

TOWN OF SOUTHBURY, CONNECTICUT

FINANCIAL STATEMENTS

JUNE 30, 2016

TOWN OF SOUTHBURY, CONNECTICUT
TABLE OF CONTENTS
JUNE 30, 2016

Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-10

Exhibit

Basic Financial Statements:	
Government-Wide Financial Statements:	
I	Statement of Net Position 11
II	Statement of Activities 12
Fund Financial Statements:	
III	Balance Sheet - Governmental Funds 13-14
IV	Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds 15-16
V	Statement of Net Position - Proprietary Funds 17
VI	Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds 18
VII	Statement of Cash Flows - Proprietary Fund 19
VIII	Statement of Fiduciary Net Position - Fiduciary Funds 20
IX	Statement of Changes in Fund Net Position - Pension Trust Fund 21
	Notes to the Financial Statements 22-43
Required Supplementary Information:	
General Fund:	
RSI-1	Schedule of Revenues and Other Financing Sources - Budget and Actual 44
RSI-2	Schedule of Expenditures and Other Financing Uses - Budget and Actual 45-46
Pension Trust Fund:	
RSI-3	Schedule of Changes in Net Pension Liability and Related Ratios 47
RSI-4	Schedule of Employer Pension Contributions 48
RSI-5	Schedule of Investment Returns 49
Combining and Individual Fund Statements and Schedules:	
General Fund:	
A-1	Comparative Balance Sheet 50
A-2	Report of Tax Collector 51
A-3	Combining Balance Sheet Schedule 52
A-4	Combining Schedule of Revenues, Expenditures and Changes in Fund Balances 53
Nonmajor Governmental Funds:	
B-1	Combining Balance Sheet 54-55
B-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances 56-57
Agency Fund:	
C	Statement of Changes in Assets and Liabilities 58
Long Term Debt:	
D	Statement of Debt Limitation 59



Accounting | Tax | Business Consulting

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, 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2016 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.

Change in Accounting Principle

As discussed in Note 3 to the financial statements, during the fiscal year ended June 30, 2016, the Town adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the budgetary comparison information on pages 44 through 46 and the pension schedules on pages 47 through 49 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.

Other Information

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

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

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the Town of Southbury, Connecticut, as of and for the year ended June 30, 2015 (not presented herein), and have issued our report thereon dated November 23, 2015, which contained unmodified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information. The accompanying General Fund balance sheet as of June 30, 2015 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the 2015 financial statements. The accompanying General Fund balance sheet has been subjected to the auditing procedures applied in the audit of the 2015 basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the General Fund balance sheet is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2015.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016 on our consideration of the Town of Southbury, Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Southbury, Connecticut's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
November 22, 2016

**TOWN OF SOUTHBURY, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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, 2016. 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 \$4.0 million.
- During the year, the Town had \$70.5 million in tax and other revenues for governmental programs.
- Total cost of all of the Town's programs was \$66.5 million with no new programs added this year.
- The General Fund reported a GAAP fund balance this year of \$8.2 million. \$5.5 million of this is assigned, \$0.3 million is nonspendable and \$0.5 million is committed, leaving an unassigned balance of \$1.9 million. The Town anticipates spending \$0.5 million on bridge repairs in 16-17.

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**

	Governmental Activities	
	2016	2015
Current and other assets	\$ 27,018,462	\$ 21,433,047
Capital assets, net of accumulated depreciation	88,177,416	85,986,751
Total assets	<u>115,195,878</u>	<u>107,419,798</u>
Deferred outflows of resources	<u>2,386,848</u>	<u>1,562,880</u>
Long-term liabilities outstanding	12,519,435	12,265,339
Other liabilities	6,390,913	2,169,718
Total liabilities	<u>18,910,348</u>	<u>14,435,057</u>
Deferred inflows of resources	<u>121,131</u>	<u>184,885</u>
Net Position:		
Net investment in capital assets	81,692,295	78,462,332
Unrestricted	<u>16,858,952</u>	<u>16,075,847</u>
Total Net Position	<u>\$ 98,551,247</u>	<u>\$ 94,538,179</u>

Net position of the Town's governmental activities increased by 4.2% (\$98.5 million compared to \$94.5 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 \$16.0 million at June 30, 2015 to \$16.9 million at the end of this year.

Net position invested in capital assets increased by \$3.23 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**

	Governmental Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 2,238,698	\$ 1,809,906
Operating grants and contributions	4,349,466	3,574,575
Capital grants and contributions	2,234,228	39,467
General revenues:		
Property taxes	60,570,409	57,920,612
Grants and contributions not restricted to specific purposes	634,254	868,717
Unrestricted investment earnings	216,502	51,289
Miscellaneous	258,652	174,868
Total revenues	70,502,209	64,439,434
 Program expenses:		
General government	7,966,565	7,436,303
Public safety	4,505,336	4,217,813
Public works	5,490,336	5,850,349
Conservation of health	565,206	489,060
Community activities	3,085,348	1,801,078
Education	44,646,554	43,729,317
Debt service	229,796	266,834
Total program expenses	66,489,141	63,790,754
 Increase in Net Position	\$ 4,013,068	\$ 648,680

The Town's total revenues were \$70.5 million. The total cost of all programs and services was \$66.5 million. Property taxes accounted for 85.9% of all revenues. Revenues from operating grants and contributions, the second largest component, were 6.2%. Education expenses were 67.1% 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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General government	\$ 7,966,565	\$ 7,436,303	\$ 7,066,240	\$ 6,665,062
Public safety	4,505,336	4,217,813	3,793,192	3,785,721
Public works	5,490,336	5,850,349	2,047,493	5,247,649
Conservation of health	565,206	489,060	546,974	475,341
Community activities	3,085,348	1,801,078	2,369,541	828,266
Education	44,646,554	43,729,317	41,613,513	41,097,933
Debt service	229,796	266,834	229,796	266,834
Totals	<u>\$ 66,489,141</u>	<u>\$ 63,790,754</u>	<u>\$ 57,666,749</u>	<u>\$ 58,366,806</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 \$19.0 million, which is an increase from last year's total of \$18.0 million. The original budget for 2016 also utilized \$561,500 of the prior year fund balance to balance it.

The Capital Projects Fund balance decreased by \$0.6 million due primarily to road construction. Some significant expenditures were:

Equipment	\$ 1,596,091
Infrastructure	1,419,161

The Town's General Fund balance of \$8.2 million reported on Exhibit III differs from the General Fund's budgetary fund balance of \$8.1 million. This is because budgetary fund balance does not include \$119,587 of outstanding encumbrances at year end, which are reported as expenditures for budgetary purposes.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2016, the Town had \$88 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 \$2.2 million over last year.

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

	Governmental Activities	
	2016	2015
Land	\$ 19,676	\$ 19,676
Buildings and improvements	14,134	14,478
Equipment	6,213	5,609
Infrastructure	43,735	44,436
Construction in progress	4,420	1,788
Totals	<u>\$ 88,178</u>	<u>\$ 85,987</u>

This year's major additions included:

Infrastructure	\$ 1,419,101
Equipment	1,596,151

The Town's fiscal year 2016-17 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, 2016, the Town had \$6,410,000 in bonds and notes outstanding versus \$7,440,000 last year - a decrease of \$1,030,000. Bonds of \$1,030,000 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 \$421.5 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 2015-16 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 5.2% versus 5.1% a year ago. This compares with the State's unemployment rate of 5.7% and the national rate of 4.9%.

These indicators were taken into account when adopting the General Fund budget for 2016-17. Amounts available for appropriation in the General Fund budget are \$66,686,463, an increase of 1.5% over the final 2016 budget of \$65,707,483. The education budget increased 1.8% while the Town budget increased by 1.5%. Budgeted property tax revenue increased 1.5% from the previous year.

The Town has added no new programs or initiatives in the 2016 budget. The Town has also appropriated \$355,471 of fund balance to balance the 2016-17 budget and anticipates spending \$511,000 for bridge repairs in 16-17.

If these estimates are realized, the Town's budgetary General Fund balance is expected to decrease by June 30, 2016.

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, 2016

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 13,845,022
Investments	9,159,216
Receivables, net	3,336,902
Advance to plan administrator	421,341
Prepaid items	255,981
Capital assets not being depreciated	24,096,330
Capital assets, net of accumulated depreciation	<u>64,081,086</u>
Total assets	<u>115,195,878</u>
Deferred Outflows of Resources:	
Deferred charge on refunding	360,134
Changes in pension economic/demographic gains or losses	162,815
Changes in pension assumption changes or inputs	258,443
Changes in pension investment gains or losses	<u>1,605,456</u>
Total deferred outflows of resources	<u>2,386,848</u>
Liabilities:	
Accounts and other payables	1,888,319
Unearned revenue	4,502,594
Noncurrent liabilities:	
Due within one year	1,274,424
Due in more than one year	<u>11,245,011</u>
Total liabilities	<u>18,910,348</u>
Deferred Inflows of Resources:	
Changes in pension economic/demographic gains or losses	<u>121,131</u>
Net Position:	
Net investment in capital assets	81,692,295
Unrestricted	<u>16,858,952</u>
Total Net Position	<u>\$ 98,551,247</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, 2016**

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	\$ 7,966,565	\$ 894,735	\$ 5,590	\$ (7,066,240)
Public safety	4,505,336	704,266	7,878	(3,793,192)
Public works	5,490,336	131,362	1,077,253	(2,047,493)
Conservation of health	565,206	18,232		(546,974)
Community activities	3,085,348	490,103	225,704	(2,369,541)
Education	44,646,554		3,033,041	(41,613,513)
Debt service	229,796			(229,796)
Total	\$ 66,489,141	\$ 2,238,698	\$ 4,349,466	\$ 2,234,228
General revenues:				
Property taxes				60,570,409
Grants and contributions not restricted to specific programs				634,254
Unrestricted investment earnings				216,502
Miscellaneous				258,652
Total general revenues				<u>61,679,817</u>
Change in net position				4,013,068
Net Position at Beginning of Year, as Restated				<u>94,538,179</u>
Net Position at End of Year				<u>\$ 98,551,247</u>

The accompany notes are an integral part of the financial statements

**TOWN OF SOUTHURY, CONNECTICUT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

	<u>General</u>	<u>Library Gift</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 11,418,321	\$ 619,614	\$ 706,289	\$ 1,100,798	\$ 13,845,022
Investments	489,236	2,046,299	6,623,681		9,159,216
Receivables, net	935,087		1,752,200	649,615	3,336,902
Due from other funds	8,982,118	2,812	10,792,085	2,894,901	22,671,916
Other assets	255,981				255,981
Total Assets	<u>\$ 22,080,743</u>	<u>\$ 2,668,725</u>	<u>\$ 19,874,255</u>	<u>\$ 4,645,314</u>	<u>\$ 49,269,037</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	\$ 1,717,946	\$ 25		\$	\$ 1,717,971
Due to other funds	11,314,679	454,523	7,584,228	3,318,486	22,671,916
Unearned revenue			4,502,594		4,502,594
Total liabilities	<u>13,032,625</u>	<u>454,548</u>	<u>12,086,822</u>	<u>3,318,486</u>	<u>28,892,481</u>
Deferred inflows of resources:					
Unavailable revenue - property taxes	570,333				570,333
Unavailable revenue - interest on property taxes	267,449				267,449
Unavailable revenue - loans receivable				575,851	575,851
Total deferred inflows of resources	<u>837,782</u>	<u>-</u>	<u>-</u>	<u>575,851</u>	<u>1,413,633</u>
Fund balances:					
Nonspendable	255,981				255,981
Restricted			7,329,970		7,329,970
Committed	487,531	2,214,177	457,463	750,977	3,910,148
Assigned	5,505,058				5,505,058
Unassigned	1,961,766				1,961,766
Total fund balances	<u>8,210,336</u>	<u>2,214,177</u>	<u>7,787,433</u>	<u>750,977</u>	<u>18,962,923</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 22,080,743</u>	<u>\$ 2,668,725</u>	<u>\$ 19,874,255</u>	<u>\$ 4,645,314</u>	<u>\$ 49,269,037</u>

(Continued on next page)

TOWN OF SOUTHBURY, CONNECTICUT
GOVERNMENTAL FUNDS
BALANCE SHEET (CONTINUED)
JUNE 30, 2016

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)	\$ 18,962,923
--	---------------

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

Governmental capital assets	\$ 173,905,388	
Less accumulated depreciation	<u>(85,727,972)</u>	
Net capital assets		88,177,416

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	570,333
Interest receivable on property taxes	267,449
Housing and mortgage loans	575,851
Deferred outflows related to pension economic/demographic gains or losses	162,815
Deferred outflows of resources pension investment gains or losses	1,605,456
Deferred outflows of resources pension assumption changes or inputs	258,443

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.	361,170
--	---------

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	360,134
Unamortized bond premium	(435,255)
Bonds and notes payable	(6,410,000)
Interest payable on bonds and notes	(110,177)
Compensated absences	(298,279)
Deferred inflows related to pension economic/demographic gains or losses	(121,131)
Net pension liability	<u>(5,375,901)</u>

Net Position of Governmental Activities (Exhibit I)	<u>\$ 98,551,247</u>
---	----------------------

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, 2016**

	<u>General</u>	<u>Library Gift</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 60,597,395	\$	\$	\$	\$ 60,597,395
Intergovernmental	3,804,091	20,361	2,804,663	507,254	7,136,369
Charges for services	1,496,400			742,298	2,238,698
Income (loss) on investments	53,916	12,873	161,235	98	228,122
Miscellaneous	168,007	24,789		78,259	271,055
Total revenues	<u>66,119,809</u>	<u>58,023</u>	<u>2,965,898</u>	<u>1,327,909</u>	<u>70,471,639</u>
Expenditures:					
Current:					
General government	7,135,457			190,888	7,326,345
Public safety	3,502,049			492,109	3,994,158
Public works	2,863,834			1,138	2,864,972
Conservation of health	560,721				560,721
Community activities	1,152,852	153,354		212,060	1,518,266
Education	44,646,554				44,646,554
Capital outlay			7,303,686		7,303,686
Debt service	1,283,505				1,283,505
Total expenditures	<u>61,144,972</u>	<u>153,354</u>	<u>7,303,686</u>	<u>896,195</u>	<u>69,498,207</u>
Excess (Deficiency) of Revenues over Expenditures	<u>4,974,837</u>	<u>(95,331)</u>	<u>(4,337,788)</u>	<u>431,714</u>	<u>973,432</u>
Other Financing Sources (Uses):					
Transfers in	100,000		3,773,887	17,999	3,891,886
Transfers out	(3,471,311)			(420,575)	(3,891,886)
Total other financing sources (uses)	<u>(3,371,311)</u>	<u>-</u>	<u>3,773,887</u>	<u>(402,576)</u>	<u>-</u>
Net Change in Fund Balances	1,603,526	(95,331)	(563,901)	29,138	973,432
Fund Balances at Beginning of Year	<u>6,606,810</u>	<u>2,309,508</u>	<u>8,351,334</u>	<u>721,839</u>	<u>17,989,491</u>
Fund Balances at End of Year	<u>\$ 8,210,336</u>	<u>\$ 2,214,177</u>	<u>\$ 7,787,433</u>	<u>\$ 750,977</u>	<u>\$ 18,962,923</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, 2016

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)	\$ 973,432
---	------------

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	5,648,056
Depreciation expense	(3,445,472)

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.

(11,919)

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	(38,790)
Property tax interest and lien revenue - accrual basis change	11,804
Amortization of bond premium	53,846
Mortgage loan receivables	69,175
Change in net pension liability	(1,316,042)
Change in deferred inflows amounts related to pension economic/demographic gains or losses	63,754
Change in deferred outflows amounts related to pension economic/demographic gains or losses	162,815
Change in deferred outflows amounts related to pension investment gains or losses	(136,022)
Change in deferred outflows amounts related to pension assumption changes or inputs	841,723

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	1,030,000
-------------------------	-----------

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	(21,900)
Amortization of deferred charge on refunding	(44,548)
Accrued interest	14,412

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>158,744</u>

Change in Net Position of Governmental Activities (Exhibit II)	<u>\$ 4,013,068</u>
--	---------------------

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities
	Internal Service Funds
Assets:	
Advance to plan administrators	\$ 421,341
Liabilities:	
Claims incurred but not reported	<u>60,171</u>
Net Position:	
Unrestricted	<u>\$ 361,170</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, 2016**

	Governmental Activities Internal Service Funds
Operating Revenues:	
Contributions	\$ <u>1,062,741</u>
Operating Expenses:	
Employee benefits	784,906
Other expenses	<u>119,091</u>
Total operating expenses	<u>903,997</u>
Operating Income (Loss)	158,744
Net Position at Beginning of Year, as Restated	<u>202,426</u>
Net Position at End of Year	\$ <u><u>361,170</u></u>

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 JUNE 30, 2016**

	Governmental Activities <u>Internal Service Funds</u>
Cash Flows from Operating Activities:	
Cash received from customers and users	\$ 1,062,741
Payment to suppliers	(119,091)
Payments for employee	<u>(943,650)</u>
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>-</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ 158,744
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Increase in advance to plan administrators	(158,349)
Increase in incurred but not reported	<u>(395)</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u><u>-</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, 2016**

	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
Assets:		
Cash and cash equivalents	\$ 383,484	\$ 42,784
Investments:		
Mutual funds and equities	<u>16,467,948</u>	<u> </u>
Total assets	16,851,432	<u>\$ 42,784</u>
Liabilities		
Due to others	<u> </u>	<u>\$ 42,784</u>
Net Position:		
Held in Trust for Pension Benefits	<u>\$ 16,851,432</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, 2016**

	Pension Trust Fund
	<u> </u>
Additions:	
Contributions:	
Plan members	\$ 34,734
Employer	989,000
Total contributions	<u>1,023,734</u>
Investment earnings:	
Net change in fair value of investments	(397,596)
Interest and dividends	307,308
Total investment gain (loss)	<u>(90,288)</u>
Less investment expenses:	
Investment management fees	27,497
Net investment gain (loss)	<u>(117,785)</u>
Total additions	<u>905,949</u>
Deductions:	
Benefits	596,355
Fees	11,278
Total deductions	<u>607,633</u>
Change in Net Position	298,316
Net Position at Beginning of Year	<u>16,553,116</u>
Net Position at End of Year	<u>\$ 16,851,432</u>

The accompanying notes are an integral part of the financial statements

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 1997. 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 SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016, this represents 6.4% 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, 2016**

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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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 \$351,500 during the year ended June 30, 2016. 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.

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.”

**TOWN OF SOUTHBURY, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016**

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*, \$3,209,158 of the Town’s bank balance of \$4,162,579 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 2,838,242
Uninsured and collateralized held by the pledging bank’s trust department, not in the Town’s name	<u>370,916</u>
Total Amount Subject to Custodial Credit Risk	<u><u>\$ 3,209,158</u></u>

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.

**TOWN OF SOUTHURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Cash Equivalents

At June 30, 2016, the Town's cash equivalents amounted to \$9,851,284. 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, 2016</u>	<u>Standard & Poor's Rating</u>
Wells Fargo	\$ 721,408	*
Naugatuck Money Market	1,495,567	*
Newtown Savings Bank ICS	7,634,309	*

* Not rated

B. Investments

As of June 30, 2016, 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	\$ <u>489,236</u>	\$ _____	\$ <u>489,236</u>
Total		489,236	<u>\$ -</u>	<u>\$ 489,236</u>
Other investments:				
Endowment		228,244		
Mutual funds		<u>24,909,684</u>		
Total Investments		<u>\$ 25,627,164</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.

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.

**TOWN OF SOUTHURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016, 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.

Fair Value Measurements

The Town adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application*. The new disclosure is presented below:

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, 2016:

	<u>June 30, 2016</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	\$ 24,909,684	\$ 24,909,684		
Endowment	<u>228,244</u>		\$	<u>228,244</u>
Total Investments by Fair Value Level	<u>\$ 25,137,928</u>	<u>\$ 24,909,684</u>	<u>\$ -</u>	<u>\$ 228,244</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.

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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	\$ 703,311	\$	\$	\$ 703,311
Interest on taxes	267,449			
Accounts	9,601		73,764	83,365
Housing loans			575,851	575,851
Intergovernmental		1,752,200		1,752,200
Gross receivables	<u>980,361</u>	<u>1,752,200</u>	<u>649,615</u>	<u>3,114,727</u>
Less allowance for uncollectibles:				
Taxes	<u>(45,274)</u>			<u>(45,274)</u>
Net Total Receivables	<u>\$ 935,087</u>	<u>\$ 1,752,200</u>	<u>\$ 649,615</u>	<u>\$ 3,336,902</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 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	\$	\$	\$	\$ 19,675,937
Construction in progress	<u>1,787,589</u>	<u>5,648,056</u>		<u>(3,015,252)</u>	<u>4,420,393</u>
Total capital assets not being depreciated	<u>21,463,526</u>	<u>5,648,056</u>	<u>-</u>	<u>(3,015,252)</u>	<u>24,096,330</u>
Capital assets being depreciated:					
Buildings	19,636,224				19,636,224
Furniture and equipment	15,183,773		(466,369)	1,596,151	16,313,555
Infrastructure	<u>112,440,178</u>			<u>1,419,101</u>	<u>113,859,279</u>
Total capital assets being depreciated	<u>147,260,175</u>	<u>-</u>	<u>(466,369)</u>	<u>3,015,252</u>	<u>149,809,058</u>
Less accumulated depreciation for:					
Buildings	5,158,206	344,483			5,502,689
Furniture and equipment	9,574,859	980,572	(454,450)		10,100,981
Infrastructure	<u>68,003,885</u>	<u>2,120,417</u>			<u>70,124,302</u>
Total accumulated depreciation	<u>82,736,950</u>	<u>3,445,472</u>	<u>(454,450)</u>	<u>-</u>	<u>85,727,972</u>
Total capital assets being depreciated, net	<u>64,523,225</u>	<u>(3,445,472)</u>	<u>(11,919)</u>	<u>3,015,252</u>	<u>64,081,086</u>
Governmental Activities Capital Assets, Net	<u>\$ 85,986,751</u>	<u>\$ 2,202,584</u>	<u>\$ (11,919)</u>	<u>\$ -</u>	<u>\$ 88,177,416</u>

**TOWN OF SOUTHURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Depreciation expense was charged to functions/programs as follows:

Governmental activities:		
General government	\$	359,586
Public safety		507,374
Public works		2,473,746
Community activities		<u>104,766</u>
Total Depreciation Expense - Governmental Activities	\$	<u><u>3,445,472</u></u>

Capital Project Commitments

The Town has active long-term projects as of June 30, 2016. The projects include:

	<u>Appropriation</u>	<u>Expended</u>	<u>Encumbrances</u>	<u>Remaining Balance</u>
Capital	\$ 24,523,062	\$ 18,639,753	\$ 4,417,333	\$ 1,465,976
Reserve Accounts	22,085,088	18,818,681	436,720	2,829,687
Limited Reserve Accounts	20,421,364	19,802,627		618,737

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2016, the interfund receivables and payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental	\$ 1,198,157
	Library Gift	453,991
	Capital Projects	<u>7,329,970</u>
		<u>8,982,118</u>
Capital Projects	Nonmajor Governmental	2,120,329
	General Fund	<u>8,671,756</u>
		<u>10,792,085</u>
Library Gift	Capital Projects	<u>2,812</u>
Nonmajor Governmental Funds	Capital Projects	251,446
	Library Gift	532
	General Fund	<u>2,642,923</u>
		<u>2,894,901</u>
Total		\$ <u><u>22,671,916</u></u>

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

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Interfund transfers:

	Transfers In			Total Transfers Out
	General	Capital Projects	Nonmajor Governmental	
Transfers out:				
General Fund	\$	\$ 3,453,312	\$ 17,999	\$ 3,471,311
Nonmajor Governmental	<u>100,000</u>	<u>320,575</u>		<u>420,575</u>
Total Transfers In	<u>\$ 100,000</u>	<u>\$ 3,773,887</u>	<u>\$ 17,999</u>	<u>\$ 3,891,886</u>

All transfers are for regularly recurring operational transfers.

7. LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable and other:					
General obligation bonds	\$ 7,440,000	\$	\$ 1,030,000	\$ 6,410,000	\$ 1,020,000
For issuance premiums	<u>489,101</u>		<u>53,846</u>	<u>435,255</u>	
Total bonds payable and other	7,929,101	-	1,083,846	6,845,255	1,020,000
Compensated absences	276,379	21,900		298,279	254,424
Net pension liability	<u>4,059,859</u>	<u>1,316,042</u>		<u>5,375,901</u>	
Total Governmental Activities Long-Term Liabilities	<u>\$ 12,265,339</u>	<u>\$ 1,337,942</u>	<u>\$ 1,083,846</u>	<u>\$ 12,519,435</u>	<u>\$ 1,274,424</u>

A schedule of bonds and notes outstanding at June 30, 2016 is presented below:

Description	Date of Issue	Date of Maturity	Interest Rate (%)	Amount of Original Issue	Balance Outstanding June 30, 2016
Bonds payable:					
General purpose	2009	2019	3.52-4.0	\$ 2,400,000	\$ 675,000
General purpose	2010	2023	3.0-4.0	6,080,000	3,600,000
General purpose	2012	2025	2.0-5.0	3,020,000	<u>2,135,000</u>
Total					<u>\$ 6,410,000</u>

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Annual maturities of bonds and notes are as follows:

Year Ending				
June 30,	Principal	Interest	Total	
2017	\$ 1,020,000	\$ 221,475	\$ 1,241,475	
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	
2022-2024	<u>1,800,000</u>	<u>83,363</u>	<u>1,883,363</u>	
Total	<u>\$ 6,410,000</u>	<u>\$ 793,763</u>	<u>\$ 7,203,763</u>	

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, 2016, the outstanding bonded indebtedness of the District was \$12,965,000. These issues are eligible for partial reimbursement by the State of Connecticut. Total grants anticipated are \$161,381. The Town's share will be approximately 69% 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):

Category	Debt Limitation	Indebtedness*	Balance
General purpose	\$ 135,493	\$ 6,410	\$ 129,083
Schools	270,986	8,835	262,151
Sewers	225,821		225,821
Urban renewal	195,712		195,712
Pension deficit	180,657		180,657

* 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 (\$421,533).

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. FUND BALANCE

The components of fund balance for the governmental funds at June 30, 2016 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	\$ 17,481	\$	\$	\$	\$ 17,481
Foundation fund					
Prepaid expenses	238,500				
Restricted for:					
Investments - Reserve Fund			7,056,000		7,056,000
Stability Fund - Reserve Fund			273,970		273,970
Committed to:					
General government				224,144	224,144
Public safety				232,351	232,351
Public works				84,225	84,225
Community activities		2,214,177		210,257	2,424,434
Historical buildings	36,531				36,531
Additional pension funding	331,000				331,000
Salt/overtime-winter	120,000				120,000
Special assessments project			457,463		457,463
Assigned to:					
Purchases on order:					
General government	75,821				75,821
Public safety	13,174				13,174
Public works	15,651				15,651
Conservation of health	11,146				11,146
Community activities	3,795				3,795
Subsequent year's budget	355,471				355,471
Future purposes	5,030,000				5,030,000
Unassigned	1,961,766				1,961,766
Total Fund Balances	<u>\$ 8,210,336</u>	<u>\$ 2,214,177</u>	<u>\$ 7,787,433</u>	<u>\$ 750,977</u>	<u>\$ 18,962,923</u>

Significant encumbrances of \$5,075,147 are included in the Capital Projects Fund committed and restricted fund balances as of June 30, 2016.

**TOWN OF SOUTHBURY, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016**

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 2016, total claims expense of \$784,906 was incurred by the Town. This expense represents claims processed and an estimate for claims incurred but not reported as of June 30, 2016.

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, 2016 of \$60,171.

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, 2016 is presented below:

	Accrued Liability Beginning of Fiscal Year		Current Year Claims Paid and Changes in Estimates		Accrued Liability Claim Payments		Accrued Liability End of Fiscal Year
	<u> </u>		<u> </u>		<u> </u>		<u> </u>
2015-2016	\$ 60,566	\$	784,906	\$	785,301	\$	60,171
2014-2015	60,408		955,326		955,168		60,566

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, 2016**

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, 2015, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	63
Terminated plan members entitled to benefits but not yet receiving them	35
Current plan members	<u>98</u>
 Total	 <u><u>196</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 19.41% of covered payroll. Covered payroll is \$5,096,060 or 77.8% of total Town payroll of \$6,549,581. 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, 2016**

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, 2016:

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

Rate of Return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (0.70%). 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, 2016 were as follows:

Total pension liability	\$ 22,227,333
Plan fiduciary net position	<u>16,851,432</u>
Net Pension Liability	<u>\$ 5,375,901</u>
Plan fiduciary net position as a percentage of the total pension liability	75.81%

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Actuarial Assumptions

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

Inflation	2.5%
Salary increases	3.5%
Investment rate of return	7.0%

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, 2016 (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	2.69 %
Short-Term Bonds	1.81
Non-US Fixed Income	1.52
Large Cap US Equities	5.11
Small Cap US Equities	6.26
Developed Foreign Equities	6.04
Emerging Market Equities	8.19
Real Estate (REITs)	5.22
Commodities	3.27

Discount Rate

The discount rate used to measure the total pension liability was 7.00% for June 30, 2016. 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, 2016**

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, 2015	\$ 20,612,975	\$ 16,553,116	\$ 4,059,859
Changes for the year:			
Service cost	486,569		486,569
Interest on total pension liability	1,508,808		1,508,808
Effect of economic/demographic gains or loses	215,336		215,336
Employer contributions		989,000	(989,000)
Member contributions		34,734	(34,734)
Net investment income		(117,785)	117,785
Benefit payments	(596,355)	(596,355)	-
Administrative expenses		(11,278)	11,278
Net changes	<u>1,614,358</u>	<u>298,316</u>	<u>1,316,042</u>
Balances as of June 30, 2016	<u>\$ 22,227,333</u>	<u>\$ 16,851,432</u>	<u>\$ 5,375,901</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 7.00%, 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 (6.00%) or 1 percentage point higher (8.00%) than the current rate:

	1% Decrease	Current	1% Increase
	<u>6.00%</u>	<u>Discount Rate</u> <u>7.00%</u>	<u>8.00%</u>
Net Pension Liability	\$ 8,498,631	\$ 5,375,901	\$ 3,726,642

**TOWN OF SOUTHURY, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016**

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

For the year ended June 30, 2016, the Town recognized pension expense of \$1,372,272. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 121,131	\$ 162,815
Changes of assumptions		258,443
Net difference between projected and actual earning on pension plan investments		<u>1,605,456</u>
Total	<u>\$ 121,131</u>	<u>\$ 2,026,714</u>

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	\$ 573,886
2017	566,662
2018	501,619
2019	263,416

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, 2016 were \$24,584 for employees and \$12,066 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.

13. RESTATEMENT

The Town determined in the current fiscal year that the internal service fund reserve balance was improperly stated in the prior year. The restatement resulted in an increase in the unrestricted net position of the internal service fund and an increase in the government-wide unrestricted net position of \$175,443.

**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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Property taxes:				
Property taxes	\$ 58,927,819	\$ 58,927,819	\$ 59,190,944	\$ 263,125
Prior year's taxes	245,480	245,480	612,125	366,645
Motor vehicle supplement	400,000	400,000	536,926	136,926
Interest and liens	180,711	180,711	257,399	76,688
Overpayments	100,000	100,000		(100,000)
Total property taxes	<u>59,854,010</u>	<u>59,854,010</u>	<u>60,597,394</u>	<u>743,384</u>
Intergovernmental revenues:				
State of Connecticut:				
Education Cost Sharing	2,631,384	2,631,384	3,033,041	401,657
Other	929,813	929,813	650,600	(279,213)
Telecommunication property tax	125,773	125,773	120,449	(5,324)
Total intergovernmental revenues	<u>3,686,970</u>	<u>3,686,970</u>	<u>3,804,090</u>	<u>117,120</u>
Licenses, permits and fees:				
Building and regulatory	198,450	198,450	191,688	(6,762)
Recreation	362,470	362,470	395,890	33,420
Town Clerk	391,226	391,226	543,593	152,367
Dog licenses and fees	9,090	9,090	8,604	(486)
Total licenses, permits and fees	<u>961,236</u>	<u>961,236</u>	<u>1,139,775</u>	<u>178,539</u>
Investment income	<u>107,000</u>	<u>107,000</u>	<u>53,916</u>	<u>(53,084)</u>
Other	<u>441,766</u>	<u>441,766</u>	<u>592,124</u>	<u>150,358</u>
Transferred in from other funds	<u>75,000</u>	<u>75,000</u>	<u>100,000</u>	<u>25,000</u>
Total	<u>\$ 65,125,982</u>	<u>\$ 65,125,982</u>	66,287,299	<u>\$ 1,161,317</u>

Budgetary revenues are different than GAAP revenues because:

Cancellation of prior year encumbrances are recognized as budgetary revenue (67,490)

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

\$ 66,219,809

**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, 2016**

	<u>Budgeted Amounts</u>			<u>Variance - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
General government:				
Board of Selectmen	\$ 407,932	\$ 421,082	\$ 395,533	\$ 25,549
Town Hall Service expense	64,300	64,300	56,116	8,184
Other expense	152,156	160,656	143,060	17,596
Labor related expense	3,228,615	3,371,774	3,144,960	226,814
Computers	174,858	178,658	173,365	5,293
Probate Court	10,959	10,959	10,959	-
Elections	119,514	121,308	111,608	9,700
Board of Finance	59,303	59,303	55,275	4,028
Board of Assessment Appeals	1,650	1,650	905	745
Controller	244,856	255,371	253,854	1,517
Tax Collector	164,383	169,027	153,257	15,770
Assessor	141,201	144,757	132,820	11,937
Town Clerk	244,439	251,979	247,011	4,968
Building Inspector	151,544	154,088	128,231	25,857
Insurance and Bonds	682,260	682,260	682,023	237
Legal expense	95,000	95,000	84,046	10,954
Planning Commission	135,988	140,024	129,380	10,644
Inland Wetlands Commission	90,258	93,125	89,154	3,971
Zoning Commission	27,624	27,624	8,959	18,665
Zoning Board of Appeals	37,871	39,111	37,528	1,583
Economic Development Commission	13,985	13,985	13,143	842
Town properties - inside	281,581	297,546	295,211	2,335
Energy	351,000	351,000	328,403	22,597
Town properties - outside	443,014	446,395	424,438	21,957
Contingency	250,000	173,625		173,625
Refunds	100,000	120,000	108,574	11,426
Total	<u>7,674,291</u>	<u>7,844,607</u>	<u>7,207,813</u>	<u>636,794</u>
Public safety:				
Fire Department/hydrants	492,036	492,036	490,155	1,881
Communications	327,386	352,284	336,485	15,799
Police Protection	2,216,593	2,228,593	2,146,254	82,339
Emergency Management	22,000	22,000	19,775	2,225
Fire Marshal	117,998	121,404	115,314	6,090
Tree Warden	13,250	13,250	12,804	446
Canine Control	74,656	76,317	65,699	10,618
Ambulance Association	331,053	331,053	331,046	7
Total	<u>3,594,972</u>	<u>3,636,937</u>	<u>3,517,532</u>	<u>119,405</u>
Highway-public works:				
General maintenance	2,352,987	2,437,450	2,230,527	206,923
Solid waste disposal	792,284	805,834	796,908	8,926
Total	<u>3,145,271</u>	<u>3,243,284</u>	<u>3,027,435</u>	<u>215,849</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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Conservation of health:				
Conservation Commission	\$ 18,500	\$ 18,500	\$ 13,454	\$ 5,046
Department of Health	161,056	161,056	161,056	-
P. River Watershed Coalition	43,400	43,400	42,600	800
Lake Zoar Authority	23,281	23,281	23,281	-
Lake Lillinonah Authority	25,872	25,872	25,872	-
Pomperaug Valley Water Authority	200	200		200
Water Pollution Authority	100	100		100
Commission of Services for Elderly	826,961	344,566	322,134	22,432
Total	<u>1,099,370</u>	<u>616,975</u>	<u>588,397</u>	<u>28,578</u>
Community activities:				
Committee expenses	31,050	31,050	16,780	14,270
Historic Buildings Commission	1,000	1,000	1,000	-
Library	635,968	648,144	643,294	4,850
Recreation Commission		506,425	486,759	19,666
Other community activities	2,000	2,000		2,000
Total	<u>670,018</u>	<u>1,188,619</u>	<u>1,147,833</u>	<u>40,786</u>
Education - Region #15	<u>44,646,554</u>	<u>44,646,554</u>	<u>44,646,554</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>63,105,476</u>	<u>63,451,976</u>	<u>62,410,564</u>	<u>1,041,412</u>
Transfers out:				
Other transfers		5,000	5,000	-
Capital Reserve Fund	967,000	967,000	967,000	-
Debt Service	1,283,507	1,283,507	1,283,507	-
Total transfers out	<u>2,250,507</u>	<u>2,255,507</u>	<u>2,255,507</u>	<u>-</u>
Total Expenditures and Transfers	\$ <u>65,355,983</u>	\$ <u>65,707,483</u>	64,666,071	\$ <u>1,041,412</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			(60,330)	
Nonbudgetary items and eliminations related to Debt Management and Historical Buildings funds			<u>10,542</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>64,616,283</u>	

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

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

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

	<u>2007</u>	<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>
Actuarially determined contribution	\$ 628,812	\$ 685,586	\$ 430,307	\$ 474,442	\$ 648,132	\$ 635,095	\$ 621,135	\$ 836,141	\$ 950,764	\$ 988,541
Contributions in relation to the actuarially determined contribution	<u>630,000</u>	<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>
Contribution Deficiency (Excess)	\$ <u>(1,188)</u>	\$ <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>
Covered employee payroll	\$ 3,651,946	\$ 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
Contributions as a percentage of covered employee payroll	17.25%	17.46%	11.03%	13.87%	12.57%	12.13%	12.36%	17.92%	20.84%	19.41%

Notes to Schedule

Valuation date: July 1, 2015
Measurement date: June 30, 2016
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 THREE FISCAL YEARS**

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

**TOWN OF SOUTHBURY, CONNECTICUT
GENERAL FUND
COMPARATIVE BALANCE SHEET
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 11,418,321	\$ 8,421,343
Investments	489,236	267,586
Property taxes and interest receivable, net of allowance for uncollectible accounts of \$45,274 in 2016 and 2015	925,486	949,348
Other accounts receivable	9,601	97,645
Due from other funds	8,982,118	1,581,588
Other assets	<u>255,981</u>	<u>260,615</u>
Total Assets	<u>\$ 22,080,743</u>	<u>\$ 11,578,125</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,717,946	\$ 1,912,321
Due to other funds	<u>11,314,679</u>	<u>2,194,226</u>
Total liabilities	<u>13,032,625</u>	<u>4,106,547</u>
Deferred inflows of resources:		
Unavailable revenue - property taxes	570,333	609,123
Unavailable revenue - interest on property taxes	<u>267,449</u>	<u>255,645</u>
Total deferred inflows of resources	<u>837,782</u>	<u>864,768</u>
Fund balances:		
Nonspendable	255,981	260,615
Committed	487,531	393,408
Assigned	5,505,058	5,255,385
Unassigned	<u>1,961,766</u>	<u>697,402</u>
Total fund balances	<u>8,210,336</u>	<u>6,606,810</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 22,080,743</u>	<u>\$ 11,578,125</u>

**TOWN OF SOUTHURDY, CONNECTICUT
GENERAL FUND
REPORT OF TAX COLLECTOR
FOR THE YEAR ENDED JUNE 30, 2016**

Grand List	Due Date	Uncollected Taxes July 1, 2015	Lawful Corrections	Lawful Corrections		Transfers to Suspense	Adjusted Taxes Collectible	Collections				Uncollected Taxes June 30, 2016
				Additions	Deductions			Taxes	Interest	Fees	Total	
2014	2015	\$ 59,680,064	\$	\$ 671,687	\$ 233,073	\$	\$ 60,118,678	\$ 59,678,981	\$ 139,692	\$ 1,138	\$ 59,819,811	\$ 439,697
2013	2014	460,993		33,260	71,661	90,738	331,854	243,407	63,317	2,190	308,914	88,447
2012	2013	111,349		22,779	60,828	22,798	50,502	24,850	30,180	942	55,972	25,652
2011	2012	47,914			4,018		43,896	8,213	5,434	240	13,887	35,683
2010	2011	29,978			1,704		28,274	(676)	(427)	256	(847)	28,950
2009	2010	19,241					19,241	2	2	24	28	19,239
2008	2009	14,945		154	154		14,945	2	2	24	28	14,943
2007	2008	12,332					12,332	2	2	24	28	12,330
2006	2007	8,629					8,629	2	2	24	28	8,627
2005	2006	6,656					6,656	2	3	24	29	6,654
2004	2005	5,771					5,771				-	5,771
2003	2004	4,689					4,689				-	4,689
2002	2003	3,462					3,462				-	3,462
2001	2002	3,136					3,136				-	3,136
2000	2001	3,104					3,104				-	3,104
1999	2000	2,930					2,930	3	10	24	37	2,927
		<u>\$ 60,415,193</u>	<u>\$ -</u>	<u>\$ 727,880</u>	<u>\$ 371,438</u>	<u>\$ 113,536</u>	<u>\$ 60,658,099</u>	<u>59,954,788</u>	<u>238,217</u>	<u>4,910</u>	<u>60,197,915</u>	<u>\$ 703,311</u>
								<u>8,784</u>	<u>5,792</u>	<u>6,377</u>	<u>20,952</u>	
								<u>\$ 59,963,572</u>	<u>\$ 244,009</u>	<u>\$ 11,287</u>	<u>\$ 60,218,867</u>	

Suspense collections

Total

**TOWN OF SOUTHBURY, CONNECTICUT
GENERAL FUND
COMBINING BALANCE SHEET SCHEDULE
JUNE 30, 2016**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Historical Building Fund</u>	<u>Eliminating Entries</u>	<u>Total Combined Funds</u>
ASSETS					
Cash and cash equivalents	\$ 11,418,321	\$	\$	\$	\$ 11,418,321
Investments	489,236				489,236
Receivables, net	935,087				935,087
Due from other funds	9,202,257		36,531	(256,670)	8,982,118
Other assets	<u>17,481</u>	<u>238,500</u>			<u>255,981</u>
Total Assets	<u>\$ 22,062,382</u>	<u>\$ 238,500</u>	<u>\$ 36,531</u>	<u>\$ (256,670)</u>	<u>\$ 22,080,743</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	\$ 1,717,946	\$	\$	\$	\$ 1,717,946
Due to other funds	11,351,210	220,139		(256,670)	11,314,679
Total liabilities	<u>13,069,156</u>	<u>220,139</u>	<u>-</u>	<u>(256,670)</u>	<u>13,032,625</u>
Deferred inflows of resources:					
Unavailable revenue - property taxes	570,333				570,333
Unavailable revenue - interest on property taxes	267,449				267,449
Total deferred inflows of resources	<u>837,782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>837,782</u>
Fund balances:					
Nonspendable	17,481	238,500			255,981
Committed	451,000		36,531		487,531
Assigned	5,505,058				5,505,058
Unassigned	2,181,905	(220,139)			1,961,766
Total fund balances	<u>8,155,444</u>	<u>18,361</u>	<u>36,531</u>	<u>-</u>	<u>8,210,336</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 22,062,382</u>	<u>\$ 238,500</u>	<u>\$ 36,531</u>	<u>\$ (256,670)</u>	<u>\$ 22,080,743</u>

**TOWN OF SOUTHBURY, CONNECTICUT
GENERAL FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
JUNE 30, 2016**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Historical Building Fund</u>	<u>Eliminating Entries</u>	<u>Total Combined Funds</u>
Revenues:					
Property taxes	\$ 60,597,395	\$	\$	\$	\$ 60,597,395
Intergovernmental revenues	3,804,091				3,804,091
Charges for services	1,496,400				1,496,400
Income on investments	53,916				53,916
Miscellaneous	168,007				168,007
Total revenues	<u>66,119,809</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,119,809</u>
Expenditures:					
Current:					
General government	7,135,457				7,135,457
Public safety	3,502,049				3,502,049
Public works	2,863,834				2,863,834
Conservation of health	560,721				560,721
Community activities	1,141,308		11,544		1,152,852
Education	44,646,554				44,646,554
Debt service		1,283,505			1,283,505
Total expenditures	<u>59,849,923</u>	<u>1,283,505</u>	<u>11,544</u>	<u>-</u>	<u>61,144,972</u>
Excess (Deficiency) of Revenues over Expenditures	<u>6,269,886</u>	<u>(1,283,505)</u>	<u>(11,544)</u>	<u>-</u>	<u>4,974,837</u>
Other Financing Sources (Uses):					
Transfers in	100,000	1,283,507	1,000	(1,284,507)	100,000
Transfers out	(4,755,818)			1,284,507	(3,471,311)
Total other financing sources (uses)	<u>(4,655,818)</u>	<u>1,283,507</u>	<u>1,000</u>	<u>-</u>	<u>(3,371,311)</u>
Net Change in Fund Balances	1,614,068	2	(10,544)	-	1,603,526
Fund Balances at Beginning of Year	<u>6,541,376</u>	<u>18,359</u>	<u>47,075</u>	<u>-</u>	<u>6,606,810</u>
Fund Balances at End of Year	<u>\$ 8,155,444</u>	<u>\$ 18,361</u>	<u>\$ 36,531</u>	<u>\$ -</u>	<u>\$ 8,210,336</u>

**TOWN OF SOUTHBURY, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Special Revenue Funds						
	Private Duty	Parks and Recreation Programs and Trips	Probate Court	Three R Investments	Elderly Services and Program Fund	Town Clerk Record Preservation	Streetscape Reserve
ASSETS							
Cash and cash equivalents	\$ 353,480	\$ 600,963	\$ 12,269	\$	\$ 20,506	\$ 70,669	\$
Accounts receivable	73,764						
Due from other funds	251,446	31,000		7,234	83,109		27,745
Total Assets	<u>\$ 678,690</u>	<u>\$ 631,963</u>	<u>\$ 12,269</u>	<u>\$ 7,234</u>	<u>\$ 103,615</u>	<u>\$ 70,669</u>	<u>\$ 27,745</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities:							
Due to other funds	\$ 618,697	\$ 553,293	\$ 83	\$ 7,234	\$ 8,007	\$ 21,087	\$
Deferred inflows of resources:							
Unavailable revenue - loans receivable							
Fund balances:							
Committed	59,993	78,670	12,186		95,608	49,582	27,745
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 678,690</u>	<u>\$ 631,963</u>	<u>\$ 12,269</u>	<u>\$ 7,234</u>	<u>\$ 103,615</u>	<u>\$ 70,669</u>	<u>\$ 27,745</u>

(Continued on next page)

**TOWN OF SOUTHBURY, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (CONTINUED)
JUNE 30, 2016**

	Special Revenue Funds					Eliminating Entries	Total Nonmajor Governmental Funds
	Loss Reserve	Planning	Community Investment Fund	Small Cities	Town Aid Road		
ASSETS							
Cash and cash equivalents	\$	\$	\$ 8,259	\$ 34,652	\$	\$	\$ 1,100,798
Accounts receivable				575,851			649,615
Due from other funds	172,358	64,430	89,687	1,327	2,185,423	(18,858)	2,894,901
Total Assets	<u>\$ 172,358</u>	<u>\$ 64,430</u>	<u>\$ 97,946</u>	<u>\$ 611,830</u>	<u>\$ 2,185,423</u>	<u>\$ (18,858)</u>	<u>\$ 4,645,314</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities:							
Due to other funds	\$	\$	\$	\$	\$ 2,128,943	\$ (18,858)	\$ 3,318,486
Deferred inflows of resources:							
Unavailable revenue - loans receivable				575,851			575,851
Fund balances:							
Committed	172,358	64,430	97,946	35,979	56,480		750,977
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 172,358</u>	<u>\$ 64,430</u>	<u>\$ 97,946</u>	<u>\$ 611,830</u>	<u>\$ 2,185,423</u>	<u>\$ (18,858)</u>	<u>\$ 4,645,314</u>

**TOWN OF SOUTHBURY, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue Funds						
	<u>Private Duty</u>	<u>Parks and Recreation Programs and Trips</u>	<u>Probate Court</u>	<u>Three R Investments</u>	<u>Elderly Services and Program Fund</u>	<u>Town Clerk Record Preservation</u>	<u>Streetscape Reserve</u>
Revenues:							
Intergovernmental revenues	\$	\$	\$	\$	\$	\$	\$
Charges for services	565,834	94,213	43,359		18,232	5,590	
Income on investments						6,914	
Miscellaneous		18,612			5,317	98	
Total revenues	<u>565,834</u>	<u>112,825</u>	<u>43,359</u>	<u>-</u>	<u>23,549</u>	<u>12,602</u>	<u>-</u>
Expenditures:							
Current:							
General government			45,922		36,779	22,709	
Public safety	439,320						
Public works							1
Community activities		81,345			1,932		
Total expenditures	<u>439,320</u>	<u>81,345</u>	<u>45,922</u>	<u>-</u>	<u>38,711</u>	<u>22,709</u>	<u>1</u>
Excess (Deficiency) of Revenues over Expenditures	<u>126,514</u>	<u>31,480</u>	<u>(2,563)</u>	<u>-</u>	<u>(15,162)</u>	<u>(10,107)</u>	<u>(1)</u>
Other Financing Sources (Uses):							
Transfers in					17,999		
Transfers out	(100,000)						
Total other financing sources (uses)	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,999</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	26,514	31,480	(2,563)	-	2,837	(10,107)	(1)
Fund Balances at Beginning of Year	<u>33,479</u>	<u>47,190</u>	<u>14,749</u>	<u>-</u>	<u>92,771</u>	<u>59,689</u>	<u>27,746</u>
Fund Balances at End of Year	<u>\$ 59,993</u>	<u>\$ 78,670</u>	<u>\$ 12,186</u>	<u>\$ -</u>	<u>\$ 95,608</u>	<u>\$ 49,582</u>	<u>\$ 27,745</u>

(Continued on next page)

**TOWN OF SOUTHBURY, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Special Revenue Funds</u>						Total Nonmajor Governmental Funds
	<u>Loss Reserve</u>	<u>Planning</u>	<u>Community Investment Fund</u>	<u>Small Cities</u>	<u>Town Aid Road</u>	<u>Eliminating Entries</u>	
Revenues:							
Intergovernmental revenues	\$	\$	\$	\$ 123,765	\$ 377,899	\$	\$ 507,254
Charges for services		3,375	10,371				742,298
Income on investments							98
Miscellaneous	54,330						78,259
Total revenues	<u>54,330</u>	<u>3,375</u>	<u>10,371</u>	<u>123,765</u>	<u>377,899</u>	<u>-</u>	<u>1,327,909</u>
Expenditures:							
Current:							
General government		85,478					190,888
Public safety	52,789						492,109
Public works	1,137						1,138
Community activities	5,000			123,783			212,060
Total expenditures	<u>58,926</u>	<u>85,478</u>	<u>-</u>	<u>123,783</u>	<u>-</u>	<u>-</u>	<u>896,195</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(4,596)</u>	<u>(82,103)</u>	<u>10,371</u>	<u>(18)</u>	<u>377,899</u>	<u>-</u>	<u>431,714</u>
Other Financing Sources (Uses):							
Transfers in							17,999
Transfers out					(320,575)		(420,575)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(320,575)</u>	<u>-</u>	<u>(402,576)</u>
Net Change in Fund Balances	(4,596)	(82,103)	10,371	(18)	57,324	-	29,138
Fund Balances at Beginning of Year	<u>176,954</u>	<u>146,533</u>	<u>87,575</u>	<u>35,997</u>	<u>(844)</u>	<u>-</u>	<u>721,839</u>
Fund Balances at End of Year	<u>\$ 172,358</u>	<u>\$ 64,430</u>	<u>\$ 97,946</u>	<u>\$ 35,979</u>	<u>\$ 56,480</u>	<u>\$ -</u>	<u>\$ 750,977</u>

**TOWN OF SOUTHBURY, CONNECTICUT
 AGENCY FUND
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
Defined Contribution Plan				
Assets:				
Cash and cash equivalents	\$ <u>6,017</u>	\$ <u>36,979</u>	\$ <u>212</u>	\$ <u>42,784</u>
Liabilities:				
Due to employees	\$ <u>6,017</u>	\$ <u>36,979</u>	\$ <u>212</u>	\$ <u>42,784</u>

TOWN OF SOUTHBURY, CONNECTICUT
STATEMENT OF DEBT LIMITATION
JUNE 30, 2016
(In Thousands)

Total tax collections, including interest and lien fees						\$	<u>60,219</u>	
BASE						\$	<u>60,219</u>	
		General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit		
Debt limitation:								
2-1/4 times base	\$	135,493	\$		\$		\$	
4-1/2 times base			270,986					
3-3/4 times base				225,821				
3-1/4 times base					195,712			
3 times base							180,657	
		<u>135,493</u>	<u>270,986</u>	<u>225,821</u>	<u>195,712</u>		<u>180,657</u>	
Total debt limitation		<u>135,493</u>	<u>270,986</u>	<u>225,821</u>	<u>195,712</u>		<u>180,657</u>	
Indebtedness:								
Bonds and notes payable		6,410						
Overlapping debt:								
Bonds payable and authorized - Regional District #15*, net of school building grants			8,835					
		<u>6,410</u>	<u>8,835</u>	<u>-</u>	<u>-</u>		<u>-</u>	
Net indebtedness		<u>6,410</u>	<u>8,835</u>	<u>-</u>	<u>-</u>		<u>-</u>	
Debt Limitation in Excess of Outstanding and Authorized Debt	\$	<u>129,083</u>	\$	<u>262,151</u>	\$	<u>225,821</u>	\$	<u>195,712</u>
						\$	<u>180,657</u>	

Note (1): In no case shall total indebtedness exceed seven times annual receipts from taxation (\$421,533).

* The Town of Southbury 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, 2016, the outstanding bonded indebtedness of the District was \$12,965. The State of Connecticut will be providing grants to offset the debt of approximately \$161. The Town of Southbury's share will be approximately 69% of the remainder. These are general obligations of Regional School District #15 and its member towns.

TOWN OF SOUTHBURY, CONNECTICUT

STATE SINGLE AUDIT REPORT

JUNE 30, 2016

**TOWN OF SOUTHBURY, CONNECTICUT
STATE SINGLE AUDIT REPORT
JUNE 30, 2016
TABLE OF CONTENTS**

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	1-3
Schedule of Expenditures of State Financial Assistance	4-5
Notes to Schedule of Expenditures of State Financial Assistance	6
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 <i>Government Auditing Standards</i>	7-8
Schedule of Findings and Questioned Costs	9



Accounting | Tax | Business Consulting

**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, 2016. 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, 2016.

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 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 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, 2016, 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 22, 2016, 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 22, 2016

**TOWN OF SOUTHBURY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2016**

State Grantor/Pass-Through Grantor/ Program Title	State Grant Program Core-CT Number	Expenditures
Connecticut State Library		
Grants To Public Libraries	11000-CSL66051-17003	\$ 1,087
ConnectiCard Payments	11000-CSL66051-17010	19,274
Historic Document Preservation Grants	12060-CSL66094-35150	<u>3,000</u>
Total Connecticut State Library		<u>23,361</u>
Department of Transportation		
Bus Operations	12001-DOT57931-12175	5,437
Town Aid Road Grants-Municipal	12052-DOT57131-43455	285,295
Local Transportation Capital Program	13033-DOT57197-43584	<u>801,919</u>
Total Department of Transportation		<u>1,092,651</u>
Office of Policy and Management		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OPM20600-17004	178,782
Reimbursement of Property Taxes - Disability Exemption	11000-OPM20600-17011	1,720
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	212,606
Property Tax Relief for Veterans	11000-OPM20600-17024	14,866
Local Capital Improvement	12050-OPM20600-40254	<u>217,244</u>
Total Office of Policy and Management		<u>625,218</u>
Total State Financial Assistance Before Exempt Programs		<u>1,741,230</u>

The accompanying notes are an integral part of this schedule

**TOWN OF SOUTHBURY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

<u>State Grantor/Pass-Through Grantor/ Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Exempt Programs		
Office of Policy and Management		
Mashantucket Pequot and Mohegan Fund Grant	12009-OPM20600-17005	\$ 42,073
Department of Education		
Education Cost Sharing	11000-SDE64370-17041-82010	<u>3,033,041</u>
Total Exempt Programs		<u>3,075,114</u>
Total State Financial Assistance		\$ <u><u>4,816,344</u></u>

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, 2016**

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, 2016. 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.



Accounting | Tax | Business Consulting

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, 2016, 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 22, 2016.

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 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 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 22, 2016

**TOWN OF SOUTHURY, CONNECTICUT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2016**

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
Office of Policy and Management:		
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	\$ 212,606
Local Capital Improvement	12050-OPM20600-40254	217,244
Department of Transportation:		
Local Transportation Capital Program	13033-DOT57197-43584	801,919
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.

TOWN OF SOUTHBURY, CONNECTICUT

FEDERAL SINGLE AUDIT REPORT

JUNE 30, 2016

**TOWN OF SOUTHBURY, CONNECTICUT
FEDERAL SINGLE AUDIT REPORT
JUNE 30, 2016
TABLE OF CONTENTS**

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	1-3
Schedule of Expenditures of Federal Awards	4
Notes to Schedule of Expenditures of Federal Awards	5
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 <i>Government Auditing Standards</i>	6-7
Schedule of Findings and Questioned Costs	8



Accounting | Tax | Business Consulting

**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Southbury, Connecticut's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Town of Southbury, Connecticut's major federal program for the year ended June 30, 2016. The Town of Southbury, Connecticut's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Town of Southbury, Connecticut's major federal program 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 audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 federal 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 the major federal program. However, our audit does not provide a legal determination of the Town of Southbury, Connecticut's compliance.

Opinion on Each Major Federal 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 its major federal program for the year ended June 30, 2016.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 federal 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2016, 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 22, 2016, 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 federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 federal awards 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 22, 2016

**TOWN OF SOUTHBURY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
United States Department of Housing and Urban Development			
<i>Passed Through the State of Connecticut Department of Housing:</i>			
CDBG - State-Administered CDBG Cluster: Community Development Block Grant	14.228	12060-DOH46920-20730	\$ <u>123,765</u>
United States Department of Transportation			
<i>Passed Through the State of Connecticut Department of Transportation:</i>			
Transit Services Programs Cluster: Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	12062-DOT57931-21361	55,192
Highway Planning and Construction Cluster: Highway Planning and Construction	20.205	12062-DOT57124-22108	\$ 79
Highway Planning and Construction	20.205	12062-DOT57191-22108	<u>25,721</u>
			<u>25,800</u>
Total United States Department of Transportation			<u>80,992</u>
United States Department of Homeland Security			
<i>Passed Through the State of Connecticut Department of Emergency Services and Public Protection:</i>			
Hazard Mitigation Grant	97.039	12060-DPS32983-22278	1,411,641
Emergency Management Performance Grants	97.042	12060-DPS32160-21881	<u>19,873</u>
Total United States Department of Homeland Security			<u>1,431,514</u>
Total Federal Awards			\$ <u><u>1,636,271</u></u>

The accompanying notes are an integral part of this schedule

**TOWN OF SOUTHURY, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Town of Southbury, Connecticut, under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RECOVERY

Town of Southbury, Connecticut, did not recover its indirect costs using the 10% de minimis indirect cost rate provided under Section 200.414 of the Uniform Guidance



Accounting | Tax | Business Consulting

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, 2016, 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 22, 2016.

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 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 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 22, 2016

**TOWN OF SOUTHBURY, CONNECTICUT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2016**

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

Federal Awards

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 2 CFR Section 200.516(a)? _____ yes X no

Major programs:

CFDA #	Name of Federal Program or Cluster
97.039	Hazard Mitigation Grant

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes X no

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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, 2016, 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.

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.

2016 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.

2016 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.

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.

2016 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 November 22, 2016.

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

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
November 22, 2016