prior to maturity.
<b>Security:</b>	The Notes will be general obligations of the City and the City will pledge its full faith and credit to the payment of principal of and interest on the Notes when due.
<b>Credit Rating:</b>	No application for a rating on this Note issue has been made to any credit rating agency. The City has an outstanding bond rating of "Aa3" from Moody's Investors Service and "AA-" from Standard & Poor's
<b>Basis of Award:</b>	Lowest Net Interest Cost (NIC), as of dated date.
<b>Form of Legal Opinion and Tax Exemption:</b>	See "Bond Counsel Opinion" in the Notice of Telephone Sale.
<b>Bank Qualification:</b>	The Notes shall <u>not</u> be designated by the City 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.
<b>Registrar, Transfer Agent, Certifying Agent and Paying Agent:</b>	U.S Bank National Association of Hartford, Connecticut, Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, Connecticut 06103.
<b>Financial Advisor:</b>	Phoenix Advisors, LLC of Milford, Connecticut will act as Financial Advisor. Telephone (203) 283-1110.
<b>Legal Opinion:</b>	Joseph Fasi LLC of Hartford, Connecticut will act as Bond Counsel.
<b>Delivery and Payment:</b>	It is expected that delivery of the Notes in book-entry-only form will be made to The Depository Trust Company on or about September 5, 2014. Delivery of the Notes will be made against payment in immediately available Federal Funds.
<b>Issuer Official:</b>	Questions concerning the City should be directed to Keith McLiverty, Treasurer, City Hall, 1 Elizabeth Street, Derby, Connecticut 06776, Telephone: (203) 627-3947 or Mr. Barry J. Bernabe, Managing Director, Phoenix Advisors, LLC, 53 River Street, Milford, Connecticut, Telephone: (203) 283-1110.

**NOTICE OF SALE**  
**\$10,480,000**  
**CITY OF DERBY, CONNECTICUT**  
**GENERAL OBLIGATION BOND ANTICIPATION NOTES**

The City of Derby, Connecticut (the "Issuer"), will receive **telephone proposals only** until:

**11:30 A.M. (E.D.T.)**  
**Wednesday, August 20, 2014**

at the offices of **Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, Connecticut 06460**, for the purchase of:

**\$10,480,000 CITY OF DERBY**  
**GENERAL OBLIGATION BOND ANTICIPATION NOTES**

**NOT BANK QUALIFIED**

Proposals may be submitted to Barry J. Bernabe, Managing Director, Phoenix Advisors, LLC as Agent for the Issuer, **at telephone no. (203) 283-1110**.

The notes will be dated **September 5, 2014**, will be payable to the registered owner on **June 4, 2015** and are not subject to redemption prior to maturity. They will be issued in the minimum denomination of \$100,000 or whole multiples thereof, except one such note will include the odd \$180,000. **Denominations of less than \$100,000 will not be made available.** They will bear interest (which interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months) payable at maturity at the rate or rates per annum fixed in the proposal or proposals accepted for their purchase, which rates shall be in multiples of 1/100 of 1% per annum.

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, New York, New York (DTC), registered in the name of its nominee, Cede & Co., and immobilized in their custody. The book-entry system will evidence ownership of the notes in the minimum principal amounts of \$100,000, as described above, 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 successful bidder or bidders, 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 Issuer or its agent in same-day funds to DTC or its nominee as registered owner of the notes. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of 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 Issuer will not be responsible or liable for payments by DTC to its participants or by DTC participants to beneficial owners or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

Proposals for purchase may be submitted by telephone call only to the Issuer's Agent as previously set forth. In submitting a bid by telephonic means, the bidder accepts the terms and conditions of this Notice of Sale and agrees to be bound thereby and, further, such bidder accepts and understands the risk that its bid may not be received by the Issuer or may be received later than the time specified as the result of a failure in communications, including but not limited to a failure in telephonic communications, or the inability to reach the Agent by the time specified.

Proposals for the purchase of said notes will be transcribed by the Agent onto the form of proposal for purchase attached hereto. A proposal may be for all or any part of the notes but any proposal for a part must be for a minimum of \$100,000, of principal amount per interest rate bid, or a whole multiple thereof, except that one such proposal for a part may include the odd \$180,000, of principal amount per interest rate bid, and the total of all principal amounts bid shall not exceed \$10,480,000.

Unless all bids are rejected the notes will be awarded to the bidder or bidders offering to purchase the notes at the lowest net interest cost, computed as to each interest rate stated by adding the total interest which will be paid at such rate and deducting therefrom the premium offered, if any. As between proposals resulting in the same lowest net interest cost to the Issuer, the award will be made on the basis of the highest principal amount of the notes specified. No bid for less than par and accrued interest, if any, will be considered and the Issuer reserves the right to award to any bidder all or any part of the notes bid for in his proposal. If a bidder is awarded only a part of the notes bid for in his proposal, any premium offered in such proposal will be proportionately reduced so that the resulting net interest cost to the Issuer with respect to the notes awarded is the same as that contained in the bidder's proposal with respect to the entire amount bid, carried to four places. The purchase price must be paid in Federal Funds.

The full faith and credit of the Issuer will be pledged for the prompt payment of the principal of and the interest on the notes. The notes will be certified by U.S. Bank National Association, of Hartford, Connecticut and the opinion of Joseph Fasi LLC, Bond Counsel, of Hartford, Connecticut approving the legality of the notes and setting forth that they are valid general obligations of the Issuer will be furnished to the purchaser or purchasers without charge. Each winning bidder will also be furnished with a Signature and No Litigation Certificate, and a Receipt of payment satisfactory in form to said firm.

The legal opinion will further state that, under existing statutes and court decisions interest on the notes (i) is not included in the gross income of the owners thereof for purposes of Federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) is not treated as a preference item for purposes of computing the Federal alternative minimum tax; such interest is, however, includable in the adjusted current

earnings of a corporation (as defined for federal income tax purposes) for purposes of computing the Federal alternative minimum tax imposed on corporations under the Code.

Under existing statutes, the interest on the notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates, and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay Federal alternative minimum tax.

In rendering the legal opinion, Joseph Fasi LLC will rely upon and assume the material accuracy of the representations and statements of expectation contained in the Tax Regulatory Agreement entered into by the Issuer for the benefit of the owners of the notes, and further, will assume continuing compliance by the Issuer with the covenants and procedures set forth in such Tax Regulatory Agreement.

The notes are being offered subject to the exemption of certain requirements under Rule 15c2-12, as amended, of the Securities and Exchange Commission. An Official Statement has not been prepared by or on behalf of the Issuer for this sale, nor does the Issuer intend to enter into a continuing disclosure agreement with respect to the notes.

The notes shall **NOT** be designated by the Issuer as qualified tax exempt obligations under the provisions of Section 265(b) of the Code for purposes of the deduction by financial institutions for interest expenses allocable to the notes.

**IT SHALL BE THE RESPONSIBILITY OF THE WINNING BIDDER OR BIDDERS TO CERTIFY TO THE ISSUER BEFORE THE DELIVERY OF THE NOTES AND IN A MANNER SATISFACTORY TO BOND COUNSEL THE PRICE OR PRICES AT WHICH A SUBSTANTIAL AMOUNT OF THE NOTES WERE INITIALLY OFFERED AND SOLD TO THE PUBLIC.**

The notes will be delivered to DTC or its Agent via “Fast” on or about September 5, 2014. 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 winning bidder or bidders to obtain CUSIP numbers for the notes prior to delivery, and the Issuer will not be responsible for any delay occasioned by the inability to deposit the notes with DTC due to the failure of the winning bidder or bidders to obtain such numbers and to supply them to the Issuer in a timely manner. The Issuer 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.

Any bid received after the time specified, as determined in the sole discretion of the Issuer, will not be reviewed or honored by the Issuer. The right is reserved to reject any and all proposals and to waive any irregularity or informality with respect to any proposal.

More information regarding this issue and the Issuer, and bid forms may be obtained from the undersigned or from Barry J. Bernabe, Managing Director, Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, Connecticut 06460, (203) 283-1110.

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Anita Dugatto  
Mayor

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Keith A. McLiverty  
Treasurer

August 12, 2014

(See attached for form of Proposal for Purchase)

PROPOSAL FOR NOTES

August 20, 2014

Anita Dugatto, Mayor  
Keith A. McLiverty, Treasurer  
City of Derby  
c/o Phoenix Advisors, LLC  
53 River Street, Suite 1  
Milford, Connecticut 06460

Ladies and Gentlemen:

Subject to the provisions of the Notice of Sale dated August 12, 2014, which Notice is made a part of this proposal, we offer to purchase the indicated principal amount of \$10,480,000 of City of Derby, Connecticut General Obligation Bond Anticipation Notes and to pay therefor par and accrued interest, if any, to the date of delivery, and pay the premium specified below, if any (and we provide our computations of net interest cost carried to four decimals and made as provided in the above-mentioned Notice of Sale, but not constituting any part of the foregoing proposal) as follows:

Principal amount \_\_\_\_\_ %  
Stated interest rate \_\_\_\_\_ Percent Net Interest Cost  
Premium \_\_\_\_\_ (Four Decimals)

Principal amount \_\_\_\_\_ %  
Stated interest rate \_\_\_\_\_ Percent Net Interest Cost  
Premium \_\_\_\_\_ (Four Decimals)

Principal amount \_\_\_\_\_ %  
Stated interest rate \_\_\_\_\_ Percent Net Interest Cost  
Premium \_\_\_\_\_ (Four Decimals)

Principal amount \_\_\_\_\_ %  
Stated interest rate \_\_\_\_\_ Percent Net Interest Cost  
Premium \_\_\_\_\_ (Four Decimals)

The undersigned hereby agrees to accept delivery of and make payment for the indicated principal amount of Notes in Federal Funds on the date of the Notes or as soon thereafter (but no later than 30 days thereafter) as such Notes may be prepared and ready for delivery by the Issuer.

\_\_\_\_\_  
(Name of Bidder)

\_\_\_\_\_  
(Mailing Address)

\_\_\_\_\_  
(Telephone Number)

\_\_\_\_\_  
(Authorized Signature)

\_\_\_\_\_  
(Facsimile Number)

## **TAX EXEMPTION**

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements which must be met subsequent to delivery of the Notes in order that interest on the Notes not be included in gross income under Section 103 of the Code. The Tax Regulatory Agreement, which will be executed and delivered by the Issuer concurrently with the Notes, contains representations, covenants and procedures relating to the use, expenditure and investment of proceeds of the Notes in order to comply with such requirements of the Code. Pursuant to the Tax Regulatory Agreement, the Issuer also covenants and agrees that it shall perform all things necessary or appropriate under any valid provision of law to ensure interest on the Notes shall not be included in gross income of owners thereof for purposes of Federal income taxation under the Code. Failure to comply with the continuing requirements of the Code may cause the interest on the Notes to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Notes irrespective of the date on which non compliance occurs. In rendering its opinion, Bond Counsel relies on the continuing compliance by the City with the Tax Regulatory Agreement.

In the opinion of Bond Counsel, based on existing statutes and court decisions and assuming continuing compliance by the Issuer with its covenants and the procedures contained in the Tax Regulatory Agreement, interest on the Notes is not included in the gross income of the owners thereof for purposes of Federal income taxation and is not treated as a preference item for purposes of computing the Federal alternative minimum tax. Interest on the Notes is, however, includable in the adjusted current earnings of corporations (as defined for federal income tax purposes) for purposes of computing the Federal alternative minimum tax on corporations.

Ownership of the Notes may also result in certain collateral Federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security and Railroad Retirement benefits and taxpayers who have or are deemed to have incurred indebtedness to purchase or carry tax exempt obligations, such as the Notes. Prospective purchasers of the Notes, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of ownership and disposition of the Notes.

In the opinion of Bond Counsel, based on 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 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. Prospective purchasers of the Notes are advised to consult their own tax advisors regarding the state and local tax consequences of ownership and disposition of the Notes.



## **FUTURE EVENTS**

The Federal and State tax treatment of municipal bonds is determined by Federal, state and local legislation, administrative pronouncements and court decisions. For example, recent Federal legislative proposals have been introduced into Congress which, if enacted, would eliminate or curtail the exclusion from gross income of interest paid on municipal bonds or have other collateral tax consequences that will adversely affect their tax treatment, including limiting the exclusion from gross income on tax exempt bonds for higher income taxpayers. Current ongoing Federal budget discussions include such proposals. The enactment of such proposals may adversely affect the tax treatment of: the interest paid on the Notes, their sale or disposition, market price, marketability, or otherwise prevent Beneficial Owners from receiving the full current tax benefit of ownership. There can be no assurance that changes of law by Federal or State governments will not occur or that they will not be made retroactive. Bond Counsel does not opine as to post issuance acts, including changes of law. Prospective purchasers and Beneficial Owners should consult their own tax advisors regarding pending or proposed law changes.

# JOSEPH FASI LLC

56 ARBOR STREET, SUITE 418  
HARTFORD, CONNECTICUT 06106

A T T O R N E Y S   A T   L A W

TELEPHONE (860)296-0510

FACSIMILE (860)296-0541

## **FORM OF OPINION OF BOND COUNSEL**

City of Derby  
Derby, Connecticut

Ladies and Gentlemen:

We have represented the City of Derby, Connecticut as bond counsel with respect to the issuance and sale of \$10,480,000 City of Derby, Connecticut General Obligation Bond Anticipation Notes, bearing a Dated Date and an Original Issue Date of September 5, 2014, maturing June 4, 2015 (the "notes").

We have examined a record of the proceedings authorizing the notes, a Tax Regulatory Agreement of the City dated September 5, 2014 (the "Tax Regulatory Agreement"), and other proofs submitted to us.

The notes are originally registered in the name of Cede & Co., as nominee of The Depository Trust Company, to effect a book-entry system for the ownership and transfer of the notes, and are certified by U.S. Bank National Association, Hartford, Connecticut (the "Certifying Agent").

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of an official statement or other offering material relating to the notes, if any, (except to the extent, if any, stated in such official statement) and we express no opinion relating thereto.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the notes under authority of the constitution and statutes of the State of Connecticut and that when certified by the Certifying Agent the notes are a valid and binding general obligation of the City of Derby payable both principal and interest from ad valorem taxes which may be levied on all taxable property subject to taxation by the City without limitation as to rate or amount except as to 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. There was, however, no such certified forest land on the last completed grand list of the City and under existing statutes the State of Connecticut is obligated to pay the City the amount of tax revenue which the City would have received except for the limitation upon its power to tax such dwelling houses. We are further of the opinion that the Tax Regulatory Agreement is a valid and binding agreement of the City.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the notes in order that interest on the notes not be included in gross income under Section 103 of the Code. The City has covenanted in the Tax Regulatory Agreement that it will at all times perform all acts and things necessary or appropriate under any valid provision of law to ensure that interest paid on the notes shall not be included in the gross income of the owners thereof for Federal income tax purposes under the Code.

In our opinion, under existing statutes and court decisions, interest on the notes is not included in the gross income of the owners thereof for purposes of Federal income taxation pursuant to Section 103 of the Code and is not treated as a preference item for purposes of computing the Federal alternative minimum tax. Interest on the notes is, however, includable in the adjusted current earnings of a corporation (as defined for federal income tax purposes) for purposes of computing the Federal alternative minimum tax imposed on corporations. We express no opinion regarding other Federal income tax consequences caused by ownership or disposition of, or receipt of interest on, the notes.

In rendering the foregoing opinions regarding the Federal income tax treatment of interest on the notes, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and expectations, and certifications of fact contained in the Tax Regulatory Agreement, and (ii) continuing compliance by the City with the covenants and procedures set forth in the Tax Regulatory Agreement as to such tax matters.

We are further of the opinion 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 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. We express no opinion regarding other State income tax consequences caused by ownership or disposition of the notes.

The rights of owners of the notes and the enforceability of the notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by application of equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully yours,

JOSEPH FASI LLC

# **CITY OF DERBY, CONNECTICUT**

## **FINANCIAL INFORMATION**

Excerpted from the  
Annual Financial Statements of  
The City of Derby, Connecticut  
Year Ended June 30, 2013

**CITY OF DERBY, CONNECTICUT**  
**AUDITED FINANCIAL STATEMENTS**  
**AND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2013**



**CITY OF DERBY, CONNECTICUT  
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Guiding Successful People

**Ansonia**  
158 Main Street, Suite 301  
Ansonia, Connecticut 06401  
P: 203-732-2311

**Killingworth**  
166 Route 81  
Killingworth, Connecticut 06419  
P: 860-663-0110

**New Haven**  
900 Chapel Street, Suite 620  
New Haven, Connecticut 06510  
P: 203-773-0384

**Westport**  
611 Riverside Avenue  
Westport, Connecticut 06880  
P: 877-839-7423

**Principals**  
Francis H. Michaud Jr. CPA  
John A. Accavallo CPA  
Sandra M. Woodbridge CPA  
Dominic L. Cusano MBA CPA  
Darin L. Offerdahl MBA CPA

## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor,  
Members of the Board of Aldermen and  
Members of the Board of Apportionment and Taxation  
City of Derby, 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 City of Derby, Connecticut, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City'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 City of Derby, Connecticut, as of June 30, 2013, 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 pages 5-11 and schedules of employer contributions and funding progress on page 55 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 City of Derby, Connecticut's basic financial statements. The combining and individual nonmajor fund financial statements 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 statement, the schedule of property taxes levied, collected and outstanding-general fund and the schedule of nationally recognized municipal security information repository 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.

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

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2014 on our consideration of the City of Derby, Connecticut'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 City of Derby, Connecticut's internal control over financial reporting and compliance.

*Michaud Accavallo Woodbridge & Cusano, LLC*

Ansonia, Connecticut

March 19, 2014



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Derby, Connecticut (City), we offer readers of the City's financial statements this narrative overview and analysis of the financing activities of the City for the fiscal year ended June 30, 2013. All amounts, unless otherwise indicated, are expressed in thousands of dollars (\$000).

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$47,970 (*net position*).
- The government's total net position increased by \$1,244.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund deficit of \$5,930, a decrease in the deficiency of \$825 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,993 or 4.77 % of total general fund expenditures.
- The City's governmental funds total debt increased by \$893 (4.07%) during the current fiscal year.
- The City's business-type activities total debt decreased by \$177 (14.29%) during the current fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

The *statement of net position* presents information on all of the City'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 City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City 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 City include general government, education, public safety, public works, and human services. The business-type activity of the City includes the Water Pollution Control Authority and the Parking Authority.

The government-wide financial statements can be found on pages 15-17 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 City, 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 City 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 *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 City maintains twelve 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 Fund, the Middle School Building Project and the System-Wide School Capital Improvements fund, all of which are considered to be major funds. Data from the other nine 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 City 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 18-21 of this report.

Proprietary Funds — The City maintains two proprietary funds. These *enterprise funds* are used to report the business-type activities in the government-wide financial statements. The City uses the enterprise funds to account for its Water Pollution Control Authority and its Parking Authority.

The proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Water Pollution Control Authority, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 22-24 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 City'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 25-26 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 27-54 of this report.

*Required Supplementary Information* — In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information can be found on page 55 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining fund statements and schedules can be found on pages 56-64 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 City, assets exceeded liabilities by \$47,970 (Net position) at the close of the fiscal year ended June 30, 2013.

By far the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City'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.

#### City's Net position (\$000)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 8,255	\$ 7,478	\$ 1,616	\$ 1,201	\$ 9,871	\$ 8,679
Capital assets	69,093	68,732	5,658	5,343	74,751	74,075
Total assets	77,348	76,210	7,274	6,544	84,622	82,754
Long-term liabilities						
outstanding	\$ 22,822	21,930	1,416	1,239.00	24,238	23,169
Other liabilities	12,245	12,409	169	450	12,414	12,859
Total liabilities	35,067	34,339	1,585	1,689	36,652	36,028
Net assets:						
Invested in capital assets, net of related debt	49,864	48,311	4,242	4,104	54,106	52,415
Restricted	8	9	-	-	8	9
Unrestricted	(7,591)	(6,449)	1,447	751	(6,144)	(5,698)
Total net position	\$ 42,281	\$ 41,871	5,689	\$ 4,855	\$ 47,970	\$ 46,726

At the close of the fiscal year ended June 30, 2013, the City is able to report positive balances in all categories of net position as a whole for its separate governmental and business-type activities. All categories in the prior year were able to report positive net asset numbers.

The government total net position increased by \$1,244 in the current fiscal year. The majority of this increase was due to revenues outstripping expenses with the majority of the increase in revenues due to the City receiving more in capital grants and property tax revenues.

Governmental Activities — Governmental activities increased the City’s net position by \$410, thereby accounting for the majority of the decrease in the net position of City. Key elements of this increase are as follows:

**CITY’S CHANGES IN NET POSITION (\$000)**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 1,884	\$ 1,785	\$ 3,073	\$ 2,585	\$ 4,957	\$ 4,370
Operating grants and contributions	12,193	11,676	-	-	12,193	11,676
Capital Grants and contributions	1,449	285	-	-	1,449	285
General revenues:						
Property Taxes	26,567	25,581	-	-	26,567	25,581
Grants and contributions not restricted to specific programs	2,485	2,429	-	-	2,485	2,429
Unrestricted investment earnings	125	113	2	2	127	115
<b>TOTAL REVENUES</b>	<b>44,703</b>	<b>41,869</b>	<b>3,075</b>	<b>2,586</b>	<b>47,778</b>	<b>44,455</b>
<b>EXPENSES</b>						
General government	11,861	11,129	-	-	11,861	11,129
Public works	4,082	3,882	2,241	2,304	6,323	6,186
Public safety	4,627	4,480	-	-	4,627	4,480
Culture and recreation	1,180	1,178	-	-	1,180	1,178
Health and welfare	1,097	1,152	-	-	1,097	1,152
Education	20,220	20,125	-	-	20,220	20,125
Capital outlay	729	241	-	-	729	241
Debt service	497	381	-	-	497	381
<b>TOTAL EXPENSES</b>	<b>44,293</b>	<b>42,568</b>	<b>2,241</b>	<b>2,304</b>	<b>46,534</b>	<b>44,872</b>
<b>INCREASE(DECREASE) IN NET ASSETS</b>	<b>410</b>	<b>(699)</b>	<b>834</b>	<b>283</b>	<b>1,244</b>	<b>(416)</b>
Net position at beginning of year	41,871	42,570	4,855	4,572	46,726	47,142
<b>NET POSITION, ending</b>	<b>\$ 42,281</b>	<b>\$ 41,871</b>	<b>\$ 5,689</b>	<b>\$ 4,855</b>	<b>\$ 47,970</b>	<b>\$ 46,726</b>

Business-type Activities — Business-type activities increased the City’s net position by \$834. The key element of this decrease is as follows.

- The Water Pollution Control Authority revenues were significantly higher than expenses by \$834, due to increased revenues and reduced expenses compared to the previous year.

**FUNDS FINANCIAL ANALYSIS**

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

**Governmental Funds** — The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City’s financing requirements. In particular, *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.

As of the end of the current fiscal year, the City’s governmental funds reported a combined ending fund balance-deficit of \$5,930, a reduction in the deficiency of \$825 in comparison with the prior year. This deficit is primarily

caused by the Middle School Building Project fund deficit (\$9,559) which will be eliminated with a future bond issue.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the unassigned fund was \$1,993. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total general fund expenditures of \$41,831. Unreserved and total fund balance represents 4.77% of total general fund expenditures.

The general fund balance increased by \$351, during the current fiscal year. Key factors in this decline are as follows:

- An increase in Tax revenues of \$1,346.
- An increase in Intergovernmental revenue of \$1,825.
- 
- An increase in public works of \$1,278.
- An increase in Board of Education of \$416.
- An increase in Capital Outlay of \$526.
- A increase in principal and interest on bonds of \$366.
- An increase in General Government expenditures of \$254.
- An increase in public safety of \$203.

**Proprietary Funds** — The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net position of the Water Pollution Control Authority at the end of the year amounted to \$4,948 of which \$3,988 represents an investment in capital assets net of related debt. Net position of the Parking Authority at the end of the year amounted to \$741 of which \$601 represents an investment in capital assets net of related debt. The total increase in net position for the Business-Type Activities- Enterprise Fund was \$834. Other factors concerning the finances of the fund have already been addressed in the discussion of the City's business-type activities.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget (\$2,877 increase in appropriations) can be briefly summarized as follows:

- \$1,652 in increases in public works primarily due to the Hawthorne Avenue street project.
- \$206 in increases in General Government which was primarily due anticipated increased work on New Haven Avenue of \$438.
- \$231 in increases in public safety primarily due to overtime wages.
- \$756 in increases in Capital Outlay which was primarily due to appropriating additional grant monies.
- \$32 in increases in various other line items.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** — The City's investment in capital assets for its governmental and business type activities as of June 30, 2013, amounts to \$74,751 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, machinery and equipment, and infrastructure. The total increase in the City's

investment in capital assets for the current fiscal year was \$2609 an increase of 2.75% for governmental activities and a \$595 increase of 4.48% for business-type activities.

**City’s Capital Assets (\$000)  
(Net of depreciation)**

	Governmental Activities	Business-type Activities	Total
Land	\$ 5,795	\$ 595	\$ 6,390
Buildings and system	40,487	4,528.00	45,015.00
Machinery and equipment	1,618	535.00	2,153.00
Infrastructure	21,193	-	21,193.00
	<u>\$ 69,093</u>	<u>\$ 5,658</u>	<u>\$ 74,751</u>

Additional information on the City’s capital assets can be found in Note 7 of this report.

**LONG TERM DEBT**

*Long-Term Debt* — At the end of the current fiscal year, the City and WPCA had total bonded debt outstanding of \$8,874 and \$1,416 (including a capital lease of \$347), respectively. This amount is backed by the full faith and credit of the government.

*Net Pension Obligation* — At the end of the current fiscal year, the City had total net pension obligation of \$538. This obligation increased \$102 during the fiscal year.

*Other Post-Employment Benefits* – At the end of the current fiscal year, the City had total other post-employment benefit obligation of \$9,362. This obligation increased \$1,639 during the fiscal year.

**City’s Outstanding Debt (\$000)  
General Obligation Bonds**

	Principal	Interest
Governmental Activities		
Due in one year	\$ 891	\$ 169
Due in 2 to 6 years	3,598	565
Due in 7 to 11 years	2,920	423
Due in 12 to 16 years	1,465	105
	<u>\$ 8,874</u>	<u>1,261</u>
Business-type Activities		
Due in one year	\$ 202	\$ 24
Due in the next 2 to 6 years	789	53
Due in the next 7 to 10 years	78	5
	<u>\$ 1,069</u>	<u>\$ 82</u>

The City’s governmental activities total debt increased by \$893 (4.07%) and business type activities increased by \$177 (14.29%) during the current fiscal year.

The City maintains an “AA-” rating from Standard & Poor’s for general obligation debt.

The current debt limitation for the City is \$185,188, which is significantly in excess of the City's outstanding general obligation debt. Additional information on the City's long-term debt can be found in Note 9 of this report.

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

- The unemployment rate for the County slightly increased to 9.2% vs. 9.7% in the prior year, consistent with the Connecticut unemployment rate.
- The Connecticut state government has been reporting an anticipated surplus for 2013, which will translate into increased State aid to the City.
- Inflationary trends in the region are comparable to the national indices.

All of these factors were considered in preparing the City's budget for the 2013-2014 fiscal year.

During the current fiscal year, undesignated and unreserved fund balance in the general fund increased to \$1,993. The City has not appropriated any amounts of fund balance for spending in the 2013-2014 fiscal year budget.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City'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 Department, 1 Elizabeth Street, Derby, Connecticut, 06418.

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF DERBY, CONNECTICUT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,358,486	\$ 1,014,409	\$ 5,372,895
Investments	968,590	-	968,590
Receivables:			
Property taxes, net of allowance for collection losses of \$220,000	1,662,784	-	1,662,784
Special assessments, net of allowance for collection losses of \$72,917	-	559,912	559,912
Intergovernmental	727,307	-	727,307
Other	407,540	45,319	452,859
Notes receivable	125,603	-	125,603
Inventories	2,042	-	2,042
Due from other funds	2,595	(2,595)	-
Capital assets (net of accumulated depreciation)			
Land	5,794,955	594,858	6,389,813
Buildings	40,487,194	4,528,135	45,015,329
Machinery and equipment	1,617,954	534,599	2,152,553
Construction in progress	-	-	-
Infrastructure	21,193,344	-	21,193,344
<b>TOTAL ASSETS</b>	<b>\$ 77,348,394</b>	<b>\$ 7,274,637</b>	<b>\$ 84,623,031</b>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 2,248,432	\$ 169,763	\$ 2,418,195
Deferred revenue - grants	638,036	-	638,036
Bonds anticipation notes	9,359,000	-	9,359,000
Notes Payable:			
Due within one year	1,761,299	254,844	2,016,143
Due in more than one year	21,060,918	1,161,234	22,222,152
<b>TOTAL LIABILITIES</b>	<b>35,067,685</b>	<b>1,585,841</b>	<b>36,653,526</b>
<b>NET POSITION</b>			
Investment in capital assets, net of related debt	49,862,981	4,241,514	54,104,495
Restricted for:			
Inventories	7,542	-	7,542
Unrestricted:			
Net position	(7,589,814)	1,447,282	(6,142,532)
<b>TOTAL NET POSITION</b>	<b>42,280,709</b>	<b>5,688,796</b>	<b>47,969,505</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 77,348,394</b>	<b>\$ 7,274,637</b>	<b>\$ 84,623,031</b>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>PRIMARY GOVERNMENT</b>			
Governmental activities:			
General government	\$ (11,861,498)	\$ 1,194,555	\$ 1,075,559
Public works	(4,081,677)	775	-
Public safety	(4,626,880)	425,189	-
Culture and recreation	(1,180,095)	25,070	10
Health and welfare	(1,096,954)	238,786	550,797
Education	(20,219,531)	-	10,566,844
Capital outlay	(729,307)	-	256
Debt service	(497,395)	-	-
TOTAL GOVERNMENTAL ACTIVITIES	(44,293,337)	1,884,375	12,193,466
<b>TOTAL BUSINESS-TYPE ACTIVITIES- SEWER AND PARKING AUTHORITY</b>			
	(2,239,987)	3,073,425	-
TOTAL PRIMARY GOVERNMENT	<u>\$ (46,533,324)</u>	<u>\$ 4,957,800</u>	<u>\$ 12,193,466</u>

**GENERAL REVENUES**

Property taxes  
Grants and contributions not restricted to specific programs  
Unrestricted investment earnings

TOTAL GENERAL REVENUES  
CHANGE IN NET POSITION  
NET POSITION AT JULY 1, 2012  
NET POSITION AT JUNE 30, 2013

See notes to financial statements.

Net (Expense) Revenue and  
Changes in Net Assets  
Primary Government

Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
\$ 378,188	\$ (9,213,196)		\$ (9,213,196)
1,071,096	(3,009,806)		(3,009,806)
-	(4,201,691)		(4,201,691)
-	(1,155,015)		(1,155,015)
-	(307,371)		(307,371)
-	(9,652,687)		(9,652,687)
-	(729,051)		(729,051)
-	(497,395)		(497,395)
<u>1,449,284</u>	<u>(28,766,212)</u>		<u>(28,766,212)</u>
-	-	\$ 833,438	833,438
<u>\$ 1,449,284</u>	<u>(28,766,212)</u>	833,438	<u>(27,932,774)</u>
	26,567,456	-	26,567,456
	2,484,372	-	2,484,372
	<u>123,977</u>	<u>817</u>	<u>124,794</u>
	29,175,805	817	29,176,622
	409,593	834,255	1,243,848
	<u>41,871,116</u>	<u>4,854,541</u>	<u>46,725,657</u>
	<u>\$ 42,280,709</u>	<u>\$ 5,688,796</u>	<u>\$ 47,969,505</u>

**CITY OF DERBY, CONNECTICUT**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**JUNE 30, 2013**

	General	Library Endowment Fund	Middle School Building Project	System-wide School Capital Improvements	Other Governmental Funds	Totals Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,397,992	\$ 10,665	\$ 13,318	\$ 15,102	\$ 921,408	\$ 4,358,485
Investments	-	968,590	-	-	-	968,590
Receivables:						
Property taxes, net of allowance of \$220,000	1,662,784		-	-	-	1,662,784
Intergovernmental	195,475		-	-	89,014	284,489
Other	407,540		-	-	125,602	533,142
Inventories	-		-	-	2,042	2,042
Due from other funds	84,964	-	-	22,254	182,821	290,039
<b>TOTAL ASSETS</b>	<b>\$ 5,748,755</b>	<b>\$ 979,255</b>	<b>\$ 13,318</b>	<b>\$ 37,356</b>	<b>\$ 1,320,887</b>	<b>\$ 8,099,571</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Accounts payable and accrued liabilities	\$ 1,846,904	\$ -	\$ 184,319	\$ -	\$ 217,208	\$ 2,248,431
Deferred revenue-taxes	1,497,066	-	-	-	-	1,497,066
Deferred revenue-grants	355,291	-	-	-	282,745	638,036
Bond anticipation notes payable	-	-	9,359,000	-	-	9,359,000
Due to other funds	56,251	-	28,675	-	202,519	287,445
<b>TOTAL LIABILITIES</b>	<b>3,755,512</b>	<b>-</b>	<b>9,571,994</b>	<b>-</b>	<b>702,472</b>	<b>14,029,978</b>
<b>FUND BALANCES(DEFICITS)</b>						
Nonspendable	-	-	-	-	7,542	7,542
Restricted	-	-	-	37,356	564,373	601,729
Assigned	-	979,255	-	-	148,803	1,128,058
Unassigned	1,993,243	-	(9,558,676)	-	(102,303)	(7,667,736)
<b>TOTAL FUND BALANCES(DEFICIT)</b>	<b>1,993,243</b>	<b>979,255</b>	<b>(9,558,676)</b>	<b>37,356</b>	<b>618,415</b>	<b>(5,930,407)</b>
<b>TOTAL LIABILITES AND FUND BALANCES</b>	<b>\$ 5,748,755</b>	<b>\$ 979,255</b>	<b>\$ 13,318</b>	<b>\$ 37,356</b>	<b>\$ 1,320,887</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	69,093,447
Long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.	1,939,886
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(22,822,217)
Net position of governmental activities	<b>\$ 42,280,709</b>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES – GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2013**

	General	Library Endowment Fund	Middle School Building Project	System-wide School Capital Improvements	Other Governmental Funds	Totals Governmental Funds
<b>REVENUES</b>						
Property taxes	\$26,187,739	\$ -	\$ -	\$ -	\$ -	\$ 26,187,739
Interest and lien fees	264,490	-	-	-	-	264,490
Intergovernmental	13,667,576	-	-	-	1,497,002	15,164,578
City departments	2,551,992	-	-	-	238,786	2,790,778
Net increase in fair market value of investments	-	68,892	-	-	-	68,892
Other	-	55,175	-	-	700	55,875
Investment income	334	18	-	24	54,974	55,350
<b>TOTAL REVENUES</b>	<u>42,672,131</u>	<u>124,085</u>	<u>-</u>	<u>24</u>	<u>1,791,462</u>	<u>44,587,702</u>
<b>EXPENDITURES</b>						
Current:						
General government	10,407,716	-	-	-	70,078	10,477,794
Public safety	4,338,707	-	-	-	-	4,338,707
Public works	4,207,742	-	-	-	-	4,207,742
Culture and recreation	866,673	1,757	-	-	-	868,430
Health and welfare	336,779	-	-	-	727,446	1,064,225
Board of education-operations	17,585,588	-	-	-	-	17,585,588
Board of education-grants	1,728,738	-	-	-	-	1,728,738
Capital outlay	957,499	-	80,508	-	1,051,584	2,089,591
Debt service:						
Principal retirement	972,300	-	-	-	-	972,300
Interest on bonds	429,100	-	-	-	-	429,100
<b>TOTAL EXPENDITURES</b>	<u>41,830,842</u>	<u>1,757</u>	<u>80,508</u>	<u>-</u>	<u>1,849,108</u>	<u>43,762,215</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>841,289</u>	<u>122,328</u>	<u>(80,508)</u>	<u>24</u>	<u>(57,646)</u>	<u>825,487</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	-	-	446,319	-	44,324	490,643
Operating transfers out	(490,643)	-	-	-	-	(490,643)
<b>TOTAL OTHER FINANCING (USES) SOURCES</b>	<u>(490,643)</u>	<u>-</u>	<u>446,319</u>	<u>-</u>	<u>44,324</u>	<u>-</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>						
	350,646	122,328	365,811	24	(13,322)	825,487
Fund balance(deficit) at July 1, 2012	1,642,597	856,927	(9,924,487)	\$ 37,332	631,737	(6,755,894)
<b>FUND BALANCES (DEFICIT)</b>						
<b>AT JUNE 30, 2013</b>	<u>\$ 1,993,243</u>	<u>\$ 979,255</u>	<u>\$ (9,558,676)</u>	<u>\$ 37,356</u>	<u>\$ 618,415</u>	<u>\$ (5,930,407)</u>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013**

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

Net change in fund balances - total governmental funds	\$	825,487
<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 exceeded depreciation in the current period.</p>		
		361,626
<p>Revenues that are reported as in the year revenues provide current financial resources to governmental funds.</p>		
		115,229
<p>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, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		<u>(892,749)</u>
Change in Net Position	\$	<u>409,593</u>

See notes to financial statements.



**CITY OF DERBY, CONNECTICUT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL –  
GENERAL FUND  
YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original Budget	Final Budget		Final Budget- Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ 26,098,290	\$ 26,098,290	\$ 26,187,739	\$ 89,449
Interest and lien fees	50,000	50,000	264,490	214,490
Intergovernmental	9,192,929	11,442,511	11,945,551	503,040
Investment income	-	-	334	334
City departments	1,709,649	2,337,430	2,551,992	214,562
TOTAL REVENUES	37,050,868	39,928,231	40,950,106	1,021,875
<b>EXPENDITURES</b>				
Current				
General government	10,195,433	10,401,356	10,407,716	(6,360)
Public safety	4,244,045	4,475,208	4,338,707	136,501
Public works	2,917,284	4,568,568	4,207,742	360,826
Culture and recreation	891,591	908,507	866,673	41,834
Health and welfare	349,247	364,790	336,779	28,011
Board of Education-operations	15,858,944	15,858,944	15,863,563	(4,619)
Board of Education-grants	-	-	1,728,738	(1,728,738)
Capital outlay	450,000	1,206,534	957,499	249,035
Debt service				
Principal retirements	1,206,682	1,206,682	972,300	234,382
Interest on bonds	446,999	446,999	429,100	17,899
TOTAL EXPENDITURES	36,560,225	39,437,588	40,108,817	(671,229)
EXCESS OF REVENUES OVER EXPENDITURES	490,643	490,643	841,289	350,646
<b>OTHER FINANCING USES</b>				
Operating transfers out	490,643	490,643	(490,643)	-
TOTAL OTHER FINANCING USES	490,643	490,643	(490,643)	-
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES</b>				
	\$ -	\$ -	350,646	\$ 350,646
Fund balance at July 1, 2012			1,642,597	
FUND BALANCE AT JUNE 30, 2013			\$ 1,993,243	

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2013**

		Business-type Activities - Enterprise Funds		
		Water Pollution Control Authority	Parking Authority	Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$	888,687	\$ 125,722	\$ 1,014,409
Sewer assessments receivable (net of allowance for uncollectible of \$3232)		559,912	-	559,912
Accounts receivable		25,951	19,368	45,319
<b>TOTAL CURRENT ASSETS</b>		1,474,550	145,090	1,619,640
 <b>CAPITAL ASSETS (net of accumulated depreciation)</b>				
Land		212,500	382,358	594,858
Buildings		4,341,060	187,075	4,528,135
Machinery and equipment		503,425	31,174	534,599
		5,056,985	600,607	5,657,592
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>6,531,535</b>	<b>\$ 745,697</b>	<b>\$ 7,277,232</b>
 <b>LIABILITIES AND NET POSITION</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$	167,753	\$ 2,010	\$ 169,763
Due to other funds		-	2,595	2,595
Capital lease-current portion		53,072	-	53,072
Bonds and loan payable-current portion		201,772	-	201,772
<b>TOTAL CURRENT LIABILITIES</b>		422,597	4,605	427,202
 <b>NONCURRENT LIABILITIES</b>				
Capital lease		294,026	-	294,026
Bonds and loan payable		867,208	-	867,208
<b>TOTAL LIABILITIES</b>		1,583,831	4,605	1,588,436
 <b>NET POSITION</b>				
Investment in capital assets, net of related debt		3,988,005	600,607	4,588,612
Unrestricted		959,699	140,485	1,100,184
<b>TOTAL NET POSITION</b>		4,947,704	741,092	5,688,796
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$</b>	<b>6,531,535</b>	<b>\$ 745,697</b>	<b>\$ 7,277,232</b>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2013**

	<u>Business Type Activities- Enterprise Funds</u>		
	<u>Water Pollution</u>	<u>Parking</u>	
	<u>Control Authority</u>	<u>Authority</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Sewer usage fees	\$ 2,503,178	\$ -	\$2,503,178
Rental and fees	-	224,452	224,452
Other revenues	143,657	-	143,657
Interest and lien fees	120,958	-	120,958
Total operating revenues	<u>2,767,793</u>	<u>224,452</u>	<u>2,992,245</u>
<b>OPERATING EXPENSES</b>			
	<u>1,982,407</u>	<u>228,530</u>	<u>2,210,937</u>
<b>OPERATING INCOME(LOSS)</b>	785,386	(4,078)	781,308
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Grant income	81,180	-	81,180
Interest income	440	377	817
Interest expense	<u>(28,600)</u>	<u>(450)</u>	<u>(29,050)</u>
Total nonoperating income(expense)	<u>53,020</u>	<u>(73)</u>	<u>52,947</u>
<b>CHANGE IN NET POSITION</b>	838,406	(4,151)	834,255
Net position at July 1, 2012	<u>4,109,298</u>	<u>745,243</u>	<u>4,854,541</u>
<b>NET POSITION AT JUNE 30, 2013</b>	<u>\$ 4,947,704</u>	<u>\$ 741,092</u>	<u>\$5,688,796</u>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2013**

	Business-type Activities - Enterprise Funds		
	Water Pollution Control Authority	Parking Authority	Total
	CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,560,982	\$ 223,609	\$ 2,784,591
Cash payments to suppliers	(1,449,263)	(98,778)	(1,548,041)
Cash payments to employees	(558,044)	(105,247)	(663,291)
NET CASH PROVIDED BY OPERATING ACTIVITIES	553,675	19,584	573,259
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental revenues	81,180	-	81,180
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES			
Purchase of capital assets	(228,663)	(18,794)	(247,457)
Payment of principal and interest	(198,672)	(450)	(199,122)
NET CASH USED IN CAPITAL AND FINANCING ACTIVITIES	(427,335)	(19,244)	(446,579)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	440	377	817
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	207,960	717	208,677
Cash and cash equivalents at July 1, 2012	680,727	125,005	805,732
Cash and cash equivalents at June 30, 2013	\$ 888,687	\$ 125,722	\$ 1,014,409
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss) from operations	\$ 785,386	\$ (4,078)	\$ 781,308
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	252,557	26,949	279,506
Changes in assets and liabilities:			
Accounts receivable	(206,810)	(843)	(207,653)
Accounts payable	(277,458)	(2,444)	(279,902)
Due to other funds	-	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 553,675	\$ 19,584	\$ 573,259

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2013**

	Pension Trust Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,066,613
Investments, at fair value	10,532,206
Other receivables	33,405
<b>TOTAL ASSETS</b>	<b>\$ 11,632,224</b>
<b>LIABILITIES - other</b>	<b>34,533</b>
<b>NET POSITION HELD IN TRUST FOR</b>	
<b>PENSION BENEFITS AND OTHER PURPOSES</b>	<b>\$ 11,597,691</b>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2013**

	Pension Trust Fund
<b>ADDITIONS</b>	
Contributions	
City of Derby	\$ 572,000
Plan members	-
Total contributions	572,000
Investment income	
Net realized/unrealized gain on investments	942,436
Interest and dividends	349,410
	1,291,846
Less investment management fees	(50,480)
Net investment income	1,241,366
<b>TOTAL ADDITIONS</b>	<b>1,813,366</b>
<b>DEDUCTIONS - benefits and other deductions</b>	<b>692,685</b>
<b>CHANGE IN NET POSITION</b>	<b>1,120,681</b>
Net position held in trust for	
pension benefits at July 1, 2012	10,477,010
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS AT JUNE 30, 2013</b>	<b>\$ 11,597,691</b>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 — REPORTING ENTITY, DESCRIPTION OF FUNDS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The City of Derby, Connecticut, operates under a Mayor/Board of Alderman and Board of Apportionment and Taxation form of Government and provides services as authorized by its Charter including police and fire protection, education services, recreation and parks, health and welfare services and general administrative services.

The accounting policies of the City of Derby conform to generally accepted accounting principles as applicable to governmental units. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. A summary of the more significant policies are stated herein.

The City provides a full range of services including public safety, roads, sanitation, health, social services, culture and recreation, education, planning, zoning, and general administrative services to its residents. The accompanying financial statements confirm to accounting principles generally accepted in the United States of America as applicable to governments.

The reporting entity of the City of Derby, Connecticut includes all funds, account groups, agencies, boards, commissions and authorities over which the City presides. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Derby (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational and/or financial relationship with the City as blended component units.

The Water Pollution Control Authority (WPCA) of the City of Derby is an entity legally separate from the City, and is governed by a ten member board (Board of Apportionment and Taxation). For financial reporting purposes, the WPCA is reported as if it were part of the City's operation because its purpose is to provide sewer usage to the citizens of the City of Derby.

The Parking Authority of the City of Derby is an entity legally separate from the City, and is governed by the Office of the Mayor. For financial reporting purposes, the Parking Authority is reported as if it were part of the City's operations because its purpose is to provide parking to the citizens of the City of Derby.

The City of Derby Pension Plan is an entity legally separate from the City of Derby, and is governed by an eight member board appointed by the City's Mayor and Pension Charter. For financial reporting purposes, the City of Derby Pension Plan is reported as if it were part of the City's operations because its purpose is to provide retirement benefits to employees of the City of Derby.

Complete financial statements for the individual component units may be obtained at the entity's administrative offices as follows:

Derby Water Pollution Control Authority  
1 Elizabeth Street  
Derby, Connecticut 06418

City of Derby Pension Plan  
1 Elizabeth Street  
Derby, Connecticut 06418

The Parking Authority of Derby does not issue separate financial statements.

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

**Implementation of New Accounting Standards**

For the year ended June 30, 2013, the City implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" ("GASB Statement No. 63"). This statement provides financial reporting guidance for these elements first introduced in GASB Concept Statement No.4, "Elements of Financial Statements". Previous financial reporting standards did not include guidance for reporting these financial statement elements, which are distinct from assets and liabilities.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. 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 activities demonstrates the degree to which the direct expenses of a given function or segments 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 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. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general



**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

long-term debt are recorded as fund liabilities when due or when amounts have been accumulated for payments to be made early in the following year. Certain indirect costs are included in the program expense.

Those revenues susceptible to accrual are property taxes, special assessments and interest revenue. Fines, permits and charges for services are not susceptible to accrual because generally they are not measurable until received in cash.

The government reports the following major governmental funds:

- (i) *General Fund* — The General Fund is the general operating fund of the City government. All unrestricted resources except those required to be accounted for in another fund are accounted for in this fund. From this fund are paid general operating expenditures, fixed charges, principal and interest on long-term debt, and capital improvement costs of the City, which are not paid through a special fund.
- (ii) *Middle School Building Project* — The Middle School Building Project is a capital project fund used to account for funds which are principally used for construction of a new middle school.
- (iii) *System-wide School Capital Improvements* – The System-wide School Capital Improvements is a capital project fund used to account for the improvements to the City schools and Board of Education facilities.

The government reports the following major proprietary funds:

- (i) *Water Pollution Control Authority* — The Water Pollution Control Authority accounts for the operations of the City’s wastewater treatment plant. It is independent in terms of its relationship to other City functions. Its operations are financed from special assessments and direct charges to the users of the service.

Additionally, the government reports the following fund types:

- (i) *Pension Trust Funds* — account for the activities of the City’s Public Employee Retirement System defined benefit pension plans, which accumulate resources for pension, benefit payments to qualified employees.
- (ii) *Agency Funds* — account for monies held as a custodian for outside groups and agencies.
- (iii) *Permanent Funds* — account for monies that are legally restricted to the extent that only earnings and not principal may be used that support programs that benefit the government or its citizens.

Interfund activity has been eliminated from the government-wide financial statements except for charges between the government’s sewer function 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.

*Property Taxes* — Property taxes are assessed as of October 1 and are levied on the following July 1. Real estate and personal property taxes are due in two installments on July 1 and the following January 1. Motor vehicle taxes are payable on July 1 and supplemental motor vehicle taxes are payable on January 1. Liens are filed on delinquent real estate taxes within one 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. Property taxes receivable, not expected to be collected within sixty days of year-end are reflected as deferred revenue.

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

*Proprietary Funds* – All proprietary funds are accounted using the accrual basis of accounting. These funds account for operations that are primarily financed through user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operation. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

*Cash Equivalents* — The City considers all highly liquid investments and those with original maturities of three months or less to be cash equivalents.

*Investments* — Investments are stated at fair value. Fair value is determined based on quoted market prices.

*Inventories* — Inventories are stated at the lower of cost or market using the consumption method on the first-in, first-out basis for the Board of Education School Lunch Program.

*Interfund Transactions* — Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditure/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

The three types of interfund transactions and the related accounting policies are as follows:

1. Transactions to reimburse the fund for expenditures made by it for the benefit of another fund. These transactions are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund.
2. Transactions to shift revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them. These transactions are recorded as transfers in to and out of the respective funds.
3. Transactions to record equity contributions between funds. The receiving fund records such transactions as a transfer in and an addition to fund balance. The disbursement fund records the transaction as a transfer out and a reduction of fund balance.

*Capital Assets*— Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business type activities columns in government-wide financial statements.

#### Governmental Activities

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 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 value at the date of donation. The costs

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

of normal maintenance and repairs that do not add to the value of the net 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 of the City are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Building and building improvements	25 – 50 years
Infrastructure	10 – 65 years
Machinery and equipment	5 – 20 years
Licensed vehicles	8 years

Proprietary Fund Types — Property, plant and equipment owned by the Proprietary Funds are recorded based on cost at acquisition or if contributed property, at fair market value at the time of contribution.

Assets capitalized have an original cost of \$1,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20 – 50 years
Sewer System	30 – 50 years

*Deferred Revenue* — Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenue also arises when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

*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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. 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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. As of JUNE 30, 2013, no amounts were required to be reported as deferred outflows/inflows of resources.

*Long-Term Obligations* — In the government-wide financial statements, and proprietary fund types in 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. Bonds payable are reported net of the applicable bond premium or discount.

*Net Position* — Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position on the Statement of Net Position includes, net investment in capital assets, restricted for debt service and special revenue funds. The balance is classified as unrestricted.

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

*Fund Balance* — Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Under this standard, the fund balance classifications are as follows:

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

*Restricted fund balance* — 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. This fund balance classification will be used to report funds that are restricted for capital projects and debt service obligations and for other items contained in the Connecticut statutes.

*Committed fund balance* — amounts that can only be used for specific purposes pursuant to formal action of the City's highest level of decision making authority. The Board of Apportionment and Taxation and the Board of Selectmen are the highest level of decision making authority for the City that can, by the adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, these funds may only be used for the purpose specified unless the Board of Finance and Board of Representatives 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 Board of Apportionment and Taxation and the Board of Selectmen.

*Assigned fund balance* — in the General Fund, will represent amounts constrained by Board of Apportionment and Taxation and the Board of Selectmen for amounts assigned for balancing the subsequent year's budget or the Comptroller for amounts assigned for encumbrances. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. Assigned fund balance in all other governmental funds represents any positive remaining amount after classifying nonspendable, restricted or committed fund balance amounts.

*Unassigned fund balance* — in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities and deferred inflows of resources, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets and deferred outflows of resources.

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, the City considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

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**NOTE 2 — GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Beginning net position for governmental activities was determined as follows:

Fund balances of general, special revenue, capital project funds and permanent fund as of July 1, 2012	\$ (6,755,894)
general fixed assets and infrastructure as of July 1, 2012	100,516,010
Add: school construction grants receivable as of July 1, 2012	442,818
Add: tax revenue receivable as of July 1, 2012	1,381,839
Deduct: accumulated depreciation as of July 1, 2012 on above governmental capital assets	(31,784,189)
Deduct: general obligation bonds payable as of July 1, 2012	(9,760,800)
Deduct: bond premium as of July 1, 2012	(200,450)
Deduct: capital lease payable as of July 1, 2012	(343,067)
Deduct: net pension obligation as of July 1, 2012	(436,007)
Deduct: OPEB obligation as of July 1, 2012	(7,722,824)
Deduct: compensation absences payable and other long-term liabilities as of July 1, 2012	<u>(3,466,320)</u>
NET POSITION AS OF JULY 1, 2012	<u>\$ 41,871,116</u>

**NOTE 3 — 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 are reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$22,822,217 difference are as follows:

Bonds payable	\$ 8,873,500
Bonds premium	183,745
Compensated absences	3,050,677
Net pension obligation	538,266
Other post-employment obligations	9,361,808
Capital leases	413,709
Post-closure landfill	<u>400,512</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 22,822,217</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.

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The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between the net changes in fund balances – total governmental funds and the changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that 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 details of this \$361,626 difference are as follows:

Capital outlay	\$	2,609,074
Depreciation expense		<u>(2,247,448)</u>
Net adjustment to increase net changes in fund balances - total governmental funds, to arrive at changes in net position of governmental activities		<u>\$ 361,626</u>

Another element of that reconciliation states that “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, however, 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 deferred and amortized in the statement of activities.” The details of this \$892,749 difference are as follows:

General obligation debt	\$	3,867,300
Issuance of new bond		(2,980,000)
Bond premium		16,705
Other miscellaneous long-term liabilities		19,996
Capital leases		(70,642)
Net pension obligation		(102,259)
Compensated absences		(4,865)
Other post-employment obligations		<u>(1,638,984)</u>
Net adjustment to decrease net position in fund balances - total governmental funds to arrive at changes in net position of governmental activities		<u>\$ (892,749)</u>

**NOTE 4 — BUDGETS AND BUDGETARY ACCOUNTING**

**General Fund**

The City establishes its budget in accordance with provisions of the Connecticut General Statutes and its Charter. The Charter requires that the Board of Apportionment and Taxation shall lay such taxes as may be required upon the Grand List of the City, which shall have been made according to law, next before the laying of such tax. Each board of the City government and each officer of the City under whose control money is expended shall, on or before the first day of April of each year, submit to said Board an estimate of the amount of money required by such board or such officer for the next ensuing year, giving details as far as practicable. The Board of Apportionment and Taxation, at a meeting thereof to be held in May of each year, shall prepare an estimate of the amounts required by each department of the City government for the ensuing year, giving particulars as far as possible and recommending appropriations for all these expenses for said year and shall cause such estimates forthwith to be published in a newspaper published in New Haven County and having a circulation in said City. The Board of Apportionment and Taxation shall hold a meeting in May in each year, and may adjourn the same

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from time to time to a day not later than the last business day of May and at said meeting, or any adjournment thereof, it shall hear all parties who may desire to be heard relative to any alterations in such estimates and appropriations, and may make any alterations in such estimates and appropriations, and may make such additional appropriations as it shall deem proper. The Board of Apportionment and Taxation, having made such alterations as it may determine, shall prepare a statement of appropriations and tax rates which it proposes to make and levy, and cause the same to be published in a newspaper published in New Haven County and having a circulation in said City, not later than three days after the last business day in May in said year. The Board of Apportionment and Taxation is authorized to make appropriations and lay taxes for all City purposes and for all other purposes required by law and may fix the time when any tax laid by it shall become due and payable. The Board of Apportionment and Taxation shall have no authority to make appropriations in excess of the revenues of the City for any year, and in no case shall the expenses of the City exceed its revenue for any year, except in cases and for purposes for which the City is authorized by special act of general assembly to issue bonds and when bonds are in fact issued. The budget for the current year was adopted by the Board of Apportionment and Taxation and transfers and supplemental appropriations were approved during the year in accordance with provisions of the Connecticut General Statutes and the Charter of the City of Derby.

Annual budgets are prepared and employed for management control for the General Fund. Appropriations typically lapse at year end, except appropriations for capital projects which continue until completion of the project. Supplemental appropriations in the amount of \$2,877,363 were approved by the Board of Apportionment and Taxation during the fiscal year. The budget for the General Fund is presented on a basis consistent with generally accepted accounting principles.

The level of control for the General Fund is the legally adopted budget at the department/major activity level which is authorized by Charter. The level of control for Capital Projects Funds is the appropriations at the project level. Total expenditures cannot exceed total appropriations at the department/major activity level or the project authorization, over the length of the project. The level of control for Special Revenue Funds is at the project or program level in accordance with agreement provisions and various budgetary periods.

The City's formal budgeting system is employed as a management control device only for the General Fund and requires accounting for certain transactions to be on a basis other than generally accepted accounting principles (GAAP) basis. The General Fund budget is prepared on the modified accrual basis of accounting. There are two major differences between the budget and GAAP basis. The first is the requirement of the City to report on-behalf contributions made by the State of Connecticut to the Connecticut Teacher's Retirement System, whereas on a budgetary basis these on-behalf payments are not reflected as expenditures. The second is the recording of revenue for items which should be reduction of expenses. A reconciliation between the accounting treatment for these items (the combined statements of revenues, expenditures and changes in fund balance), and the budgetary basis (the statement of revenues, expenditures and changes in fund balance-budget and actual-general fund) is as follows:

	Revenues	Expenditures	Fund Balance
Balance, budgetary basis at June 30, 2013	\$ 40,950,106	\$ 40,108,817	\$ 1,993,243
State Teachers' Retirement on-behalf payments, not recognized for budgetary purposes	1,722,025	1,722,025	-
Balance, GAAP basis at June 30, 2013	\$ 42,672,131	\$ 41,830,842	\$ 1,993,243

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**Encumbrances**

Encumbrances, which are purchase orders, contracts and other legal commitments, are recorded in order to reserve the unexpended portion of the applicable appropriation. In the General Fund, encumbrances outstanding at year end are reported as reservations of fund balance since they do not constitute expenditures or liabilities and provide the authority for the carryover of appropriations to the subsequent year in order to complete these transactions. As of June 30, 2013, there were no encumbrances outstanding.

**Special Revenue Funds**

The City 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 will carryover until completion of the grants.

**Capital Projects Funds**

Legal authorization for expenditures of the Capital Projects Funds is provided by the related bond ordinances and/or intergovernmental grant agreements. Capital appropriations do not lapse until completion of the applicable projects.

**NOTE 5 — DEPOSITS AND INVESTMENTS**

Deposits and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of June 30, 2013:

	Carrying and Fair Values
Deposits	\$ 30,819,101
Money market accounts	1,300,061
Certificates of Deposit	216,827
	\$ 32,335,989

At June 30, 2013, the carrying amount of the City's deposits was \$32,335,989. The bank balances of funds on deposit totaled \$32,514,167. Of the bank balances, \$857,881 was covered by federal depository insurance, \$3,240,629 was protected under provisions of the Connecticut General Statutes, which provide for protection against loss in excess of depository insurance through assessment against segregated collateral required to be maintained by public depositories, but not held in the City's name, and \$28,415,657 was uninsured and uncollateralized.

The level of the City's deposits varies significantly throughout the year as a result of higher cash flows during certain periods. As a result, uninsured and/or uncollateralized amounts at those times were substantially higher than at year-end.

**Investments**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the City Treasurer. Investing is performed in accordance with investment policies adopted by the Board of Aldermen complying with State Statutes and the City Charter.



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The City's investments are categorized as either (1) insured or registered, or securities held by the City or its agency in the City's name, (2) uninsured and unregistered, with securities held by the counterpart's trust department or agent in the City's name or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

The State statutes authorize the City to invest in obligations of the United States, including its agencies, in obligations of any state or of any political subdivision, authority or agency thereof, provided that at the time of investment such obligations are rated within one of the top two rating categories of any recognized rating service; or in obligations of the State of Connecticut or of any political subdivision thereof, provided such obligations are rated within one of the top three rating categories of any recognized rating service.

The pension and other trust funds may also invest in certain real estate mortgages, in certain savings banks or savings and loan associations, in stocks or bonds, or in other securities selected by the trustee with the care of a prudent investor.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City generally invests in certificates of deposit that mature in less than one year and mutual funds. The City follows the State Statutes as its investment policy.

The City's investments at June 30, 2013 are shown below:

	<u>Cost</u>	<u>Carrying and Fair Values</u>	<u>Average Credit Quality Ratings</u>	<u>Weighted Average Maturity (Years)</u>
Library Endowment Fund:				
Mutual funds-Equity	\$ 968,590	\$ 968,590	N/A	N/A
Pension Trust Fund:				
Fixed income:				
Federal National Mortgage Assoc.	218,281.00	215,578	AA+	14.15
Federal Home Loan Mortgage Corp.	396,144	438,342	AAA	1.08
United States Bonds	221,091	262,792	AA+	22.08
United States Treasury Notes	496,827	498,418	AAA	4.83
Municipal bonds	70,738	77,682	AA-	16.87
Corporate bonds and notes	1,501,475	1,547,942	BBB+	8.53
Mutual funds-Fixed	612,797	515,484	N/A	N/A
Mutual funds-Equity				
Columbia Acorn Fund	439,210	563,702	N/A	N/A
Columbia Select Large Cap Growth Fund	1,190,238	1,792,101	*	N/A
Columbia Dividend Income Fund	1,228,625	1,806,502	*	N/A
Mutual funds	<u>2,639,561</u>	<u>2,813,663</u>	N/A	N/A
	<u>9,014,987</u>	<u>10,532,206</u>		
TOTAL	<u>\$ 9,983,577</u>	<u>\$ 11,500,796</u>		

\* represents investments that were greater than 5% of the total investments.

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The City's investments are classified under category 1. Category 1 investments are investments that are insured or registered, or securities held by the City or its agent in the City's name.

**NOTE 6 — INTERFUND ACCOUNTS**

As of June 30, 2013, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
Major:		
General	\$ 84,964	\$ 56,251
Enterprise	-	2,595
Middle School Project	-	28,675
Schoolwide	22,254	-
	107,218	87,521
Nonmajor funds:		
School Lunch	52,251	-
Community Development	4,000	-
Library construction	103,282	6,295
Other capital projects	23,288	168,706
Land acquisition	-	27,517
	182,821	202,518
Total	\$ 290,039	\$ 290,039

The General Fund interfund receivable is due from the Water Pollution Control Authority for current operating expenses reimbursed monthly and from the Capital Projects Funds for advances from/to the General Fund and interest earned by the Capital Projects Funds. These amounts are not expected to be repaid within one year. Capital Projects Funds interfund receivable and payable represent amounts due from/to the other capital projects for operations, and are being repaid as funds become available.

The interfund transfers for the year ended June 30, 2013 is as follows:

Funds	Transfers from Other Funds	Transfers to Other Funds
Major:		
General	\$ -	\$ 490,643
Middle School Project	446,319	-
Schoolwide	-	-
Nonmajor funds:	446,319	490,643
Other Special Revenues	44,324	-
	\$ 490,643	\$ 490,643

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The purpose of the transfers from general fund to Middle School and School Wide Systems is for the repayments of bonds. The transfer to Other Special Revenue is for an annual appropriation from the general fund that is not expected to be repaid.

**NOTE 7 — CAPITAL ASSETS**

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

	Balance July 1, 2012	Additions	Disposal/ Transfers	Balance June 30, 2013
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,794,955	\$ -	\$ -	\$ 5,794,955
Construction in progress	-	-	-	-
Total Capital Assets, not being depreciated	5,794,955	-	-	5,794,955
Capital assets, being depreciated:				
Buildings	53,694,964	863,932	-	54,558,896
Property under capital lease	2,874,050	209,023	-	3,083,073
Rolling equipment	4,147,419	59,664	-	4,207,083
Machinery, vehicles and equipment	3,305,024	10,000	-	3,315,024
Infrastructure	30,699,598	1,466,455	-	32,166,053
	94,721,055	2,609,074	-	97,330,129
Less accumulated depreciation for:				
Buildings	12,974,458	1,097,244	-	14,071,702
Property under capital lease	1,722,022	157,188	-	1,879,210
Rolling equipment	3,845,933	102,422	-	3,948,355
Machinery, vehicles and equipment	3,117,222	42,439	-	3,159,661
Infrastructure	10,124,554	848,155	-	10,972,709
	31,784,189	2,247,448	-	34,031,637
Total capital assets, being depreciated, net	62,936,866	361,626	-	63,298,492
Governmental activities capital assets, net	<u>\$ 68,731,821</u>	<u>\$ 361,626</u>	<u>\$ -</u>	<u>\$ 69,093,447</u>

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Depreciation expense by function for the year ended June 30, 2013 is as follows:

Education	\$ 628,829
General	846,122
Public safety	233,426
Public works	305,353
Culture and recreation	233,718
	<u>\$ 2,247,448</u>

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

	Balance July 1, 2012	Additions	Disposal	Balance June 30, 2013
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 594,858	\$ -	\$ -	\$ 594,858
Capital assets, being depreciated:				
Buildings	12,114,579	212,512	-	12,327,091
Machinery, vehicles and equipment	<u>1,158,808</u>	<u>382,043</u>	-	<u>1,540,851</u>
	13,273,387	594,555	-	13,867,942
Less accumulated depreciation for:				
Buildings	7,686,570	112,386	-	7,798,956
Machinery, vehicles and equipment	<u>839,132</u>	<u>167,120</u>	-	<u>1,006,252</u>
	8,525,702	279,506	-	8,805,208
Total capital assets, being depreciated, net	<u>4,747,685</u>	<u>315,049</u>	-	<u>5,062,734</u>
Business-type activities capital assets, net	<u>\$ 5,342,543</u>	<u>\$ 1,060,310</u>	<u>\$ -</u>	<u>\$ 5,657,592</u>

**NOTE 8 – BOND ANTICIPATION NOTES**

Bond anticipation note transactions for the year ended June 30, 2013 were as follows:

Outstanding, July 1, 2012	\$ 9,696,000
New Borrowings	9,359,000
Repayments	<u>9,696,000</u>
Outstanding, June 30, 2013	<u>\$ 9,359,000</u>

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The outstanding balance at June 30, 2013 consists of one bond anticipation note due September 5, 2013 at an interest rate of 1% per annum. Subsequent to June 30, 2013, the bond anticipation note was paid down by \$339,000 and refinanced into one bond anticipation note in the amount of \$9,020,000 due at an interest rate of 1% per annum.

**NOTE 9 — LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions	Decreases	Balance June 30, 2013	Due within One Year
<b>Governmental Activities:</b>					
Refunding-2009	\$ 1,590,800	\$ -	\$ 247,300	\$ 1,343,500	\$ 395,600
Capital improvements	1,404,529	-	1,404,529	-	-
Phase II	1,890,471	-	1,890,471	-	-
General-2007	4,875,000	-	325,000	4,550,000	325,000
General-2013	-	2,980,000	-	2,980,000	170,000
Total	<u>9,760,800</u>	<u>2,980,000</u>	<u>3,867,300</u>	<u>8,873,500</u>	<u>890,600</u>
Bond premium	200,450	-	16,705	183,745	16,705
Capital leases	343,067	209,023	138,381	413,709	195,728
Net pension obligation	436,007	102,259	-	538,266	538,266
OPEB obligation	7,722,824	1,638,984	-	9,361,808	-
Compensated absences	3,045,812	60,577	55,712	3,050,677	100,000
Landfill postclosure care costs	<u>420,508</u>	<u>-</u>	<u>19,996</u>	<u>400,512</u>	<u>20,000</u>
Total governmental activities long-term liabilities	<u>\$ 21,929,468</u>	<u>\$ 4,990,843</u>	<u>\$ 4,098,094</u>	<u>\$ 22,822,217</u>	<u>\$ 1,761,299</u>
<b>Business-type activities:</b>					
Refunding-2009	\$ 339,200	\$ -	\$ 52,700	\$ 286,500	\$ 84,400
Loan payable	899,852	-	117,372	782,480	117,372
Capital lease	<u>-</u>	<u>347,098</u>	<u>-</u>	<u>347,098</u>	<u>53,072</u>
Total Business-type activities long-term liabilities	<u>\$ 1,239,052</u>	<u>\$ 347,098</u>	<u>\$ 170,072</u>	<u>\$ 1,416,078</u>	<u>\$ 254,844</u>

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As of June 30, 2013, the City's outstanding general obligation bonds were as follows:

	Outstanding Amount
Governmental Activities:	
\$2,097,700 serial bond; issue of 2009; due April 2018; effective interest ranging from 3.0%-4.0%	\$ 1,343,500
\$2,980,000 serial bond; issue of 2013; due September 2023; effective interest 2.20%	2,980,000
\$6,190,000 serial bond; issue of 2006; due September 2026; effective interest ranging from 3.5%-5.0%	4,550,000
	8,873,500
Less current portion	890,600
Long term portion	\$ 7,982,900

The governmental activities outstanding debt is funded through the general fund operations.

As of June 30, 2013, the City's outstanding business-type obligation bonds were as follows:

	Outstanding Amount
Business-type activities:	
\$2,097,700 serial bond; issue of 2009; due April 2018; effective interest ranging from 3.0%-4.0%	\$ 286,500
\$2,347,440 note payable in monthly payments of \$9,781 plus interest at 2%, issued February 2001; and due February 2020	782,480
	1,068,980
Less current portion	254,844
Long term portion	\$ 814,136

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Governmental Activities:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 890,600	\$ 169,813	\$ 1,060,413
2015	913,200	158,438	1,071,638
2016	904,000	147,063	1,051,063
2017	894,900	135,688	1,030,588
2018	885,800	123,500	1,009,300
2019	650,000	110,500	760,500
2020	645,000	97,500	742,500
2021	635,000	84,500	719,500
2022	495,000	71,500	566,500
2023	495,000	58,500	553,500
2024	490,000	45,500	535,500
2025	325,000	32,500	357,500
2026	325,000	19,500	344,500
2027	325,000	6,500	331,500
	<u>\$ 8,873,500</u>	<u>\$ 1,261,000</u>	<u>\$ 10,134,500</u>

  

Business-type activities:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 201,772	\$ 24,672	\$ 226,444
2015	169,172	19,792	188,964
2016	168,372	15,891	184,263
2017	167,472	11,503	178,975
2018	166,572	7,151	173,723
2019	117,372	2,837	120,209
2020	78,248	587	78,835
	<u>\$ 1,068,980</u>	<u>\$ 82,433</u>	<u>\$ 1,151,413</u>

The Refunding-2009 bond issue includes an additional \$447,000 which is included in the Derby Water Pollution Control Authority's (Enterprise Fund) financial statements. That portion of the bond issue is also supported by the full faith and credit of the City of Derby, Connecticut. Additionally, upon completion of major improvements to the water pollution control facilities, the Agency issued a note payable to the State of Connecticut, with interest at 3%, due February 29, 2020.

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**Capital Lease Obligations**

The City is obligated, as a lessee, under various capital leases for the acquisition of a fire trucks, other heavy equipment and computer. The following is a schedule of future minimum lease obligations and the net present value of these minimum payments:

	Governmental Activities Payment	Business-Type Activities Payment
Total minimum lease payments for the year ended		
June 30, 2014	\$ 215,040	\$ 65,009
June 30, 2015	120,606	65,009
June 30, 2016	55,464	65,009
June 30, 2017	55,464	65,009
June 30, 2018	-	65,009
June 30, 2019	-	65,009
	446,574	390,054
Less amount representing interest	32,865	42,956
Net present value of lease payments	\$ 413,709	\$ 347,098

**Governmental Activities**

Property and equipment carried at a cost of \$3,083,073 with accumulated amortization of \$1,879,210 has been acquired under capital lease arrangements. The monthly payments under these leases were \$13,298 at an interest rate ranging from 5.2% to 6.3%. The capital lease obligations are financed by the general fund.

**Business-Type Activities**

Property and equipment carried at a cost of \$347,098 with accumulated amortization of \$11,570 has been acquired under capital lease arrangement. The annual required payments under these leases were \$65,009 at an interest rate of 3.39%. The capital lease obligation is financed by the Water Pollution Control Authority.

**Compensated Absences**

There is no accrual for compensated absences that are dependent on the performance of future service by employees, or when payments are dependent on future events that are outside the control of the employer and employee. The liability for compensated absences earned but not yet paid is included in the general long-term debt account group. City employees accumulate a limited amount of sick leave until termination of their employment. These amounts are based on length of employment and/or labor contracts. Sick leave is recognized in a governmental fund in the current year to the extent it is paid or the vested amount is expected to be paid with current available resources.



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**Debt Limitation**

The Connecticut General Statutes provide that the City's total outstanding and authorized debt shall not exceed seven times the total tax collections (including interest and lien fees) and revenues received for tax relief of the elderly for the year ended June 30, 2013 (\$185,187,891), nor shall the total authorized particular purpose debt exceed the individual debt limitations reflected in the table below:

Total tax collections (including interest and lien fees) for the year ended June 30, 2013,	\$ 26,353,532
Reimbursement for revenue loss:	
Tax Relief for Elderly	<u>101,881</u>
	Base <u>\$ 26,455,413</u>

	General Purpose	Schools	Sewers	Urban Renewal	Unfunded Pension
Debt Limitation:					
2 ¼ times base	\$ 59,524,679				
4 ½ times base		\$ 119,049,359			
3 ¾ times base			\$ 99,207,799		
3 ¼ times base				\$ 85,980,092	
3 times base	-	-	-	-	\$ 79,366,239
Total debt limitation	59,524,679	119,049,359	99,207,799	85,980,092	79,366,239
Indebtedness:					
Bonds payable	7,804,520	1,068,980	-	-	-
Bonds authorized and unissued	10,700,000	-	-	-	-
	18,504,520	1,068,980	-	-	-
Debt Limitation in excess of outstanding and authorized debt	\$ 41,020,159	\$ 117,980,379	\$ 99,207,799	\$ 85,980,092	\$ 79,366,239

**CITY OF DERBY, CONNECTICUT**  
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**NOTE 10 – SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City’s two Enterprise Funds account for the rental of parking spaces of the Parking Authority and operation of the Water Pollution Control Authority (WPCA) which are all supported by user charges. Segment information for the year ended June 30, 2013 is as follows:

	Water Pollution Control Authority	Parking Authority	Total Enterprise Funds
Operating Revenues	\$ 2,767,793	\$ 224,452	\$ 2,992,245
Operating Expenses	<u>1,982,407</u>	<u>228,530</u>	<u>2,210,937</u>
Operating Income(Loss)	785,386	(4,078)	781,308
Non-Operating(Expenses) Revenues	<u>53,020</u>	<u>(73)</u>	<u>52,947</u>
Change in Net Position	838,406	(4,151)	834,255
Beginning Net Position	<u>4,109,298</u>	<u>745,243</u>	<u>4,854,541</u>
Ending Net Position	4,947,704	741,092	5,688,796
Net Cash Provided By (Used In):			
Operating Activities	553,675	19,584	573,259
Capital and Financing Activities	81,180	-	81,180
Noncapital Financing Activities	(427,335)	(19,244)	(446,579)
Investing Activities	440	377	817
Beginning Cash and Equivalents	<u>680,727</u>	<u>125,005</u>	<u>805,732</u>
Ending Cash and Equivalents	<u>\$ 888,687</u>	<u>\$ 125,722</u>	<u>\$ 1,014,409</u>

**NOTE 11 – FUND DEFICITS AND EXPENDITURES IN EXCESS OF BUDGETED AMOUNTS**

The following funds had a fund deficit as of June 30, 2013:

Major Funds:	
Middle School Project	<u>\$ 9,558,676</u>
Other Capital Project Funds:	
-Landfill	<u>\$ 99,674</u>
-Roads – Phase I	<u>\$ 33,098</u>

These deficits for Landfill and Roads-Phase I Capital Project Funds will be reduced or eliminated through permanent financing or the receipt of grant funds. The Middle School Project deficit will be eliminated with bond proceeds.

The following expenditure categories within the General Fund exceeded their respective budgets by the amounts indicated:

General Government	<u>\$ 6,360</u>
Board of Education	<u>\$ 4,619</u>
Board of Education	<u>\$ 1,728,738</u>

**CITY OF DERBY, CONNECTICUT  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 12– PENSION PLAN**

**Plan Description**

City Public Employee Retirement System – The City of Derby Pension Plan covers substantially all full-time employees of the City of Derby and its related agencies, except teachers, who are covered by the State Teacher’s Retirement Fund and police employees who are covered by the State Municipal Employees Retirement Fund. The Public Employee Retirement System is the administrator of a single-employer pension plan that was established by the City in accordance with the City charter and state statutes.

As of July 1, 2011, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	66
Active plan participants:	
Vested	73
Nonvested	<u>40</u>
Total Active Participants	<u>113</u>
TOTAL	<u>179</u>

The pension plan provides pension benefits, cost of living allowances, and death and disability benefits. A member may retire after reaching the age of 63 and completing 25 years of service, or after 5 years of service having attained age 65. Also, a member may retire early after reaching age 55 and completing 10 years of service. Employees who retire at or after age 55 with 25 or more years of service are entitled to pension payments equal to 2% of average annual pay during five consecutive highest paid years, times the number of years and completed months of service for which they were employed by the City. For employees who retire early, the normal retirement formula applies except that benefits are reduced one-half percent (.5%) for each month before the normal retirement date that the pension begins.

Employees of the City are required to pay 3.5% of their gross earnings to the pension plan. The payments are deducted from the employee’s wages or salary and remitted by the City to the Public Employee Retirement System on a monthly basis. If an employee leaves the employment of the City before 25 years of service, the accumulated contributions plus earned interest are refunded to the employee or the employee’s designated beneficiary.

For the year ended June 30, 2013, the City’s total payroll for all employees amounted to \$18,013,950 and the City’s total covered payroll amounted to \$4,405,936. Covered payroll refers to all compensation paid by the City to active employees covered by the Derby Public Employee Retirement System on which contributions to the pension plan are based.

**Summary of Significant Accounting Policies and Plan Asset Matters**

The City of Derby Public Employee Retirement System financial statements are prepared on the accrual basis of accounting. Contributions from the City and the City’s employees are recognized as revenue in the period in which employees provide services to the City and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment income is recognized as earned by the pension plan. The net appreciation (depreciation) in the fair value of investments held by the pension plan is recorded as an increase (decrease) to investment income based on the valuation of investments as of July 1, 2011.

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Investments in securities and mutual funds are valued at current market prices. Corporate bond securities are assigned a value based on yields currently available on securities of issuers with credit ratings similar to the securities held by the pension plan. Unrestricted capital stock securities are assigned a value based on quoted market prices. The estimated value assigned to restricted capital stock securities is based on a multiple of current earnings less an appropriate discount. The earnings multiple is based on current multiples and earnings for companies similar to the securities held by the pension plan.

**Funding Status and Progress**

The actuarial pension benefit obligation at June 30, 2013 was computed on a projected unit credit actuarial cost method by the City's actuary using amounts from an actuarial valuation performed as of July 1, 2011. Governmental Accounting Standards Board (GASB) Statement No. 25 requires actuarial valuations to be performed at least biannually, with an actuarial update (estimate) to the date twelve months after the biannual valuation. Therefore, the presentation of July 1, 2011 meets the requirements of GASB Statement No. 25. Significant actuarial assumptions used in the valuation include a rate of return on the investment of present and future assets of 8 percent a year, compounded annually, which includes inflation at 3 percent and projected salary increases at 5 percent a year, compounded annually.

The City must contribute, at a minimum, the normal cost plus interest on the unfunded accrued liability. The actuarial valuation report presents a range of contributions from the minimum to a 15 year amortization of the unfunded accrued liability.

**Contributions Required and Contributions Made**

Employees are required to contribute 3.5% of their monthly salary to the PERS. The City is required to contribute the remaining amounts necessary to finance the required contribution.

Periodic employer contributions to the pension plan are determined on a projected unit credit actuarial cost method. Normal cost is funded on a current basis.

The unfunded actuarial accrued liability is funded over a range of periods. Total employer contributions to the pension plan amounted to \$572,000 in 2013.

The contributed amounts were actuarially determined as described above and were based on an actuarial valuation as of July 1, 2011.

The computation of the pension contribution requirements for June 30, 2013, was based on the same actuarial assumptions, benefit provisions, actuarial funding method, and other significant factors used to determine pension contribution requirements in previous years.

During the fiscal year ended June 30, 1998, the City implemented the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 27, Accounting for Pensions by State and Local Governmental Employers. At the point of transition (July 1, 1997), the City had no pension liability reflected on their financial statements. In accordance with GASB Statement No. 27, the City calculated the potential for recognizing a net pension obligation (NPO).

The calculation of the Annual Pension Cost (APC) and Net Pension Obligation (NPO) is detailed as follows and is recorded in Governmental Activities:

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Actuarially Required Contribution (ARC)	\$	687,000
Interest on NPO		33,791
Adjustment to ARC		<u>(46,532)</u>
Annual Pension Cost (APC)		674,259
Contribution Made		<u>572,000</u>
Decrease in NPO		102,259
NPO beginning of year		<u>436,007</u>
NPO end of year	\$	<u>538,266</u>

Annual Pension Cost and Net Pension Obligation  
Trend Information

Fiscal Year Ending	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension(Obligation)	
			Asset)	Actual Contribution
June 30, 2002	\$ 256,957	90.1%	\$ (8,525)	\$ 231,500
June 30, 2003	256,240	78.1%	47,715	200,000
June 30, 2004	359,855	55.6%	207,570	200,000
June 30, 2005	355,342	70.4%	312,912	250,000
June 30, 2006	352,368	104.9%	295,780	369,500
June 30, 2007	542,151	68.3%	467,683	370,248
June 30, 2008	537,300	102.5%	454,483	550,500
June 30, 2009	476,473	102.7%	441,656	489,300
June 30, 2010	476,834	115.3%	368,490	550,000
June 30, 2011	595,399	92.4%	413,889	550,000
June 30, 2012	605,800	94.4%	437,288	572,000
June 30, 2013	687,000	83.3%	538,266	572,000

**Concentrations**

Investments that represent 5% or more of net position available for benefits are listed in Note 5.

**State Teachers' Retirement Fund**

The State Teachers' Retirement System is administered under the provisions of Chapter 167a of the Connecticut General Statutes. Teachers are required by law to contribute 7.25% of their salary to the State of Connecticut Teachers' Retirement Fund Board. Participation in the plan is restricted to certified teachers 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 plan is mandatory for certified personnel of local Board of Education's who are employed for an average of at least one-half of a school day. A teacher is eligible to receive a normal retirement benefit if the teacher has (1) attained age sixty and has accumulated twenty years of credited service in Connecticut, or (2) attained any age with thirty-five years of credited service, at least twenty-five of which are in Connecticut. The City of Derby is not required to make any

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

contributions to this fund. For the year ended June 30, 2013, the City's total payroll amounted to \$18,013,950 and the City's total covered payroll of teachers amounted to \$8,211,848.

The retirement system for teachers is funded by the State of Connecticut. During the year ended June 30, 2013, the City has recorded intergovernmental revenue and education expenditures in the amount of \$1,722,025, representing payments made by the State on behalf of the City of Derby.

**State Municipal Employees' Retirement Fund (MERF)**

The police employees of the City are covered by the State Municipal Employees Retirement Fund (MERF) with both the City and the police making contributions to this fund. The Municipal Employees' Retirement System (MERF), is a cost sharing multiple-employer, public employee retirement system (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide retirement and disability benefits, annual cost of living adjustments and death benefits to the employees and beneficiaries of participating municipalities. MERF is considered to be a part of the State's financial reporting entity and is included in the State's financial reports as a pension trust fund. These 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.

Plan provisions are set by statute of the State of Connecticut. MERF provides retirement benefits, as well as death and disability benefits. Annual cost of living increases between 3% and 5% are paid to disabled members and non-disabled retired members who have reached age 65. All benefits vest after 10 years of continuous service. Members who retire after age 55 with 10 years of service or after 25 years of service, irrespective of age, are entitled to an annual retirement benefit, payable monthly for life, in an amount for each year of service equal to:

- If covered by social security: 1.5% of the three-year average of earnings not in excess of the year's breakpoint, plus 2% of the three-year average of earnings in excess of the year's breakpoint. The year's breakpoint for 2013 is \$58,100.
- If not covered by social security: 2% of the average of earnings for the three highest paid years of service.

Covered employees are required by state statute to contribute 2 1/4% of earnings upon which social security tax is paid plus 5% of earnings on which no social security tax is paid. Each municipality is required to contribute the amounts necessary to finance the remaining costs of the plan.

The City's required contribution to MERF for the year ended June 30, 2013 amounted to \$579,865.

**NOTE 13 - POST-RETIREMENT BENEFITS**

The City provides post-retirement benefits for certain employees for current and future health and life insurance benefit expenses through a single-employer defined benefit plan. An annual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. The latest actuarial valuation was made July, 1, 2012. The post-retirement plan does not issue standalone financial reports. From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2009, the City recognizes the cost of post-employment healthcare in the year when the employee services are received, reports

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

The contribution requirements of plan members and the City are established and may be amended by the City. The City determines the required contribution using the Projected Unit Credit Method.

Membership in the plan consisted of the following at July 1, 2012, the date of the last actuarial valuation.

Retirees and beneficiaries receiving benefits	114
Active plan members	<u>269</u>
Total	<u>383</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation was as follows:

Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Contributed	Net OPEB Obligation
June 30, 2013	\$ 2,427,060	788,076	32.5%	\$ 9,361,808
June 30, 2012	\$ 2,407,275	764,590	31.8%	\$ 7,722,824
June 30, 2011	\$ 3,117,544	1,111,574	35.7%	\$ 6,080,140

The calculation of the Net Other Post-Employment Benefits (OPEB) is detailed as follows and is recorded in Governmental Activities:

Annual required contribution	\$ 2,547,670
Interest on net pension asset	308,913
Adjustment to ARC	<u>(429,523)</u>
Annual OPEB cost	<u>2,427,060</u>
Contributions made	788,076
Increase in net OPEB liability	<u>1,638,984</u>
Net OPEB obligation, beginning of year	<u>7,722,824</u>
Net OPEB obligation, end of year	<u>\$ 9,361,808</u>

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The schedule of funding progress is as follows:

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAL) (b)-(a)	Funded Ratio (a/b)	Covered payroll (c)	Unfunded UAL as a % of covered payroll ((b-a)/c)
7/1/2012	\$ -	\$ 27,332,100	\$27,332,100	0%	\$14,583,700	187%
7/1/2010	\$ -	\$ 24,088,600	\$24,088,600	0%	\$15,002,000	161%
7/1/2008	\$ -	\$ 28,984,119	\$28,984,119	0%	\$14,840,533	195%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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 valuations follows:

Valuation date	July 01, 2012
Actuarial cost method	Projected Unit Credit
Amortization method Actuarial accrued liability	30 Year Level Dollar, Open
Remaining amortization period	30 Year
Asset valuation method	Market Value
Actuarial assumptions Investment rate of return	4.00%
Inflation rate	5.00%

Health cost trend rates

Annual increases in premium for retired medical and prescription drug benefits are assumed to be as follows:

<u>Year After Valuation Date</u>	<u>Increase</u>
1	10%
2	9%
3	8%
4	7%
5	6%
6	5%
7or more	5%



**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES**

The City of Derby, Connecticut is contingently liable in a number of lawsuits involving personal injury claims, heart and hypertension, tax appeals, negligence, zoning, personnel, and other miscellaneous suits and unasserted claims. It is the opinion of Corporation Counsel that such pending litigation against the City not covered by insurance amounted to \$750,000 of which is accrued as a liability in the general fund as of June 30, 2013.

The City has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. The audits of these programs by the grantor agencies could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the grant. Based upon prior experience, City management believes such disallowances, if any, will not be material.

**Construction Commitments**

The fund balances in the Capital Project Funds will be used for future construction and renovation.

**NOTE 15 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and medical claims and natural disasters. The City carries commercial insurance for these risks. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the three prior years.

**NOTE 16 – CLOSURE AND POSTCLOSURE CARE COSTS**

State and federal laws and regulations require that the City of Derby place a final cover on its landfill when it was closed, and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The recognition of these landfill closure and postclosure care costs is based on the amount of landfill used during the year. The estimated remaining cost of the postclosure care is \$400,512, which is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, maintain the landfill and construct a transfer station were completed as of June 30, 2013. The actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The landfill closure costs of \$1,100,000 was financed by general obligation bonds of \$300,000 issued during fiscal year ended June 30, 1995, and by State grants estimated at \$800,000. These landfill grants and postclosure costs have been included in Other Governmental Funds.

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 17 – SELF INSURANCE**

The City is self-insured for liabilities for most health benefits, third-party claims, and workers' compensation which is accounted for in the general fund. The Risk Management office actively manages risk on behalf of the City, through a combination of loss prevention and control, risk retention and risk transfer. The City continually evaluates its risk management program, including its self-insured retention levels, claims frequency and loss trends. Currently, there is a stop loss limit on claim exceeding \$100,000. A reconciliation of changes in the aggregate liabilities for claims (including IBNR claims) for the current fiscal year and the prior fiscal year is as follows:

	Year ended	
	June 30, 2012	June 30, 2013
Amount of claims liabilities at the beginning of the fiscal year	\$ -	\$ 263,000
Incurred claims	4,393,558	3,391,571
Payments on claims	4,130,558	3,368,111
Amount of claims liabilities at the end of the fiscal year	\$ 263,000	\$ 286,460

**NOTE 18 – SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 19, 2014, the date of the financial statements were available to be issued.

**CITY OF DERBY, CONNECTICUT  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2013**

**PUBLIC EMPLOYEE RETIREMENT SYSTEM  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED	ACTUAL CONTRIBUTION
2002	\$256,000	90%	\$231,500
2003	256,000	78%	200,000
2004	361,200	55%	200,000
2005	361,200	69%	250,000
2006	361,200	102%	369,500
2007	550,500	67%	370,248
2008	550,000	100%	550,500
2009	489,300	100%	489,300
2010	489,300	112%	550,000
2011	605,800	91%	\$550,000
2012	605,800	94%	\$572,000
2013	687,000	83%	\$572,000

**PUBLIC EMPLOYEE RETIREMENT SYSTEM  
SCHEDULE OF FUNDING PROGRESS**

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (AAL) (B)	UNFUNDED AAL (UAAL) (B-A)	FUNDED RATIO (A/B)	COVERED PAYROLL (c)	UAAL AS A PERCENT OF COVERED PAYROLL ((B-A)/C)
JULY 1, 2002	N/A	N/A				
JULY 1, 2003	\$7,259,660	\$7,518,625	258,965	96.6%	3,114,027	8.3%
JULY 1, 2004	N/A	N/A				
JULY 1, 2005	N/A	N/A				
JULY 1, 2006	\$7,249,682	\$9,105,039	1,855,357	79.6%	3,063,631	60.6%
JULY 1, 2007	\$8,281,124	\$9,359,566	1,078,442	90.9%	3,506,172	30.8%
JULY 1, 2008	N/A	N/A				
JULY 1, 2009	\$8,968,572	\$10,602,983	\$1,634,411	84.6%	\$4,189,263	39.0%
JULY 1, 2010	N/A	N/A				
JULY 1, 2011	\$9,427,786	\$11,634,282	\$2,206,496	81.0%	\$4,405,936	50.1%
JULY 1, 2012	N/A	N/A				

**SUPPLEMENTAL INFORMATION**  
**NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF DERBY, CONNECTICUT  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010**

**SPECIAL REVENUE FUNDS**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

*School Lunch* — is used to account for a school lunch program and the federal and state grants that are included within that program.

*Library Endowment Fund* — is used to account for the investments assigned for library operations and improvements.

*Community Development* — is used to account for community development block grants/small cities program funds which are principally used for developing viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income

*Other Special Revenue Funds* — are used to account for the smaller special revenue programs not classified anywhere else.

**CAPITAL PROJECTS FUNDS**

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

*Library Construction* — is used to account for library improvements.

*Land Acquisition* — is used to account for acquisition of land designated by the City for conservation

*Phase III Roadways* — is used to account for pavement reconstruction and storm drainage improvements to repairs to certain City streets.

*Other Capital Project Funds* — are used to account for the smaller capital programs not classified anywhere else.

**PERMANENT FUNDS**

*Permanent Funds* — are used to account restricted funds where only the income of those funds is restricted by a donor for a particular purpose.

**CITY OF DERBY, CONNECTICUT**  
**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2013**

	Special Revenue		
	School Lunch	Community Development	Other Special Revenue Funds
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 38,368	\$ 250,150	\$ 89,371
Investments	-	-	-
Receivables - intergovernmental	89,014	-	-
Receivables - other	-	125,602	-
Inventory	2,042	-	-
Due from other funds	52,251	4,000	-
<b>TOTAL ASSETS</b>	<b>\$ 181,675</b>	<b>\$ 379,752</b>	<b>\$ 89,371</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 163,686	\$ 50,950	\$ 2,572
Deferred revenue	-	270,587	12,158
Due to other funds	-	-	-
<b>TOTAL LIABILITIES</b>	<b>163,686</b>	<b>321,537</b>	<b>14,730</b>
<b>FUND BALANCES (DEFICIT)</b>			
Nonspendable	2,042	-	-
Restricted	-	-	-
Assigned	15,947	58,215	74,641
Unassigned	-	-	-
Total fund balances (deficits)	17,989	58,215	74,641
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 181,675</b>	<b>\$ 379,752</b>	<b>\$ 89,371</b>

**CITY OF DERBY, CONNECTICUT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES (DEFICITS) - NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2013**

<b>REVENUES</b>			
Federal and State government	\$ 462,058	\$ 1,025,974	\$ 8,970
Charges for services	234,828	-	3,958
Net increase in fair market value of investments	-	-	-
Other	-	-	700
Interest on investments	-	54,730	3
<b>TOTAL REVENUES</b>	<b>696,886</b>	<b>1,080,704</b>	<b>13,631</b>
<b>EXPENDITURES</b>			
General government	-	-	70,078
Culture and recreation	-	-	-
Health and welfare	727,446	-	-
Capital outlay	-	1,024,265	-
<b>TOTAL EXPENDITURES</b>	<b>727,446</b>	<b>1,024,265</b>	<b>70,078</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>			
	(30,560)	56,439	(56,447)
<b>OTHER FINANCING SOURCES - Operating transfers in</b>			
	-	-	44,324
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>			
	(30,560)	56,439	(12,123)
Fund balance(deficit) at July 1, 2012	48,549	1,776	86,764
<b>FUND BALANCES (DEFICIT) AT JUNE 30, 2013</b>	<b>\$ 17,989</b>	<b>\$ 58,215</b>	<b>\$ 74,641</b>

Capital Projects

Library Construction	Land Acquisitions	Phase III Roadways	Other Capital Project Funds	Permanent Funds	Total
\$ 9,010	\$ 85,584	\$ 400,310	\$ 43,115	\$ 5,500	\$ 921,408
-	-	-	-	-	-
-	-	-	-	-	89,014
-	-	-	-	-	125,602
-	-	-	-	-	2,042
<u>103,282</u>	<u>-</u>	<u>-</u>	<u>23,288</u>	<u>-</u>	<u>182,821</u>
<u>\$ 112,292</u>	<u>\$ 85,584</u>	<u>\$ 400,310</u>	<u>\$ 66,403</u>	<u>\$ 5,500</u>	<u>\$ 1,320,887</u>
\$ -	\$ -	-	\$ -	\$ -	\$ 217,208
-	-	-	-	-	282,745
<u>6,296</u>	<u>27,517</u>	<u>-</u>	<u>168,706</u>	<u>-</u>	<u>202,519</u>
<u>6,296</u>	<u>27,517</u>	<u>-</u>	<u>168,706</u>	<u>-</u>	<u>702,472</u>
-	-	-	-	5,500	7,542
105,996	58,067	400,310	-	-	564,373
-	-	-	-	-	148,803
-	-	-	(102,303)	-	(102,303)
<u>105,996</u>	<u>58,067</u>	<u>400,310</u>	<u>(102,303)</u>	<u>5,500</u>	<u>618,415</u>
<u>\$ 112,292</u>	<u>\$ 85,584</u>	<u>\$ 400,310</u>	<u>\$ 66,403</u>	<u>\$ 5,500</u>	<u>\$ 1,320,887</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,497,002
-	-	-	-	-	238,786
-	-	-	-	-	-
-	-	-	-	-	700
<u>-</u>	<u>213</u>	<u>-</u>	<u>18</u>	<u>10</u>	<u>54,974</u>
<u>-</u>	<u>213</u>	<u>-</u>	<u>18</u>	<u>10</u>	<u>1,791,462</u>
-	-	-	-	-	70,078
-	-	-	-	-	-
-	-	-	-	-	727,446
<u>-</u>	<u>-</u>	<u>20,990</u>	<u>6,329</u>	<u>-</u>	<u>1,051,584</u>
<u>-</u>	<u>-</u>	<u>20,990</u>	<u>6,329</u>	<u>-</u>	<u>1,849,108</u>
-	213	(20,990)	(6,311)	10	(57,646)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,324</u>
-	213	(20,990)	(6,311)	10	(13,322)
<u>105,996</u>	<u>57,854</u>	<u>421,300</u>	<u>(95,992)</u>	<u>5,490</u>	<u>631,737</u>
<u>\$ 105,996</u>	<u>\$ 58,067</u>	<u>\$ 400,310</u>	<u>\$ (102,303)</u>	<u>\$ 5,500</u>	<u>\$ 618,415</u>

**SUPPLEMENTAL INFORMATION**

**FIDUCIARY FUNDS**



**CITY OF DERBY, CONNECTICUT  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2013**

Trust And Agency Funds are used to account for assets held in a trustee capacity for others, and include Pension Trusts, Expendable Trusts, Non-Expendable Trusts and Agency Funds.

City Employees' Retirements Pension Trust Fund — *utilize the accrual basis of accounting and are used for the accumulation of resources to be used for retirement benefits under the Employees' Retirement Plan of the City of Derby.*

*Agency Funds* — utilize the modified accrual basis of accounting. Agency funds are custodial in nature (assets equal liabilities) and are used to account for student activities and school scholarship funds. The City's Agency Funds are listed below:

- Student Scholarship Fund
- Student Activity
- Performance Bonds

**CITY OF DERBY, CONNECTICUT  
COMBINING BALANCE SHEET TRUST AND AGENCY FUNDS  
YEAR ENDED JUNE 30, 2013**

	Agency Funds		
	Pension Trust Fund	School Scholarship Funds	Student Activity
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 1,066,613	\$ 48,657	\$ 106,114
Investments, at fair value	10,532,206	-	-
Other receivables	33,405	-	-
<b>TOTAL ASSETS</b>	<b>\$ 11,632,224</b>	<b>\$ 48,657</b>	<b>\$ 106,114</b>
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Other liabilities	\$ 34,533	\$ 48,657	\$ 106,114
<b>TOTAL CURRENT LIABILITIES</b>	34,533	48,657	106,114
<b>NET POSITION</b>			
Reserved for employee retirement system	11,597,691	-	-
<b>TOTAL NET POSITION</b>	<b>11,597,691</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 11,632,224</b>	<b>\$ 48,657</b>	<b>\$ 106,114</b>

**CITY OF DERBY, CONNECTICUT  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2013**

<b>ADDITIONS</b>	
<b>Contributions</b>	
Employer contributions	
from general fund	\$ 572,000
Employee contributions	-
Total contributions	572,000
<b>Investment income</b>	
Net appreciation in fair value of investments	942,436
Interest and dividends	349,410
	1,291,846
Less investment expenses - investment management fees	50,480
Net investment income	1,241,366
Total additions	1,813,366
<b>DEDUCTIONS</b>	
Benefits and other deductions	692,685
Net change in net assets	1,120,681
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES, Beginning of year</b>	
	10,477,010
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES, End of year</b>	
	<b>\$ 11,597,691</b>

Performance Bonds	Total Agency Funds	Total Fiduciary Funds
\$ 25,741,710	\$ 25,896,481	\$ 26,963,094
-	-	10,532,206
-	-	33,405
<u>\$ 25,741,710</u>	<u>\$ 25,896,481</u>	<u>\$ 37,528,705</u>
\$ 25,741,710	\$ 25,896,481	\$ 25,931,014
25,741,710	25,896,481	25,931,014
-	-	11,597,691
-	-	11,597,691
<u>\$ 25,741,710</u>	<u>\$ 25,896,481</u>	<u>\$ 37,528,705</u>

**CITY OF DERBY, CONNECTICUT  
COMBINING SCHEDULE OF CHANGES IN ASSETS  
AND LIABILITIES – AGENCY FUNDS  
YEAR ENDED JUNE 30, 2013**

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
<b>STUDENT ACTIVITY FUNDS</b>				
<b>ASSETS</b>				
Cash	\$ 147,859	\$ 112,719	\$ 154,464	\$ 106,114
<b>LIABILITIES</b>				
Due to student groups	\$ 147,859	\$ 112,719	\$ 154,464	\$ 106,114
<b>STUDENT SCHOLARSHIP FUNDS</b>				
<b>ASSETS</b>				
Cash	\$ 49,432	\$ 809	\$ 1,584	\$ 48,657
<b>LIABILITIES</b>				
Due to student groups	\$ 49,432	\$ 809	\$ 1,584	\$ 48,657
<b>PERFORMANCE BONDS</b>				
<b>ASSETS</b>				
Cash	\$ 25,741,710	\$ -	\$ -	\$ 25,741,710
<b>LIABILITIES</b>				
Due to developers	\$ 25,741,710	\$ -	\$ -	\$ 25,741,710
<b>TOTAL ALL AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash	\$ 25,939,001	\$ 113,528	\$ 156,048	\$ 25,896,481
Total Assets	\$ 25,939,001	\$ 113,528	\$ 156,048	\$ 25,896,481
<b>LIABILITIES</b>				
Due to student groups	\$ 197,291	\$ 113,528	\$ 156,048	\$ 154,771
Due to developers	25,741,710	-	-	25,741,710
Total Liabilities	\$ 25,939,001	\$ 113,528	\$ 156,048	\$ 25,896,481

## **OTHER SCHEDULES**

**CITY OF DERBY, CONNECTICUT  
SCHEDULE OF PROPERTY TAXES LEVIED,  
COLLECTED AND OUTSTANDING – GENERAL FUND  
YEAR ENDED JUNE 30, 2013**

Grand List Year	Uncollected Taxes July 01, 2012 and Current List	Additions/ (Deductions)	Balance to be Collected
1996	\$ 597	\$ (597)	\$ -
1997	1,002	-	1,002
1998	1,238	-	1,238
1999	1,276	-	1,276
2000	773	-	773
2001	820	-	820
2002	820	-	820
2003	3,235	-	3,235
2004	8,801	(1,241)	7,560
2005	11,915	(742)	11,173
2006	23,041	(2,681)	20,360
2007	89,138	(20,015)	69,123
2008	190,411	(32,908)	157,503
2009	424,125	(22,488)	401,637
2010	861,723	(30,006)	831,717
	<u>1,618,915</u>	<u>(110,678)</u>	<u>1,508,237</u>
2011	<u>26,640,125</u>	<u>(175,441)</u>	<u>26,464,684</u>
	<u>\$ 28,259,040</u>	<u>\$ (286,119)</u>	<u>\$ 27,972,921</u>

**CITY OF DERBY, CONNECTICUT  
SCHEDULE OF SPECIAL ASSESSMENTS  
YEAR ENDED JUNE 30, 2013**

Assessment of:	Uncollected Special Assessments June 30, 2013
1974	
Academy Hill	\$ 1,407
Donna Avenue	1,407
Kindle Lane	3,926
Krakow Street	47,924
Marshall Lane	5,483
Paugassette Road	1,689
Pine Street	3,274
Roosevelt Drive	16,852
Sodom Lane	4,492
	<u>86,454</u>
1976	
David Humphrey's Road	1,626
John Street	3,252
	<u>4,878</u>
1976	
Harrison Avenue	2,700
Water bills	1,716
	<u>4,416</u>
TOTAL	<u>\$ 95,748</u>

Taxes	Collections		Total	Taxes
	Interest	Lien Fees		Receivable June 30, 2013
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	1,002
-	-	-	-	1,238
-	-	-	-	1,276
-	-	-	-	773
-	-	-	-	820
-	-	-	-	820
-	-	-	-	3,235
1,398	587	24	2,009	6,162
2,745	2,953	24	5,722	8,428
4,106	3,636	48	7,790	16,254
16,974	13,413	196	30,583	52,149
42,133	25,604	282	68,019	115,370
115,210	41,023	1,106	157,339	286,427
<u>299,783</u>	<u>64,297</u>	<u>2,023</u>	<u>366,103</u>	<u>531,934</u>
482,349	151,513	3,703	637,565	1,025,888
<u>25,607,788</u>	<u>104,645</u>	<u>3,534</u>	<u>25,715,967</u>	<u>856,896</u>
<u>\$ 26,090,137</u>	<u>\$ 256,158</u>	<u>\$ 7,237</u>	<u>\$ 26,353,532</u>	<u>\$ 1,882,784</u>

**CITY OF DERBY, CONNECTICUT  
SCHEDULE OF NATIONALLY RECOGNIZED MUNICIPAL  
SECURITIES INFORMATION REPOSITORY  
YEAR ENDED JUNE 30, 2013**

Gross Grand List-October 1, 2011	\$ 753,301,431
Net Grand List-October 1, 2011	746,573,451

Ten Largest Taxpayers:	<u>Grand List Assessment</u>
Antinozzi, Peter, Concetta & Justine	\$ 10,777,410
United Illuminating Co.	10,605,970
49 Pershing Drive LLC	9,066,050
Home Depot	8,123,850
500 NHA LLC	7,339,430
Natick CT Derby Realty	5,411,070
Walgreen Eastern Co.	4,301,010
Yankee Gas Services Co.	4,205,580
Opuszynski Jean A	4,145,050
500 NHA LLC	3,644,410

Debt Statement as of June 30, 2013:

Short Term Debt	\$ 9,359,000
Long Term Debt	<u>8,873,500</u>
Total Direct Debt	18,232,500
Less: School construction grants	(442,818)
Water assessments receivable, net of allowance	<u>-</u>
Total Net Direct Debt	<u>\$ 17,789,682</u>

Current Debt Ratios

(Pro Forma)	
Population (2011)*	14,905
Net Grand List(Taxable)-October 1, 2011	\$ 746,573,451
Estimated Full Value (70%)	\$ 753,301,431
Equalized Net Taxable Grand List**	\$ 1,190,337,208
Money Income per Capita (2011)*	\$ 55,478

\* Connecticut Economic Resource Center, Inc. (Cerc)

\*\* State of Connecticut, Office of Policy and Management

	<u>Total Direct Debt</u>	<u>Total Net Direct Debt</u>
Per Capita	1,223	1,194
Ratio to Net Taxable Grand List	2.44%	2.38%
Ratio to Estimated Full Value	2.42%	2.36%
Ratio to Equalized Net Taxable Grand List	1.53%	1.49%
Per Capita to Money Income per Capita	2.20%	2.15%