

## TOWN OF SOUTHBURY, CONNECTICUT

### STATE SINGLE AUDIT REPORT

JUNE 30, 2017

**TOWN OF SOUTHBURY, CONNECTICUT  
STATE SINGLE AUDIT REPORT  
JUNE 30, 2017  
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**Independent Auditors' Report on Compliance for Each Major State Program;  
Report on Internal Control over Compliance; and Report on the Schedule of  
Expenditures of State Financial Assistance Required by the State Single Audit Act**

To the Members of the Board of Finance  
Town of Southbury, Connecticut

**Report on Compliance for Each Major State Program**

We have audited the Town of Southbury, Connecticut's compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of the Town of Southbury, Connecticut's major state programs for the year ended June 30, 2017. The Town of Southbury, Connecticut's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Town of Southbury, Connecticut's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Southbury, Connecticut's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town of Southbury, Connecticut's compliance.

### ***Opinion on Each Major State Program***

In our opinion, the Town of Southbury, Connecticut, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2017.

### ***Report on Internal Control over Compliance***

Management of the Town of Southbury, Connecticut, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Southbury, Connecticut's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Southbury, Connecticut's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Southbury, Connecticut, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Southbury, Connecticut's basic financial statements. We issued our report thereon dated November 28, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
November 28, 2017

**TOWN OF SOUTHURY, CONNECTICUT  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2017**

<b>State Grantor/Pass-Through Grantor/ Program Title</b>	<b>State Grant Program Core-CT Number</b>	<b>Expenditures</b>
<b>Connecticut State Library</b>		
Connecticard Payments	11000-CSL66051-17010	\$ 19,514
Connecticut Education Network	12052-CSL66011-43649	26,120
Historic Document Preservation	12060-CSL66094-35150	<u>4,000</u>
Total Connecticut State Library		<u>49,634</u>
<b>Department of Agriculture</b>		
Agricultural Viability	12060-DAG42710-90456	5,182
Farmland Preservation	12060-DAG42720-90460	<u>103</u>
Total Department of Agriculture		<u>5,285</u>
<b>Department of Transportation</b>		
Bus Operations	12001-DOT57931-12175	17,425
Town Aid Road Grants-Municipal	12052-DOT57131-43455	378,076
Local Transportation Capital Program	13033-DOT57197-43548	<u>2,038,666</u>
Total Department of Transportation		<u>2,434,167</u>
<b>Department of Emergency Services and Public Protection</b>		
2011 Buy Out Program-Flood	12052-DPS32983-43542	<u>381,321</u>
<b>Office of Policy and Management</b>		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OPM20600-17004	171,469
Reimbursement of Property Taxes - Disability Exemption	11000-OPM20600-17011	1,605
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	194,887
Property Tax Relief for Veterans	11000-OPM20600-17024	<u>14,170</u>
Total Office of Policy and Management		<u>382,131</u>
<b>Total State Financial Assistance Before Exempt Programs</b>		<u><b>3,252,538</b></u>

The accompanying notes are an integral part of this schedule

**TOWN OF SOUTHURY, CONNECTICUT  
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2017**

<u>State Grantor/Pass-Through Grantor/ Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
<b>Exempt Programs</b>		
<b>Department of Education</b>		
Education Cost Sharing	11000-SDE64370-17041-82010	\$ <u>3,458,266</u>
<b>Office of Policy and Management</b>		
Municipal Revenue Sharing	12002-OPM20600-17102	404,731
Grants To Towns	12009-OPM20600-17005	<u>37,696</u>
Total Office of Policy and Management		<u>442,427</u>
Total Exempt Programs		<u>3,900,693</u>
<b>Total State Financial Assistance</b>		<b>\$ <u><u>7,153,231</u></u></b>

The accompanying notes are an integral part of this schedule

**TOWN OF SOUTHURY, CONNECTICUT  
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state grant activity of the Town of Southbury, Connecticut, under programs of the State of Connecticut for the year ended June 30, 2017. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. Because the Schedule presents only a selected portion of the operations of the Town of Southbury, Connecticut, it is not intended to, and does not, present the financial position, changes in fund balance, changes in net position or cash flows of the Town of Southbury, Connecticut.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of Southbury, Connecticut, conform to accounting principles generally accepted in the United States of America as applicable to governmental organizations. The information in the Schedule is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Expenditures reported on the Schedule are presented on the modified accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule.





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**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Members of the Board of Finance  
Town of Southbury, Connecticut

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Southbury, Connecticut, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Southbury, Connecticut's basic financial statements, and have issued our report thereon dated November 28, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Southbury, Connecticut's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Southbury, Connecticut's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Southbury, Connecticut's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Southbury, Connecticut's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town of Southbury, Connecticut's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Southbury, Connecticut's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
November 28, 2017

**TOWN OF SOUTHURY, CONNECTICUT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2017**

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**I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes   X   none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes   X   no

**State Financial Assistance**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes   X   none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? \_\_\_\_\_ yes   X   no

The following schedule reflects the major programs included in the audit:

State Grantor and Program	State Core-CT Number	Expenditures
Department of Emergency Services and Public Protection:		
2011 Buy Out Program - Flood	12052-DPS32983-43542	\$ 381,321
Department of Transportation:		
Local Transportation Capital Program	13033-DOT57197-43548	2,038,666
Dollar threshold used to distinguish between type A and type B programs:		\$ 200,000

**II. FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS**

No matters were reported.

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## Independent Auditors' Report

To the Board of Finance  
Town of Southbury, Connecticut

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Southbury, Connecticut, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Southbury, Connecticut's basic financial statements as listed in the table of contents.

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

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

#### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

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

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-3 through A-9, the budgetary comparison information on pages A-43 through A-45 and the pension schedules on pages A-46 through A-48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
November 28, 2017

**TOWN OF SOUTHBURY, CONNECTICUT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

This discussion and analysis of the Town of Southbury, Connecticut's (the Town) financial performance is provided by management to provide an overview of the Town's financial activities for the fiscal year ended June 30, 2017. Please read this MD&A in conjunction with the Town's financial statements, Exhibits I to IX.

**Financial Highlights**

- Net position of our governmental activities increased by \$5.2 million.
- During the year, the Town had \$71.9 million in tax and other revenues for governmental programs.
- Total cost of all of the Town's programs was \$66.7 million with no new programs added this year.
- The General Fund reported a GAAP fund balance this year of \$9.6 million. \$6.7 million of this is assigned, \$0.3 million is nonspendable and \$0.7 million is committed, leaving an unassigned balance of \$1.9 million. The Town anticipates spending \$0.2 million on bridge repairs in 17-18 and \$0.3 million in 18-19. Also approved additional pension funding of \$0.5 million in 17-18.

**Overview of the Financial Statements**

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (Exhibits I and II, respectively) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements are presented in Exhibits III to IX. For governmental activities, these statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

**Government-Wide Financial Statements**

The analysis of the Town as a whole begins on Exhibits I and II. The statement of net position and the statement of activities report information about the Town as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net position and changes to it. The Town's net position, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's capital assets, to assess the overall health of the Town.

In the statement of net position and the statement of activities, the Town reports its activities as follows:

- *Governmental Activities* - The Town's basic services are reported here, including education, general government, public safety, public works, conservation of health and community activities. Property taxes, charges for services, and state and federal grants finance most of these activities.

### **Fund Financial Statements**

The fund financial statements begin with Exhibit III and provide detailed information about the most significant funds, not the Town as a whole. Some funds are required to be established by Charter. However, the Town establishes many other funds to help control and manage financial activities for particular purposes (like the Revaluation Fund) or to show that it is meeting legal responsibilities for using grants and other money (like grants received from the State of Connecticut). The Town's funds are divided into two categories: governmental and fiduciary.

- *Governmental Funds (Exhibits III and IV)* - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation included with the fund financial statements.
- *Proprietary Funds (Exhibits V through VII)* - The Town's short and long-term financial information about the activities the government operates like business, such as the Town's Medical internal service fund, are reported in the proprietary funds. These funds provide the same type of information as the government-wide financial statements, only in more detail.
- *Fiduciary Funds (Exhibits VIII and IX)* - The Town is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the Town's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## **Government-Wide Financial Analysis**

The Town's combined net position increased from a year ago. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental activities.

**TABLE 1  
NET POSITION**

	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
Current and other assets	\$ 25,950,952	\$ 27,018,462
Capital assets, net of accumulated depreciation	91,006,539	88,177,416
Total assets	<u>116,957,491</u>	<u>115,195,878</u>
Deferred outflows of resources	<u>1,786,638</u>	<u>2,386,848</u>
Long-term liabilities outstanding	10,931,291	12,519,435
Other liabilities	3,729,290	6,390,913
Total liabilities	<u>14,660,581</u>	<u>18,910,348</u>
Deferred inflows of resources	<u>294,472</u>	<u>121,131</u>
Net Position:		
Net investment in capital assets	85,550,712	81,692,295
Unrestricted	<u>18,238,364</u>	<u>16,858,952</u>
Total Net Position	<u>\$ 103,789,076</u>	<u>\$ 98,551,247</u>

Net position of the Town's governmental activities increased by 5.3% (\$103.7 million compared to \$98.5 million). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - changed from \$16.9 million at June 30, 2016 to \$18.2 million at the end of this year.

Net position invested in capital assets increased by \$3.86 million. When developers complete developments and turn over roads to the Town, a contribution is recognized along with the contributed asset.



**TABLE 2  
CHANGE IN NET POSITION**

	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
Revenues:		
Program revenues:		
Charges for services	\$ 2,291,669	\$ 2,238,698
Operating grants and contributions	3,868,923	4,349,466
Capital grants and contributions	2,413,245	2,234,228
General revenues:		
Property taxes	61,395,974	60,570,409
Grants and contributions not restricted to specific purposes	1,345,441	634,254
Unrestricted investment earnings	388,105	216,502
Miscellaneous	242,759	258,652
Total revenues	71,946,116	70,502,209
Program expenses:		
General government	8,068,247	7,966,565
Public safety	4,472,966	4,505,336
Public works	5,968,123	5,490,336
Conservation of health	585,436	565,206
Community activities	1,946,018	3,085,348
Education	45,470,046	44,646,554
Debt service	197,451	229,796
Total program expenses	66,708,287	66,489,141
Increase in Net Position	\$ 5,237,829	\$ 4,013,068

The Town's total revenues were \$71.9 million. The total cost of all programs and services was \$66.7 million. Property taxes accounted for 85.3% of all revenues. Revenues from operating grants and contributions, the second largest component, were 5.4%. Education expenses were 68.2% of total expenses.

Table 3 presents the cost of each of the Town's programs - general government, public safety, public works, conservation of health, community activities, education and debt service - as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

**TABLE 3  
GOVERNMENTAL ACTIVITIES**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
General government	\$ 8,068,247	\$ 7,966,565	\$ 7,048,520	\$ 7,066,240
Public safety	4,472,966	4,505,336	3,854,818	3,793,192
Public works	5,968,123	5,490,336	3,156,141	2,047,493
Conservation of health	585,436	565,206	571,776	546,974
Community activities	1,946,018	3,085,348	1,293,964	2,369,541
Education	45,470,046	44,646,554	42,011,780	41,613,513
Debt service	197,451	229,796	197,451	229,796
Totals	<u>\$ 66,708,287</u>	<u>\$ 66,489,141</u>	<u>\$ 58,134,450</u>	<u>\$ 57,666,749</u>

**Town Funds Financial Analysis**

**Governmental Funds**

As the Town completed the year, its governmental funds (as presented in the balance sheet - Exhibit III) reported a combined fund balance of \$20.3 million, which is an increase from last year's total of \$19.0 million. The original budget for 2017 also utilized \$355,471 of the prior year fund balance to balance it.

The Capital Projects Fund balance decreased by \$0.3 million due primarily to road construction. Some significant expenditures were:

Building	\$ 236,223
Equipment	693,214
Infrastructure	3,981,428

The Town's General Fund balance of \$9.6 million reported on Exhibit III differs from the General Fund's budgetary fund balance of \$9.4 million. This is because the governmental fund balance (Exhibit III) does not include \$143,244 of outstanding encumbrances at year end, which are reported as expenditures for budgetary purposes.

## **Capital Asset and Debt Administration**

### **Capital Assets**

At June 30, 2017, the Town had \$91 million invested in a broad range of capital assets, including land, buildings, park facilities, vehicles and equipment, roads and bridges - Table 4. This amount represents a net increase (including additions and deductions) of \$2.8 million over last year.

**TABLE 4  
CAPITAL ASSETS (Net of Depreciation)  
(In Thousands)**

	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
Land	\$ 19,880	\$ 19,676
Buildings and improvements	14,198	14,134
Equipment	5,761	6,213
Infrastructure	45,216	43,735
Construction in progress	<u>5,951</u>	<u>4,420</u>
Totals	<u>\$ 91,006</u>	<u>\$ 88,178</u>

This year's major additions included:

Building	\$ 236,223
Infrastructure	1,419,101
Equipment	1,596,151

The Town's fiscal year 2017-18 capital plan calls for it to spend \$785,000 on vehicles. The Town also appropriated an additional \$2.28 million for road improvements.

More detailed information about the Town's capital assets is presented in Note 1 and Note 5 to the financial statements.

### **Long-Term Debt**

At June 30, 2017, the Town had \$5,390,000 in bonds and notes outstanding versus \$6,410,000 last year - a decrease of \$1,020,000. Bonds of \$1,020,000 were retired this year. The Town refinanced a portion of its long-term debt in July 2012, which resulted in a savings of \$241,585 of interest over the life of the bonds.

The Town's general obligation bond rating continues to carry the Aa2 rating, a rating that has been assigned by national rating agencies to the Town's debt since June 2012. The State limits the amount of general obligation debt that cities can issue based on a formula determined under State Statutes based on type of debt and tax base. The Town's outstanding general obligation debt is significantly below this \$428.2 million state-imposed limit.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Town's long-term liabilities is presented in Note 7 to the financial statements.

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

The Town's elected and appointed officials considered many factors when setting the fiscal year 2016-17 budget tax rates. One of those factors is the economy. The Town's employment growth has been affected by the economic turndown. Unemployment in the Town now stands at 4.6% versus 5.2% a year ago. This compares with the State's unemployment rate of 5.1% and the national rate of 4.5%.

These indicators were taken into account when adopting the General Fund budget for 2017-18. Amounts available for appropriation in the General Fund budget are \$67,629,865, an increase of 1.4% over the final 2017 budget of \$66,686,463. The education budget increased 1.1% while the Town budget increased by 2.1%. Budgeted property tax revenue increased 2.1% from the previous year.

The Town has added no new programs or initiatives in the 2018 budget. The Town has also appropriated \$642,680 of fund balance to balance the 2017-18 budget and anticipates spending \$150,000 for bridge repairs in 17-18 and \$300,000 in 18-19. Also, approved additional pension funding of \$511,000 in 17-18.

If these estimates are realized, the Town's budgetary General Fund balance is expected to decrease by June 30, 2018.

The Town closed its defined benefit pension plan to new employees, except police, effective 7/1/2014. New employees are eligible to participate in a defined contribution plan. The Town will match employee contributions up to 5% of base pay. The employee can contribute up to 10% of their base pay.

## **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, Town of Southbury, 501 Main Street, Southbury, Connecticut 06488.

**TOWN OF SOUTHBURY, CONNECTICUT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<b>Governmental Activities</b>
Assets:	
Cash and cash equivalents	\$ 13,576,631
Investments	9,726,671
Receivables, net	1,940,763
Advance to plan administrator	458,770
Prepaid items	248,117
Capital assets not being depreciated	25,831,029
Capital assets, net of accumulated depreciation	<u>65,175,510</u>
Total assets	<u>116,957,491</u>
Deferred Outflows of Resources:	
Deferred charge on refunding	315,582
Differences between expected and actual experience	110,294
Changes of assumptions	862,997
Net difference between projected and actual earnings on pension plan investments	<u>497,765</u>
Total deferred outflows of resources	<u>1,786,638</u>
Liabilities:	
Accounts and other payables	1,265,361
Unearned revenue	2,463,929
Noncurrent liabilities:	
Due within one year	1,262,107
Due in more than one year	<u>9,669,184</u>
Total liabilities	<u>14,660,581</u>
Deferred Inflows of Resources:	
Differences between expected and actual experience	<u>294,472</u>
Net Position:	
Net investment in capital assets	85,550,712
Unrestricted	<u>18,238,364</u>
Total Net Position	<u>\$ 103,789,076</u>

The accompanying notes are an integral part of the financial statements

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
				Governmental Activities
Governmental activities:				
General government	\$ 8,068,247	\$ 1,013,019	\$ 6,708	\$ (7,048,520)
Public safety	4,472,966	610,511	7,637	(3,854,818)
Public works	5,968,123	126,995	271,742	(3,156,141)
Conservation of health	585,436	13,660		(571,776)
Community activities	1,946,018	527,484	124,570	(1,293,964)
Education	45,470,046		3,458,266	(42,011,780)
Debt service	197,451			(197,451)
<b>Total</b>	<b>\$ 66,708,287</b>	<b>\$ 2,291,669</b>	<b>\$ 3,868,923</b>	<b>\$ 2,413,245</b>
General revenues:				
Property taxes				61,395,974
Grants and contributions not restricted to specific programs				1,345,441
Unrestricted investment earnings				388,105
Miscellaneous				242,759
Total general revenues				<u>63,372,279</u>
Change in net position				5,237,829
Net Position at Beginning of Year				<u>98,551,247</u>
Net Position at End of Year				<u>\$ 103,789,076</u>

The accompany notes are an integral part of the financial statements

TOWN OF SOUTHURY, CONNECTICUT  
 GOVERNMENTAL FUNDS  
 BALANCE SHEET  
 JUNE 30, 2017

	<u>General</u>	<u>Library Gift</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 8,843,593	\$ 643,891	\$ 2,193,125	\$ 1,896,022	\$ 13,576,631
Investments	737,923	2,267,756	6,720,992		9,726,671
Receivables, net	1,167,171		117,429	656,163	1,940,763
Due from other funds	11,373,757	2,812	10,226,832	3,343,540	24,946,941
Other assets	248,117				248,117
Total Assets	<u>\$ 22,370,561</u>	<u>\$ 2,914,459</u>	<u>\$ 19,258,378</u>	<u>\$ 5,895,725</u>	<u>\$ 50,439,123</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities:					
Accounts and other payables	\$ 1,100,032	\$ 25		\$	\$ 1,100,057
Due to other funds	10,666,681	517,797	9,265,713	4,496,750	24,946,941
Unearned revenue			2,463,929		2,463,929
Total liabilities	<u>11,766,713</u>	<u>517,822</u>	<u>11,729,642</u>	<u>4,496,750</u>	<u>28,510,927</u>
Deferred inflows of resources:					
Unavailable revenue - property taxes	667,327				667,327
Unavailable revenue - interest on property taxes	330,504				330,504
Unavailable revenue - loans receivable				602,758	602,758
Total deferred inflows of resources	<u>997,831</u>	<u>-</u>	<u>-</u>	<u>602,758</u>	<u>1,600,589</u>
Fund balances:					
Nonspendable	248,117				248,117
Restricted			8,914,117		8,914,117
Committed	735,232	2,396,637	1,923,367	796,423	5,851,659
Assigned	6,715,924				6,715,924
Unassigned	1,906,744		(3,308,748)	(206)	(1,402,210)
Total fund balances	<u>9,606,017</u>	<u>2,396,637</u>	<u>7,528,736</u>	<u>796,217</u>	<u>20,327,607</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 22,370,561</u>	<u>\$ 2,914,459</u>	<u>\$ 19,258,378</u>	<u>\$ 5,895,725</u>	<u>\$ 50,439,123</u>

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**TOWN OF SOUTHBURY, CONNECTICUT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET (CONTINUED)**  
**JUNE 30, 2017**

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

Amounts reported for governmental activities in the statement of net position (Exhibit I) are different because of the following:

Fund balances - total governmental funds (Exhibit III)	\$ 20,327,607
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Governmental capital assets	\$ 179,915,782	
Less accumulated depreciation	<u>(88,909,243)</u>	
Net capital assets		91,006,539

Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recorded in the funds:

Property tax receivables greater than 60 days	667,327
Interest receivable on property taxes	330,504
Housing and mortgage loans	602,758
Deferred outflows related to differences between expected and actual experience	110,294
Deferred outflows related to the net difference between projected and actual earnings	497,765
Deferred outflows related to changes of assumptions	862,997

Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the statement of net position.

388,913

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Deferred charge on refunding	315,582
Unamortized bond premium	(381,409)
Bonds and notes payable	(5,390,000)
Interest payable on bonds and notes	(95,447)
Compensated absences	(265,937)
Deferred inflows related to pension economic/demographic gains or losses	(294,472)
Net pension liability	<u>(4,893,945)</u>

Net Position of Governmental Activities (Exhibit I)	<u>\$ 103,789,076</u>
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The accompanying notes are an integral part of the financial statements



**TOWN OF SOUTHBURY, CONNECTICUT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>General</u>	<u>Library Gift</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 61,235,925	\$	\$	\$	\$ 61,235,925
Intergovernmental	4,489,954	19,515	2,628,270	462,962	7,600,701
Charges for services	1,593,399			698,270	2,291,669
Income (loss) on investments	67,460	218,886	101,670	89	388,105
Miscellaneous	141,797	33,840	34,950	32,172	242,759
Total revenues	<u>67,528,535</u>	<u>272,241</u>	<u>2,764,890</u>	<u>1,193,493</u>	<u>71,759,159</u>
Expenditures:					
Current:					
General government	7,213,195			77,094	7,290,289
Public safety	3,571,400			349,230	3,920,630
Public works	2,990,979			8,648	2,999,627
Conservation of health	588,729				588,729
Community activities	1,168,271	89,780		195,915	1,453,966
Education	45,470,046				45,470,046
Capital outlay			7,429,713		7,429,713
Debt service	1,241,475				1,241,475
Total expenditures	<u>62,244,095</u>	<u>89,780</u>	<u>7,429,713</u>	<u>630,887</u>	<u>70,394,475</u>
Excess (Deficiency) of Revenues over Expenditures	<u>5,284,440</u>	<u>182,461</u>	<u>(4,664,823)</u>	<u>562,606</u>	<u>1,364,684</u>
Other Financing Sources (Uses):					
Transfers in	102,817		4,406,125	17,426	4,526,368
Transfers out	(3,991,576)			(534,792)	(4,526,368)
Total other financing sources (uses)	<u>(3,888,759)</u>	<u>-</u>	<u>4,406,125</u>	<u>(517,366)</u>	<u>-</u>
Net Change in Fund Balances	1,395,681	182,461	(258,698)	45,240	1,364,684
Fund Balances at Beginning of Year	<u>8,210,336</u>	<u>2,214,176</u>	<u>7,787,434</u>	<u>750,977</u>	<u>18,962,923</u>
Fund Balances at End of Year	<u>\$ 9,606,017</u>	<u>\$ 2,396,637</u>	<u>\$ 7,528,736</u>	<u>\$ 796,217</u>	<u>\$ 20,327,607</u>

(Continued on next page)

**TOWN OF SOUTHBURY, CONNECTICUT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2017**

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Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

Net change in fund balances - total governmental funds (Exhibit IV)	\$ 1,364,684
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Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	6,441,695
Depreciation expense	(3,612,572)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, and revenues recognized in the funds are not reported in the statement of activities:

Property tax receivable - accrual basis change	96,994
Property tax interest and lien revenue - accrual basis change	63,055
Amortization of bond premium	53,846
Mortgage loan receivables	26,907
Change in net pension liability	481,956
Change in deferred inflows amounts related to differences between expected and actual experience	(173,341)
Change in deferred outflows amounts related to differences between expected and actual experience	(52,521)
Change in deferred outflows amounts related to net difference between projected and actual earnings on pension plan investments	(1,107,691)
Change in deferred outflows amounts related to changes in assumptions	604,554

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

Bond principal payments	1,020,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	32,342
Amortization of deferred charge on refunding	(44,550)
Accrued interest	14,728

Internal service funds are used by management to charge costs to individual funds. The net revenue of certain activities of internal services funds is reported with governmental activities.

<u>27,743</u>
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Change in Net Position of Governmental Activities (Exhibit II)	<u>\$ 5,237,829</u>
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The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2017**

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	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
Assets:	
Advance to plan administrators	\$ 458,770
Liabilities:	
Claims incurred but not reported	<u>69,857</u>
Net Position:	
Unrestricted	<u>\$ 388,913</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 JUNE 30, 2017**

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	<b>Governmental Activities Internal Service Funds</b>
Operating Revenues:	
Contributions	\$ <u>1,017,207</u>
Operating Expenses:	
Employee benefits	867,522
Other expenses	<u>121,942</u>
Total operating expenses	<u>989,464</u>
Operating Income (Loss)	27,743
Net Position at Beginning of Year, as Restated	<u>361,170</u>
Net Position at End of Year	\$ <u><u>388,913</u></u>

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 JUNE 30, 2017**

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	<b>Governmental Activities Internal Service Funds</b>
Cash Flows from Operating Activities:	
Cash received from customers and users	\$ 1,017,207
Payment to suppliers	(121,942)
Payments for employee	(895,265)
Net cash provided by (used in) operating activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents at Beginning of Year	<u>-</u>
Cash and Cash Equivalents at End of Year	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ 27,743
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Increase in advance to plan administrators	(37,429)
Increase in incurred but not reported	9,686
Net Cash Provided by (Used in) Operating Activities	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET POSITION  
 JUNE 30, 2017**

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	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
Assets:		
Cash and cash equivalents	\$ 361,314	\$ 86,043
Investments:		
Mutual funds and equities	<u>18,876,719</u>	<u>                    </u>
Total assets	19,238,033	<u>\$ 86,043</u>
Liabilities		
Due to others	<u>                    </u>	<u>\$ 86,043</u>
Net Position:		
Held in Trust for Pension Benefits	<u>\$ 19,238,033</u>	

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FUND NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2017**

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	<b>Pension Trust Fund</b>
	<u>                    </u>
Additions:	
Contributions:	
Plan members	\$ 27,557
Employer	<u>1,119,000</u>
Total contributions	<u>1,146,557</u>
Investment earnings:	
Net change in fair value of investments	1,701,963
Interest and dividends	<u>359,041</u>
Total investment gain (loss)	2,061,004
Less investment expenses:	
Investment management fees	<u>45,396</u>
Net investment gain (loss)	<u>2,015,608</u>
Total additions	<u>3,162,165</u>
Deductions:	
Benefits	763,276
Fees	<u>12,288</u>
Total deductions	<u>775,564</u>
Change in Net Position	2,386,601
Net Position at Beginning of Year	<u>16,851,432</u>
Net Position at End of Year	<u>\$ 19,238,033</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Town of Southbury, Connecticut (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the Town are described below.

**A. Reporting Entity**

The Town was incorporated in 1787. Its legal authority is derived from its Charter, which was adopted in 1975 and most recently amended in 2014. The Town operates under a Board of Selectmen/Board of Finance/Town Meeting form of government. Services provided include street maintenance, recreation, police and fire protection, planning and zoning, community services and health services. The Town is a member of Regional School District #15, which provides education services for all children.

The legislative power of the Town is vested with the Board of Selectmen and the Town Meeting. The Board of Selectmen may enact, amend or repeal ordinances and resolutions. The administration of the Town offices and agencies is the responsibility of the First Selectman.

The Board of Finance is responsible for financial and taxation matters as prescribed by the Charter and Connecticut General Statutes and is responsible for presenting fiscal operating budgets for Town Meeting approval.

The Town has the power to incur indebtedness by issuing bonds or notes as provided by the Connecticut General Statutes.

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.



**C. 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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, charges for services, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

The Town reports the following major governmental funds:

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

The Library Gift Fund is used to account for gifts to the library. The major source of revenue for the fund is from donations.

The Capital Projects Fund is used to account for the financial resources for the acquisition and construction of major capital facilities. The major source of revenue is from bond proceeds and General Fund transfers.

Additionally, the Town reports the following fund types:

The Internal Service Fund is used to account for the Town's self-insurance program for accident and health insurance coverage of Town employees.

The Pension Trust Fund accounts for the activities of the Town of Southbury Pension System, which accumulates resources for pension benefit payments to qualified Town employees.

The Agency Fund accounts for monies held on behalf of employees in the defined contribution plan.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between certain Town functions because the elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**TOWN OF SOUTHURY, CONNECTICUT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include property taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's proprietary funds are charges to the Town and its employees for medical insurance premiums. Operating expenses for the funds include the cost of claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. Unrestricted resources are used in the following order: committed, assigned then unassigned.

**D. Deposits and Investments**

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

State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and certain other investments as described in Note 3.

Investments for the Town are reported at fair value.

**E. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of an allowance for uncollectibles. Allowances for uncollectibles are computed based on historical data.

Property taxes are assessed on property as of October 1. Taxes are billed in the following July and are due in two installments, July 1 and the following January 1. Liens on real property are filed on May 1 following the due date. Interest on delinquent taxes accrues at the rate of 1.5% per month. An amount of \$45,274 has been established as an allowance for uncollectible taxes. At June 30, 2017, this represents 5.5% of all property taxes receivable.

**F. Prepaid Items**

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

**TOWN OF SOUTHBURY, CONNECTICUT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017**

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**G. Capital Assets**

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Building improvements	25-50
Public domain infrastructure	20-50
System infrastructure	20-50
Vehicles	5-15
Office equipment	5-15
Land improvements	10-20

**H. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports a deferred charge on refunding and deferred outflows related to pension in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

**TOWN OF SOUTHBURY, CONNECTICUT  
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In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports a deferred inflow of resources related to pensions in the government-wide statement of net position. A deferred inflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees). Also, for governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from property taxes, interest on property taxes, and long-term loans. These amounts are deferred and recognized as an inflow of resources (revenue) in the period during in which the amounts become available.

**I. Compensated Absences**

Substantially all Town employees, other than those employed less than 20 hours per week or on a seasonal or temporary basis, are allowed to accumulate a limited amount of unused vacation and sick leave until termination of their employment. Upon termination of service, an employee with over six months of service is entitled to payment for unused vacation.

**J. Net Pension Liability**

The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

**K. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any significant applicable bond premium or discount. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

## **L. Fund Equity**

Equity in the government-wide financial statements is defined as “net position” and is classified in the following categories:

### **Net Investment in Capital Assets**

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

### **Restricted Net Position**

Restrictions on net position are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

### **Unrestricted Net Position**

This component consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The equity of the fund financial statements is defined as “fund balance” and is classified in the following categories:

### **Nonspendable Fund Balance**

This represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

### **Restricted Fund Balance**

This represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributors or laws and regulations of their governments.

### **Committed Fund Balance**

This represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority (Board of Finance) through a resolution.

### **Assigned Fund Balance**

This balance represents amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts.

### **Unassigned Fund Balance**

This represents fund balance in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

## **M. Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including disclosures of contingent assets and liabilities and reported revenues expenditures during the fiscal year.

## **2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### **A. Budgetary Information**

The Town adheres to the following procedures in establishing the budget for the General Fund. On the third Monday in May, the Board of Finance submits to a Town Meeting, at which taxpayer comments are obtained, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.

- Prior to July 1, the budget is legally adopted by vote of the Annual Town Meeting.
- The Board of Finance in concurrence with the Board of Selectmen is authorized to make additional appropriations up to \$20,000 to any single agency or department per year. Any appropriation causing the total to exceed or exceeding \$20,000 must be approved by Town Meeting.
- Budgets are adopted on the modified accrual basis of accounting.
- The legal budget is a departmental level budget.
- There were supplemental appropriations of \$887,504 during the year ended June 30, 2017. All additional appropriations were made in accordance with the Charter.

Budgets for Special Revenue Funds are prepared in accordance with the requirements of the various grant agreements and/or provisions which control the expenditure of such funds. Since such budgets are adopted on a program basis, it is not practicable to present the results of budgetary operations at the combined level.

- Capital Projects appropriations for capital and reserve funds are approved in the annual budget. Projects in excess of \$20,000 not in the annual budget are approved at Town Meeting.

All General Fund appropriations lapse at year end. Appropriations for Capital Projects Funds and several Special Revenue Funds are continued until completion of the project, even when projects extend for more than one fiscal year. If three years lapse without any expenditure or any encumbrance of said funds, the appropriation will lapse.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as either assigned or committed fund balance and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

### **B. Budgetary Information**

The Town Aid Road fund, a nonmajor governmental fund, had a deficit fund balance of \$206 at June 30, 2017. The deficit will be funded by future grants.

**TOWN OF SOUTHBURY, CONNECTICUT  
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**3. CASH, CASH EQUIVALENTS AND INVESTMENTS**

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a “qualified public depository” as defined by the Statutes or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit, in an “out of state bank” as defined by the Statutes, which is not a “qualified public depository.”

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF) and the State Tax Exempt Proceeds Fund (TEPF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer’s Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

**A. Deposits**

**Deposit Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the Town’s deposit will not be returned. The Town has a formal deposit policy for custodial credit risk. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the state of Connecticut. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository’s risk based capital ratio.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$1,111,880 of the Town’s bank balance of \$2,596,828 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 950,692
Uninsured and collateralized held by the pledging bank’s trust department, not in the Town’s name	<u>161,188</u>
Total Amount Subject to Custodial Credit Risk	<u>\$ 1,111,880</u>

**TOWN OF SOUTHBURY, CONNECTICUT  
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Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk based capital ratio.

**Cash Equivalents**

At June 30, 2017, the Town's cash equivalents amounted to \$12,667,801. The following table provides a summary of the Town's cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than one year.

	<u>Balance June 30, 2017</u>	<u>Standard &amp; Poor's Rating</u>
Wells Fargo	\$ 2,558,720	*
ION Bank ICS	3,455,451	*
Newtown Savings Bank ICS	6,653,630	*

\* Not rated

**B. Investments**

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

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
			<u>Less than 1</u>	<u>1-10</u>
Interest-bearing investments:				
Certificates of deposit	N/A	\$ 737,922	\$	\$ 737,922
Total		737,922	\$	\$ 737,922
Other investments:				
Endowment		249,658		
Mutual funds		<u>27,615,810</u>		
Total Investments		<u>\$ 28,603,390</u>		

**Interest Rate Risk**

The Town does not limit its maximum final stated maturities to fifteen years. To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements.



**TOWN OF SOUTHURY, CONNECTICUT  
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**Credit Risk - Investments**

As indicated above, State Statutes limit the investment options of cities and towns. The Town has an investment policy that allows the same type of investments as State Statutes.

**Concentration of Credit Risk**

The Town has a policy limiting an investment in any one issuer that is in excess of 5% of the Town's total investments.

**Custodial Credit Risk**

Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Town or that sells investments to or buys them for the Town), the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town has a policy for custodial credit risk. At June 30, 2017, the Town did not have any uninsured and unregistered securities held by the counter party or by its trust department or agent that were not in the Town's name.

**Reserve Investment Plan**

The Town has established a Reserve Investment Plan (Plan) to invest the Town's reserve funds in a fashion consistent with Connecticut General Statutes (Chapter 108, Section 7-359 to 7-368) as well as the Town's specific risk tolerance constraints (asset allocation) as dictated by the Southbury Board of Finance.

Management of the Plan rests with the Investment Portfolio Oversight Committee (IPOC), which consists of two representatives from the Board of Selectmen, two representatives from the Board of Finance, the Controller/Treasurer of the Town, two members of the Southbury Public Library Board of Directors and two members and one alternate member, appointed by the Board of Selectmen based on qualifications, who are residents of the Town.

In addition to investing funds according to the applicable statutes and Town policies, and looking to achieve the maximum target return, the IPOC has established a stability fund where the gains and losses of the portfolio will be tracked.

**TOWN OF SOUTHBURY, CONNECTICUT  
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**Fair Value Measurements**

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements); followed by quoted prices in inactive markets or for similar assets or with observable inputs (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements). The Town has the following recurring fair value measurements as of June 30, 2017:

	<u>June 30, 2017</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Mutual funds	\$ 27,615,810	\$ 27,615,810		
Endowment	<u>249,658</u>		\$	<u>249,658</u>
Total Investments by Fair Value Level	\$ <u>27,865,468</u>	\$ <u>27,615,810</u>	\$ <u>-</u>	\$ <u>249,658</u>

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Endowments classified in Level 3 are valued using either a discounted cash flow or market comparable companies technique.

**4. RECEIVABLES**

Receivables as of year-end for the Town's individual major, nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:				
Taxes	\$ 822,902	\$	\$	\$ 822,902
Interest on taxes	330,504			330,504
Accounts	59,039		53,405	112,444
Housing loans			602,758	602,758
Intergovernmental		117,429		117,429
Gross receivables	<u>1,212,445</u>	<u>117,429</u>	<u>656,163</u>	<u>1,986,037</u>
Less allowance for uncollectibles:				
Taxes	<u>(45,274)</u>			<u>(45,274)</u>
Net Total Receivables	\$ <u>1,167,171</u>	\$ <u>117,429</u>	\$ <u>656,163</u>	\$ <u>1,940,763</u>

**TOWN OF SOUTHBURY, CONNECTICUT  
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**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 19,675,937			\$ 203,871	\$ 19,879,808
Construction in progress	<u>4,420,393</u>	<u>6,441,695</u>		<u>(4,910,867)</u>	<u>5,951,221</u>
Total capital assets not being depreciated	<u>24,096,330</u>	<u>6,441,695</u>	<u>-</u>	<u>(4,706,996)</u>	<u>25,831,029</u>
Capital assets being depreciated:					
Buildings	19,636,224			420,291	20,056,515
Furniture and equipment	16,313,555		(431,301)	618,123	16,500,377
Infrastructure	<u>113,859,279</u>			<u>3,668,582</u>	<u>117,527,861</u>
Total capital assets being depreciated	<u>149,809,058</u>	<u>-</u>	<u>(431,301)</u>	<u>4,706,996</u>	<u>154,084,753</u>
Less accumulated depreciation for:					
Buildings	5,502,689	355,686			5,858,375
Furniture and equipment	10,100,981	1,069,794	(431,301)		10,739,474
Infrastructure	<u>70,124,302</u>	<u>2,187,092</u>			<u>72,311,394</u>
Total accumulated depreciation	<u>85,727,972</u>	<u>3,612,572</u>	<u>(431,301)</u>	<u>-</u>	<u>88,909,243</u>
Total capital assets being depreciated, net	<u>64,081,086</u>	<u>(3,612,572)</u>	<u>-</u>	<u>4,706,996</u>	<u>65,175,510</u>
Governmental Activities Capital Assets, Net	<u>\$ 88,177,416</u>	<u>\$ 2,829,123</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,006,539</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 379,548
Public safety	536,356
Public works	2,586,339
Community activities	<u>110,329</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,612,572</u>

**Capital Project Commitments**

The Town has active long-term projects as of June 30, 2017. The projects include:

	<u>Appropriation</u>	<u>Expended</u>	<u>Encumbrances</u>	<u>Remaining Balance</u>
Capital	\$ 26,937,412	\$ 23,654,992	\$ 1,923,367	\$ 1,359,053
Reserve Accounts	23,173,888	18,938,984	436,720	3,798,184
Limited Reserve Accounts	20,855,064	20,186,314		668,750

**TOWN OF SOUTHBURY, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS  
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**6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

At June 30, 2017, the interfund receivables and payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental	\$ 1,942,375
	Library Gift	517,265
	Capital Projects	<u>8,914,117</u>
		<u>11,373,757</u>
Capital Projects	Nonmajor Governmental	2,554,375
	General Fund	<u>7,672,457</u>
		<u>10,226,832</u>
Library Gift	Capital Projects	<u>2,812</u>
Nonmajor Governmental Funds	Capital Projects	348,784
	Library Gift	532
	General Fund	<u>2,994,224</u>
		<u>3,343,540</u>
Total		<u>\$ 24,946,941</u>

All balances reflect recurring reimbursement type transactions expected to be repaid in the current period.

Interfund transfers:

	<u>Transfers In</u>			<u>Total Transfers Out</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	
Transfers out:				
General Fund	\$	\$ 3,974,150	\$ 17,426	\$ 3,991,576
Nonmajor Governmental	<u>102,817</u>	<u>431,975</u>	<u>                    </u>	<u>534,792</u>
Total Transfers In	<u>\$ 102,817</u>	<u>\$ 4,406,125</u>	<u>\$ 17,426</u>	<u>\$ 4,526,368</u>

All transfers are for regularly recurring operational transfers.

**TOWN OF SOUTHBURY, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**7. LONG-TERM DEBT**

**Changes in Long-Term Liabilities**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds payable and other:					
General obligation bonds	\$ 6,410,000	\$	\$ 1,020,000	\$ 5,390,000	\$ 1,015,000
For issuance premiums	<u>435,255</u>	<u>                    </u>	<u>53,846</u>	<u>381,409</u>	<u>                    </u>
Total bonds payable and other	6,845,255	-	1,073,846	5,771,409	1,015,000
Compensated absences	298,279	<u>                    </u>	32,342	265,937	247,107
Net pension liability	<u>5,375,901</u>	<u>                    </u>	<u>481,956</u>	<u>4,893,945</u>	<u>                    </u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 12,519,435</u>	<u>\$ -</u>	<u>\$ 1,588,144</u>	<u>\$ 10,931,291</u>	<u>\$ 1,262,107</u>

A schedule of bonds and notes outstanding at June 30, 2017 is presented below:

<u>Description</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate (%)</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding June 30, 2017</u>
Bonds payable:					
General purpose	2009	2019	3.52-4.0	\$ 2,400,000	\$ 450,000
General purpose	2010	2023	3.0-4.0	6,080,000	3,080,000
General purpose	2012	2025	2.0-5.0	3,020,000	<u>1,860,000</u>
Total					<u>\$ 5,390,000</u>

Annual maturities of bonds and notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,015,000	\$ 182,825	\$ 1,197,825
2019	1,015,000	144,325	1,159,325
2020	780,000	111,025	891,025
2021	780,000	50,750	830,750
2022	775,000	50,750	825,750
2023-2024	<u>1,025,000</u>	<u>32,613</u>	<u>1,057,613</u>
Total	<u>\$ 5,390,000</u>	<u>\$ 572,288</u>	<u>\$ 5,962,288</u>

**TOWN OF SOUTHURY, CONNECTICUT  
 NOTES TO FINANCIAL STATEMENTS  
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**Overlapping Debt**

The Town is a member of Regional School District #15, which provides education facilities for grades kindergarten through twelve for the Towns of Southbury and Middlebury. As of June 30, 2017, the outstanding bonded indebtedness of the District was \$10,955,000. The Town's share will be approximately 68% of the remaining balance. These are general obligations of Regional School District #15 and its member towns.

The Town's indebtedness does not exceed the legal debt limitations as established by Connecticut General Statutes as reflected in the following schedule (in thousands):

<u>Category</u>	<u>Debt Limitation</u>	<u>Indebtedness*</u>	<u>Balance</u>
General purpose	\$ 137,648	\$ 5,390	\$ 132,258
Schools	275,297	7,440	267,857
Sewers	229,414		229,414
Urban renewal	198,825		198,825
Pension deficit	183,531		183,531

\* Portion of Regional School District #15 indebtedness as described above. Also includes bonds authorized unissued when debt has been issued.

In no case shall total indebtedness exceed seven times annual receipts from taxation of \$428,239.

**TOWN OF SOUTHURY, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS  
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**8. FUND BALANCE**

The components of fund balance for the governmental funds at June 30, 2017 are as follows:

	<u>General Fund</u>	<u>Library Gift</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund balances:					
Nonspendable:					
Inventory	\$ 14,117	\$	\$	\$	\$ 14,117
Prepaid items	234,000				234,000
Restricted for:					
Investments - Reserve Fund			8,740,117		8,740,117
Stability Fund - Reserve Fund			174,000		174,000
Committed to:					
General government				242,042	242,042
Public safety				232,642	232,642
Public works				27,745	27,745
Community activities		2,396,637		293,994	2,690,631
Historical buildings	38,232				38,232
Additional pension funding	511,000				511,000
Salt/overtime-winter	186,000				186,000
Capital projects			1,923,367		1,923,367
Assigned to:					
Purchases on order:					
General government	74,600				74,600
Public safety	20,059				20,059
Public works	34,343				34,343
Community activities	14,242				14,242
Subsequent year's budget	1,442,680				1,442,680
Future purposes	5,130,000				5,130,000
Unassigned	1,906,744		(3,308,748)	(206)	(1,402,210)
Total Fund Balances	<u>\$ 9,606,017</u>	<u>\$ 2,396,637</u>	<u>\$ 7,528,736</u>	<u>\$ 796,217</u>	<u>\$ 20,327,607</u>

Significant encumbrances of \$143,244 are included in the General Fund assigned fund balance and \$2,360,087 are included in the Capital Projects Fund committed and restricted fund balances as of June 30, 2017.

**TOWN OF SOUTHBURY, CONNECTICUT  
 NOTES TO FINANCIAL STATEMENTS  
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**9. RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties, except as disclosed below.

**Medical Self-Insurance**

The Town entered into a Cooperative Agreement with the Town of Middlebury and the Regional School District #15 Board of Education, effective July 1, 2013, to facilitate the group purchase of health benefits for active employees and non-Medicare eligible retirees. During 2017, total claims expense of \$867,522 was incurred by the Town. This expense represents claims processed and an estimate for claims incurred but not reported as of June 30, 2017.

The Fund establishes claims liabilities based on estimates of claims that have been incurred but not reported; accordingly, the Fund recorded an additional liability at June 30, 2017 of \$69,857.

Premium payments are reported as interfund services provided and used for the General Fund and, accordingly, they are treated as operating revenues of the Self-Insurance Fund and operating expenditures of the General Fund.

A schedule of changes in the claims liability for the year ended June 30, 2017 is presented below:

	<b>Accrued Liability Beginning of Fiscal Year</b>		<b>Current Year Claims Paid and Changes in Estimates</b>		<b>Accrued Liability Claim Payments</b>		<b>Accrued Liability End of Fiscal Year</b>
2016-2017	\$ 60,171	\$	867,522	\$	857,836	\$	69,857
2015-2016	60,566		784,906		785,301		60,171

**10. EMPLOYEE RETIREMENT PLAN**

**A. Pension Trust Fund**

The Town is the administrator of a single-employer Public Employee Retirement System (PERS) established and administered by the Town to provide retirement, disability and death benefits for its employees. The PERS is considered to be part of the Town's financial reporting entity and is included in the Town's financial reports as a pension trust fund. The system was established by vote of the Board of Selectmen July 1, 1970.

Management of the plans rests with the Investment Portfolio Oversight Committee (IPOC), which consists of two representatives from the Board of Selectmen, two representatives from the Board of Finance, the Controller/Treasurer of the Town, two members of the Southbury Public Library Board of Directors and two members and one alternate member, appointed by the Board of Selectmen based on qualifications, who are residents of the Town.



**TOWN OF SOUTHURY, CONNECTICUT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017**

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**Plan Description and Benefits Provided**

The Town of Southbury Retirement System covers substantially all employees working more than 20 hours a week.

Participants who retire at normal retirement date are entitled to a monthly retirement benefit in an amount equal to 1.5 and 2.5% (police) of their average monthly earnings multiplied by years of service up to a maximum of 35 years. Average monthly compensation is the average salary over the 60 consecutive month period that provides the highest average (36 months for police). The plan also produces a preretirement death benefit. Participants become 100% vested on completing 5 years of vesting service. Normal retirement eligibility is later of age 50 and completing 20 years of service but not later than age 55 for police and the later of age 65 or 5 years for all others.

The membership of the plan consisted of the following at July 1, 2016, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	69
Terminated plan members entitled to benefits but not yet receiving them	29
Current plan members	<u>93</u>
 Total	 <u><u>191</u></u>

The pension plan was closed to new entrants (except police) as of July 1, 2014.

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

**Basis of Accounting**

PERS financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefit payments and refunds are payable when due and payable in accordance with the terms of the plan.

**Method Used to Value Investments**

All assets are valued at fair value. All investments are invested in government bonds, corporate bonds and equity mutual funds. Investment income is recognized as earned.

**B. Funding Policy**

The Town is required to contribute the amounts necessary to fund the PERS and cover all administrative charges. Police are required to contribute 1.9% of annual earnings. All amounts are determined by annual actuarial valuations and are included as part of the annual budget expenditures. The current contribution rate for the Town is 19.27% of covered payroll. Covered payroll is \$5,806,805 or 83.6% of total Town payroll of \$6,949,175. The contribution requirements of the Town and plan members may be amended by the Board of Selectmen and subject to bargaining unit approval.

**TOWN OF SOUTHBURY, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**C. Investments**

**Investment Policy**

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the PERS Board by a majority vote of its members. It is the policy of the PERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Core Fixed Income	26.00 %
Short-Term Bonds	1.00
Non-U.S. Fixed Income	6.70
Large Cap U.S. Equities	21.80
Small Cap U.S. Equities	11.80
Developed Foreign Equities	22.60
Emerging Market Equities	2.45
Real Estate (REITs)	5.00
Commodities	<u>2.65</u>
	<u><u>100.00 %</u></u>

**Rate of Return**

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 11.8%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**D. Net Pension Liability of the Town**

The components of the net pension liability of the Town at June 30, 2017 were as follows:

Total pension liability	\$ 24,131,978
Plan fiduciary net position	<u>19,238,033</u>
Net Pension Liability	<u>\$ 4,893,945</u>
Plan fiduciary net position as a percentage of the total pension liability	79.72%

**TOWN OF SOUTHBURY, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurements:

Inflation	2.5%
Salary increases	3.5%
Investment rate of return	6.5%

Mortality rates were based on the RP-2000 Combined Healthy Mortality for Males or Females with generational projection per Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Fixed Income	2.66 %
Short-Term Bonds	1.67
Non-U.S. Fixed Income	1.60
Large Cap U.S. Equities	4.86
Small Cap U.S. Equities	6.11
Developed Foreign Equities	5.88
Emerging Market Equities	8.14
Real Estate (REITs)	5.17
Commodities	3.02

**Discount Rate**

The discount rate used to measure the total pension liability was 6.50% for June 30, 2017. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Town contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF SOUTHBURY, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**E. Net Pension Liability of the Town**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 30, 2016	\$ 22,227,333	\$ 16,851,432	\$ 5,375,901
Changes for the year:			
Service cost	425,211		425,211
Interest on total pension liability	1,559,415		1,559,415
Effect of economic/demographic gains or losses	(321,772)		(321,772)
Effect of assumptions changes or inputs	1,005,067		1,005,067
Employer contributions		1,119,000	(1,119,000)
Member contributions		27,557	(27,557)
Net investment income		2,015,608	(2,015,608)
Benefit payments	(763,276)	(763,276)	-
Administrative expenses		(12,288)	12,288
Net changes	<u>1,904,645</u>	<u>2,386,601</u>	<u>(481,956)</u>
Balances as of June 30, 2017	<u>\$ 24,131,978</u>	<u>\$ 19,238,033</u>	<u>\$ 4,893,945</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Town, calculated using the discount rate of 6.50%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.50%) or 1 percentage point higher (7.50%) than the current rate:

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Net Pension Liability	\$ 8,165,472	\$ 4,893,945	\$ 2,914,741

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2017, the Town recognized pension expense of \$1,366,043. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 294,472	\$ 110,294
Changes of assumptions		862,997
Net difference between projected and actual earnings on pension plan investments		<u>497,765</u>
Total	<u>\$ 294,472</u>	<u>\$ 1,471,056</u>

**TOWN OF SOUTHURDY, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**Year Ending June 30,**

2016	\$	581,827
2017		516,784
2018		242,620
2019		(164,647)

**11. DEFINED CONTRIBUTION PLAN**

The Town established a defined contribution plan effective July 1, 2014. The Town will match employee contributions by one (1) percent for every percent of the employee's base salary contributed by the employee up to a total of five (5) percent of the employee's base salary for the relevant fiscal year. If an employee's employment is terminated for other than just cause during the fiscal year, the employee shall receive a pro rata Town contribution based on the number of full months of employment the employee completes during the fiscal year, subject to the vesting requirements set forth below.

After one (1) year of employment	20%
After two (2) years of employment	40%
After three (3) years of employment	60%
After four (4) years of employment	80%
After five (5) years of employment	100%

Employees will have the right to self-direct their contributions to the defined contribution plan from among the investment options offered by the plan selected by the Town.

Total contributions to the plan for the year ended June 30, 2017 were \$37,372 for employees and \$13,190 for the Town.

**12. CONTINGENT LIABILITIES**

The Town is currently a defendant in a number of lawsuits including tax appeals. It is the opinion of Town officials and legal counsel that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the Town that would materially adversely affect its financial position.

**TOWN OF SOUTHBURY, CONNECTICUT  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Property taxes:				
Property taxes	\$ 59,811,346	\$ 59,811,346	\$ 59,943,528	\$ 132,182
Prior year's taxes	245,480	245,480	428,846	183,366
Motor vehicle supplement	450,000	450,000	637,087	187,087
Interest and liens	180,711	180,711	226,464	45,753
Overpayments	100,000	100,000		(100,000)
Total property taxes	<u>60,787,537</u>	<u>60,787,537</u>	<u>61,235,925</u>	<u>448,388</u>
Intergovernmental revenues:				
State of Connecticut:				
Education Cost Sharing	3,033,041	3,033,041	3,458,266	425,225
Other	701,576	701,576	891,191	189,615
Telecommunication property tax	125,773	125,773	140,497	14,724
Total intergovernmental revenues	<u>3,860,390</u>	<u>3,860,390</u>	<u>4,489,954</u>	<u>629,564</u>
Licenses, permits and fees:				
Building and regulatory	202,950	202,950	273,364	70,414
Recreation	362,470	362,470	360,794	(1,676)
Town Clerk	503,223	503,223	553,171	49,948
Dog licenses and fees	7,317	7,317	8,536	1,219
Total licenses, permits and fees	<u>1,075,960</u>	<u>1,075,960</u>	<u>1,195,865</u>	<u>119,905</u>
Investment income	<u>63,800</u>	<u>63,800</u>	<u>67,460</u>	<u>3,660</u>
Other	<u>468,305</u>	<u>468,305</u>	<u>600,031</u>	<u>131,726</u>
Transferred in from other funds	<u>75,000</u>	<u>75,000</u>	<u>102,817</u>	<u>27,817</u>
Total	<u>\$ 66,330,992</u>	<u>\$ 66,330,992</u>	67,692,052	<u>\$ 1,361,060</u>

Budgetary revenues are different than GAAP revenues because:

Cancellation of prior year encumbrances are recognized as budgetary revenue (60,700)

Total Revenues and Other Financing Sources as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds Exhibit IV

\$ 67,631,352

**TOWN OF SOUTHBURY, CONNECTICUT  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>			<u>Variance - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
General government:				
Board of Selectmen	\$ 427,693	\$ 330,080	\$ 281,932	\$ 48,148
Town Hall Service expense	64,300	64,300	53,267	11,033
Other expense	143,156	145,656	126,577	19,079
Labor related expense	3,279,478	3,543,436	3,286,219	257,217
Computers	189,285	308,823	292,680	16,143
Probate Court	8,371	8,371	8,371	-
Elections	129,402	129,402	124,072	5,330
Board of Finance	67,631	67,631	66,001	1,630
Board of Assessment Appeals	1,400	1,400	567	833
Controller	257,017	261,867	260,940	927
Tax Collector	169,885	171,527	139,997	31,530
Assessor	144,623	147,121	142,761	4,360
Town Clerk	252,946	252,946	241,658	11,288
Building Inspector	164,175	165,490	129,890	35,600
Insurance and Bonds	715,925	715,925	709,785	6,140
Legal expense	95,000	95,000	65,574	29,426
Planning Commission	140,793	143,193	122,958	20,235
Inland Wetlands Commission	93,081	93,081	70,568	22,513
Zoning Commission	19,624	19,624	9,525	10,099
Zoning Board of Appeals	39,030	39,782	34,278	5,504
Economic Development Commission	12,350	12,350	11,520	830
Town properties - inside	275,691	308,196	301,454	6,742
Energy	336,000	340,500	339,446	1,054
Town properties - outside	437,026	437,026	371,861	65,165
Contingency	300,000	233,661		233,661
Refunds	100,000	117,500	111,554	5,946
Total	<u>7,863,882</u>	<u>8,153,888</u>	<u>7,303,455</u>	<u>850,433</u>
Public safety:				
Fire Department/hydrants	518,649	520,288	520,288	-
Communications	342,520	367,720	366,644	1,076
Police Protection	2,298,589	2,298,589	2,188,520	110,069
Emergency Management	24,000	24,000	18,943	5,057
Fire Marshal	120,994	122,598	109,755	12,843
Tree Warden	14,250	22,754	22,602	152
Canine Control	79,697	79,697	53,050	26,647
Emergency Services	323,853	324,853	323,853	1,000
Total	<u>3,722,552</u>	<u>3,760,499</u>	<u>3,603,655</u>	<u>156,844</u>
Highway-public works:				
General maintenance	2,375,834	2,375,834	2,221,779	154,055
Solid waste disposal	819,840	823,124	812,583	10,541
Total	<u>3,195,674</u>	<u>3,198,958</u>	<u>3,034,362</u>	<u>164,596</u>

(Continued on next page)

**TOWN OF SOUTHBURY, CONNECTICUT  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Conservation of health:				
Conservation Commission	\$ 13,500	\$ 13,500	\$ 11,510	\$ 1,990
Department of Health	169,386	169,386	169,386	-
P. River Watershed Coalition	43,400	43,400	42,600	800
Lake Zoar Authority	23,281	23,281	21,365	1,916
Lake Lillinonah Authority	25,872	25,872	25,836	36
Pomperaug Valley Water Authority	200	200		200
Water Pollution Authority	100	100		100
Commission of Services for Elderly	340,897	358,709	328,492	30,217
Total	<u>616,636</u>	<u>634,448</u>	<u>599,189</u>	<u>35,259</u>
Community activities:				
Committee expenses	28,300	28,300	22,342	5,958
Historic Buildings Commission	13,350	13,350	13,350	-
Library	654,248	661,526	643,426	18,100
Recreation Commission	496,300	515,477	496,428	19,049
Other community activities	2,000	2,000		2,000
Total	<u>1,194,198</u>	<u>1,220,653</u>	<u>1,175,546</u>	<u>45,107</u>
Education - Region #15	<u>45,470,046</u>	<u>45,470,046</u>	<u>45,470,046</u>	<u>-</u>
Capital outlay - Roads	<u>2,275,000</u>	<u>2,275,000</u>	<u>2,275,000</u>	<u>-</u>
Total expenditures	<u>64,337,988</u>	<u>64,713,492</u>	<u>63,461,253</u>	<u>1,252,239</u>
Transfers out:				
Other transfers		512,000	512,000	-
Capital Reserve Fund	1,107,000	1,107,000	1,107,000	-
Debt Service	1,241,475	1,241,475	1,241,475	-
Total transfers out	<u>2,348,475</u>	<u>2,860,475</u>	<u>2,860,475</u>	<u>-</u>
Total Expenditures and Transfers	\$ <u>66,686,463</u>	\$ <u>67,573,967</u>	66,321,728	\$ <u>1,252,239</u>
Budgetary expenditures are different than GAAP expenditures because:				
Encumbrances for purchases and commitments ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year received for financial reporting purposes			(84,356)	
Nonbudgetary items and eliminations related to Debt Management and Historical Buildings funds			<u>(1,701)</u>	
Total Expenditures and Other Financing Uses as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV			\$ <u>66,235,671</u>	



**TOWN OF SOUTHBURY, CONNECTICUT**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**LAST FOUR FISCAL YEARS**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total pension liability:				
Service cost	\$ 482,164	\$ 465,632	\$ 486,569	\$ 425,211
Interest on total pension liability	1,324,663	1,396,685	1,508,808	1,559,415
Effect of economic/demographic gains or losses	(349,016)	(248,639)	215,336	(321,772)
Effect of assumption changes or inputs		530,487		1,005,067
Benefit payments, including refunds of member contributions	<u>(493,215)</u>	<u>(527,123)</u>	<u>(596,355)</u>	<u>(763,276)</u>
Net change in total pension liability	964,596	1,617,042	1,614,358	1,904,645
Total pension liability - beginning	<u>18,031,337</u>	<u>18,995,933</u>	<u>20,612,975</u>	<u>22,227,333</u>
Total pension liability - ending	<u>18,995,933</u>	<u>20,612,975</u>	<u>22,227,333</u>	<u>24,131,978</u>
Plan fiduciary net position:				
Contributions - employer	836,516	1,075,764	989,000	1,119,000
Contributions - member	23,628	34,709	34,734	27,557
Net investment income (loss)	1,657,727	171,680	(117,785)	2,015,608
Benefit payments, including refunds of member contributions	(493,215)	(527,123)	(596,355)	(763,276)
Administrative expense	<u>(10,981)</u>	<u>(11,455)</u>	<u>(11,278)</u>	<u>(12,288)</u>
Net change in plan fiduciary net position	2,013,675	743,575	298,316	2,386,601
Plan fiduciary net position - beginning	<u>13,795,866</u>	<u>15,809,541</u>	<u>16,553,116</u>	<u>16,851,432</u>
Plan fiduciary net position - ending	<u>15,809,541</u>	<u>16,553,116</u>	<u>16,851,432</u>	<u>19,238,033</u>
Net Pension Liability - Ending	<u>\$ 3,186,392</u>	<u>\$ 4,059,859</u>	<u>\$ 5,375,901</u>	<u>\$ 4,893,945</u>
Plan fiduciary net position as a percentage of the total pension liability	83.23%	80.30%	75.81%	79.72%
Covered employee payroll	\$ 4,667,415	\$ 5,161,863	\$ 5,096,060	\$ 5,806,805
Net pension liability as a percentage of covered employee payroll	68.27%	78.65%	105.49%	84.28%

**TOWN OF SOUTHBURY, CONNECTICUT  
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS  
LAST TEN FISCAL YEARS**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 685,586	\$ 430,307	\$ 474,442	\$ 648,132	\$ 635,095	\$ 621,135	\$ 836,141	\$ 950,764	\$ 988,541	\$ 1,013,607
Contributions in relation to the actuarially determined contribution	<u>704,566</u>	<u>435,000</u>	<u>600,000</u>	<u>648,132</u>	<u>635,095</u>	<u>621,135</u>	<u>836,516</u>	<u>1,075,764</u>	<u>989,000</u>	<u>1,119,000</u>
Contribution Deficiency (Excess)	\$ <u>(18,980)</u>	\$ <u>(4,693)</u>	\$ <u>(125,558)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(375)</u>	\$ <u>(125,000)</u>	\$ <u>(459)</u>	\$ <u>(105,393)</u>
Covered employee payroll	\$ 4,035,522	\$ 3,944,816	\$ 4,324,805	\$ 5,158,084	\$ 5,236,678	\$ 5,026,644	\$ 4,667,415	\$ 5,161,863	\$ 5,096,060	\$ 5,806,805
Contributions as a percentage of covered employee payroll	17.46%	11.03%	13.87%	12.57%	12.13%	12.36%	17.92%	20.84%	19.41%	19.27%

**Notes to Schedule**

Valuation date: July 1, 2015  
Measurement date: June 30, 2017  
Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry Age Normal  
Amortization method: Level percent, open  
Remaining amortization period: 10 years  
Asset valuation method: 5 years, non-asymptotic  
Inflation: 2.50%  
Salary increases: 3.50%  
Investment rate of return: 7.00%  
Retirement age: 100% at Normal Retirement Age  
Mortality: RP-2000 Combined Healthy Mortality for males and females with generational projection per Scale AA

**TOWN OF SOUTHBURY, CONNECTICUT  
SCHEDULE OF INVESTMENT RETURNS - PENSION PLAN  
LAST FOUR FISCAL YEARS**

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	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	11.88%	1.06%	(0.70%)	11.80%

# BlumShapiro

Accounting | Tax | Business Consulting

To the Board of Finance  
Town of Southbury, Connecticut

In planning and performing our audit of the financial statements of the Town of Southbury, Connecticut (the Town) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

We noted the following matters involving the internal control over financial reporting and its operation that we offer as constructive suggestions for your consideration as part of the ongoing process of modifying and improving accounting controls and administrative practices.

## **CURRENT YEAR RECOMMENDATIONS**

### Bank Reconciliations

During the current year audit it was noted that bank reconciliations included unreconciled differences. Although these amounts were immaterial to the financial statements as a whole, unreconciled differences should be reviewed and resolved on a timely basis.

**Recommendation** - We recommend that the Town review and improve procedures over bank reconciliations to ensure that all variances are identified and adjusted timely.

## **PRIOR YEAR RECOMMENDATIONS**

### Fraud Tip Line

During discussions with staff at the Town in the current year, it was determined that there is no formal whistleblower policy or tip line to report fraud. According to the 2014 Report to the Nations on Occupational Fraud and Abuse by the Association of Certified Fraud Examiners, 42% of corruption cases are detected by tip. In contrast, management review, the second most common detection method for corruption cases, uncovered 16% of these schemes. External audits and reports from law enforcement accounted for far fewer discoveries of corruptions, just 3% and 2%, respectively, of these schemes. Additionally, of the whistleblower tips that led to the investigation of the cases, 49% of those tips came from an employee and another 15% came from an anonymous source.

**Recommendation** - We recommend that the Town institute a formal whistleblower policy that includes a tip line for employees to report suspected fraud or inconsistencies.

*2017 Update: The Town has created a fraud policies and procedures document which is currently pending formal approval by the Town's administration.*

Internal Service Fund Activity

The Town participates in a cooperative arrangement for health benefits. The recordkeeping of the plan is handled by Regional School District No. 15. It is important that the Town have current and accurate information related to its activity recorded in its general ledger.

**Recommendation** - We recommend that the Town record this activity on a monthly basis and reconcile to the information from Regional School District No. 15 on a quarterly basis.

*2017 Update: The Town created a fund for the internal service fund on the general ledger and recorded monthly contributions to the fund. At year end the Town receives a summary of the plan and information is recorded at that time on the general ledger for the claims and IBNR. The Town will work with their third party to obtain the information on a timely basis to record in the GL.*

IT Policies and Procedures

During our audit fieldwork, we found that the policies and procedures for the IT Department have not been updated to reflect the changes in the technical environment and does not include the formal disaster recovery plan or e-discovery policy.

**Recommendation** - We recommend that the Town update its IT policies and procedures to reflect changes in the technical environment and formally document its disaster recovery plan.

*2017 Update: No changes have been made.*

This letter should be read in conjunction with our report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated [report date].

This communication is intended solely for the information and use of management, members of the Board of Finance, Town Council, others within the organization, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
November 28, 2017



Accounting | Tax | Business Consulting

To the Board of Finance  
Town of Southbury, Connecticut

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Southbury, Connecticut, for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 17, 2017. Professional standards also require that we communicate to you the following information related to our audit.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Southbury, Connecticut, are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were as follows:

Management's estimate of the net pension obligation is based on an actuarial valuation utilizing various assumptions and estimates approved by management.

Management's estimate of the useful lives of governmental activities and capital assets, which are used in computing depreciation in the government-wide financial statements.

Management's estimate of the allowance for doubtful accounts related to taxes receivable is based on certain historical data and currently known information.

Management's estimate of the incurred but not reported (IBNR) is based on claims amounts owed by the Town of Southbury, Connecticut, for claimants who have had a covered loss but have not yet reported it.

We have evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear. There were no sensitive disclosures affecting the financial statements.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated November 28, 2017.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Additionally, the auditor is required to communicate internal control related matters and any fraud or illegal acts. In connection with the audit, we have issued a management letter with suggestions for improvements to controls and best practices.

**Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Finance and management of the Town of Southbury, Connecticut, and is not intended to be and should not be used by anyone other than these specified parties.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
November 28, 2017