

TOWN OF SOUTHBURY, CONNECTICUT

FINANCIAL STATEMENTS
JUNE 30, 2018

TOWN OF SOUTHBURY, CONNECTICUT
TABLE OF CONTENTS
JUNE 30, 2018

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 Funds 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 22-44
Required Supplementary Information:	
General Fund:	
RSI-1	Schedule of Revenues and Other Financing Sources - Budget and Actual 45
RSI-2	Schedule of Expenditures and Other Financing Uses - Budget and Actual 46-47
Pension Trust Fund:	
RSI-3	Schedule of Changes in Net Pension Liability and Related Ratios 48
RSI-4	Schedule of Employer Pension Contributions 49
RSI-5	Schedule of Investment Returns 50
Combining and Individual Fund Statements and Schedules:	
General Fund:	
A-1	Comparative Balance Sheet 51
A-2	Report of Tax Collector 52
A-3	Combining Balance Sheet Schedule 53
A-4	Combining Schedule of Revenues, Expenditures and Changes in Fund Balances 54
Nonmajor Governmental Funds:	
B-1	Combining Balance Sheet 55-56
B-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances 57-58
Agency Fund:	
C	Statement of Changes in Assets and Liabilities 59
Long Term Debt:	
D	Statement of Debt Limitation 60

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, 2018, 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, 2018 and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and the pension schedules, as listed in the table of contents, 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 statements of the Town of Southbury, Connecticut, as of and for the year ended June 30, 2017 (not presented herein), and have issued our report thereon dated November 28, 2017, 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, 2017 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 2017 financial statements. The accompanying General Fund balance sheet has been subjected to the auditing procedures applied in the audit of the 2017 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, 2017.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018 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 solely 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 the effectiveness of the Town of Southbury, Connecticut's 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
December 12, 2018

**TOWN OF SOUTHBURY, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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, 2018. 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 \$6.0 million.
- During the year, the Town had \$73.4 million in tax and other revenues for governmental programs.
- Total cost of all of the Town's programs was \$67.4 million with no new programs added this year.
- The General Fund reported a GAAP fund balance this year of \$11.7 million. \$6.7 million of this is assigned, \$0.2 million is nonspendable and \$0.2 million is committed, leaving an unassigned balance of \$4.6 million. The Town anticipates spending \$0.2 million on bridge repairs in FY 17-18 and \$0.3 million in 18-19. Also approved additional pension funding of \$0.5 million in FY 17-18 and \$0.1 million in 19-20.

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	
	2018	2017
Current and other assets	\$ 28,342,302	\$ 25,950,952
Capital assets, net of accumulated depreciation	91,674,367	91,006,539
Total assets	<u>120,016,669</u>	<u>116,957,491</u>
Deferred outflows of resources	<u>1,198,627</u>	<u>1,786,638</u>
Long-term liabilities outstanding	9,492,618	10,931,291
Other liabilities	1,786,095	3,729,290
Total liabilities	<u>11,278,713</u>	<u>14,660,581</u>
Deferred inflows of resources	<u>152,418</u>	<u>294,472</u>
Net Position:		
Net investment in capital assets	87,242,836	85,550,712
Unrestricted	<u>22,541,329</u>	<u>18,238,364</u>
Total Net Position	<u>\$ 109,784,165</u>	<u>\$ 103,789,076</u>

Net position of the Town's governmental activities increased by 5.8% (\$109.8 million compared to \$103.8 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 \$18.2 million at June 30, 2017 to \$22.5 million at the end of this year.

Net position invested in capital assets increased by \$1.7 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	
	2018	2017
Revenues:		
Program revenues:		
Charges for services	\$ 2,365,269	\$ 2,291,669
Operating grants and contributions	4,946,734	3,868,923
Capital grants and contributions	1,936,341	2,413,245
General revenues:		
Property taxes	63,077,922	61,395,974
Grants and contributions not restricted to specific purposes	463,605	1,345,441
Unrestricted investment earnings	447,076	388,105
Miscellaneous	203,851	242,759
Total revenues	<u>73,440,798</u>	<u>71,946,116</u>
Program expenses:		
General government	8,565,123	8,068,247
Public safety	4,404,833	4,472,966
Public works	6,029,502	5,968,123
Conservation of health	600,069	585,436
Community activities	1,745,242	1,946,018
Education	45,944,867	45,470,046
Debt service	156,073	197,451
Total program expenses	<u>67,445,709</u>	<u>66,708,287</u>
Increase in Net Position	<u>\$ 5,995,089</u>	<u>\$ 5,237,829</u>

The Town's total revenues were \$73.4 million. The total cost of all programs and services was \$67.4 million. Property taxes accounted for 85.9% of all revenues. Revenues from operating grants and contributions, the second largest component, were 6.7%. Education expenses were 68.1% 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
General government	\$ 8,565,123	\$ 8,068,247	\$ 7,601,786	\$ 7,048,520
Public safety	4,404,833	4,472,966	3,693,799	3,854,818
Public works	6,029,502	5,968,123	2,198,632	3,156,141
Conservation of health	600,069	585,436	589,226	571,776
Community activities	1,745,242	1,946,018	1,005,030	1,293,964
Education	45,944,867	45,470,046	42,952,819	42,011,780
Debt service	156,073	197,451	156,073	197,451
Totals	<u>\$ 67,445,709</u>	<u>\$ 66,708,287</u>	<u>\$ 58,197,365</u>	<u>\$ 58,134,450</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 \$24.7 million, which is an increase from last year's total of \$20.3 million. The original budget for 2017 also utilized \$1,442,680 of the prior year fund balance to balance it.

The Capital Projects Fund balance increased by \$0.1 million due primarily to road construction. Some significant expenditures were:

Building	\$ 295,381
Equipment	325,062
Infrastructure	1,906,289

The Town's General Fund balance of \$11.8 million reported on Exhibit III differs from the General Fund's budgetary fund balance of \$11.6 million. This is because the governmental fund balance (Exhibit III) does not include \$191,227 of outstanding encumbrances at year end, which are reported as expenditures for budgetary purposes.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the Town had \$91.7 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 \$0.7 million over last year.

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

	Governmental	
	Activities	
	2018	2017
Land	\$ 19,886	\$ 19,880
Buildings and improvements	14,203	14,198
Equipment	5,036	5,761
Infrastructure	49,667	45,216
Construction in progress	<u>2,882</u>	<u>5,951</u>
Totals	<u>\$ 91,674</u>	<u>\$ 91,006</u>

This year's major additions included:

Building	\$ 236,223
Infrastructure	693,294
Equipment	3,981,428

The Town's fiscal year 2017-18 capital plan calls for it to spend \$785,000 on vehicles. The Town also appropriated an additional \$2.65 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, 2018, the Town had \$4,375,000 in bonds and notes outstanding versus \$5,390,000 last year - a decrease of \$1,015,000. Bonds of \$1,015,000 were retired this year. The Town refinanced a portion of its long-term debt in July 2012, which resulted in a savings of \$241,585 of interest over the life of the bonds.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Town's elected and appointed officials considered many factors when setting the fiscal year 2017-18 budget tax rates. One of those factors is the economy. The Town's employment growth has been affected by the economic turndown. Unemployment in the Town now stands at 4.6% versus 4.6% a year ago. This compares with the State's unemployment rate of 4.5% and the national rate of 4.0%.

These indicators were taken into account when adopting the General Fund budget for 2018-19. Amounts available for appropriation in the General Fund budget are \$69,026,388, an increase of 2.05% over the final 2018 budget of \$67,639,964. The education budget increased 1.5% while the Town budget increased by 1.2%. Budgeted property tax revenue increased 2.3% from the previous year.

The Town has added no new programs or initiatives in the 2019 budget. The Town has also appropriated \$1,239,448 of fund balance to balance the 2017-18 budget and anticipates spending \$300,000 for bridge repairs in 17-18 and \$400,000 in 19-20. Also, approved additional pension funding of \$180,840 in 19-20.

If these estimates are realized, the Town's budgetary General Fund balance is expected to increase by June 30, 2019.

The Town closed its defined benefit pension plan to new employees, except police, effective July 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, 2018**

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 17,979,521
Investments	7,784,388
Receivables, net	2,226,819
Advance to plan administrator	107,485
Prepaid items	244,089
Capital assets not being depreciated	22,768,007
Capital assets, net of accumulated depreciation	68,906,360
Total assets	<u>120,016,669</u>
Deferred Outflows of Resources:	
Deferred charge on refunding	271,032
Differences between expected and actual experience	200,076
Changes of assumptions	476,085
Net difference between projected and actual earnings on pension plan investments	251,434
Total deferred outflows of resources	<u>1,198,627</u>
Liabilities:	
Accounts and other payables	1,237,524
Unearned revenue	548,571
Noncurrent liabilities:	
Due within one year	1,278,814
Due in more than one year	8,213,804
Total liabilities	<u>11,278,713</u>
Deferred Inflows of Resources:	
Differences between expected and actual experience	<u>152,418</u>
Net Position:	
Net investment in capital assets	87,242,836
Unrestricted	<u>22,541,329</u>
Total Net Position	<u>\$ 109,784,165</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, 2018**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
				Governmental Activities
Governmental activities:				
General government	\$ 8,565,123	\$ 957,166	\$ 6,171	\$ (7,601,786)
Public safety	4,404,833	704,929	6,105	(3,693,799)
Public works	6,029,502	167,326	1,727,203	(2,198,632)
Conservation of health	600,069	10,843		(589,226)
Community activities	1,745,242	525,005	215,207	(1,005,030)
Education	45,944,867		2,992,048	(42,952,819)
Debt service	156,073			(156,073)
Total	\$ 67,445,709	\$ 2,365,269	\$ 4,946,734	\$ 1,936,341
General revenues:				
Property taxes				63,077,922
Grants and contributions not restricted to specific programs				463,605
Unrestricted investment earnings				447,076
Miscellaneous				203,851
Total general revenues				<u>64,192,454</u>
Change in net position				5,995,089
Net Position at Beginning of Year				<u>103,789,076</u>
Net Position at End of Year				<u>\$ 109,784,165</u>

The accompany notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	<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	\$ 11,691,625	\$ 775,919	\$ 4,014,222	\$ 1,497,755	\$ 17,979,521
Investments	497,636	2,297,940	4,988,812		7,784,388
Receivables, net	1,507,219		63,424	656,176	2,226,819
Due from other funds	4,943,154	2,812	4,518,353	913,648	10,377,967
Other assets	244,089				244,089
Total Assets	<u>\$ 18,883,723</u>	<u>\$ 3,076,671</u>	<u>\$ 13,584,811</u>	<u>\$ 3,067,579</u>	<u>\$ 38,612,784</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	\$ 818,887	\$ 26	\$ 239,137	\$	\$ 1,058,050
Due to other funds	4,969,725	579,307	3,228,534	1,600,401	10,377,967
Unearned revenue			548,571		548,571
Total liabilities	<u>5,788,612</u>	<u>579,333</u>	<u>4,016,242</u>	<u>1,600,401</u>	<u>11,984,588</u>
Deferred inflows of resources:					
Unavailable revenue - property taxes	914,986				914,986
Unavailable revenue - interest on property taxes	422,428				422,428
Unavailable revenue - loans receivable				597,826	597,826
Total deferred inflows of resources	<u>1,337,414</u>	<u>-</u>	<u>-</u>	<u>597,826</u>	<u>1,935,240</u>
Fund balances:					
Nonspendable	244,089				244,089
Restricted			9,003,034		9,003,034
Committed	230,986	2,497,338	565,535	869,558	4,163,417
Assigned	6,658,715				6,658,715
Unassigned	4,623,907			(206)	4,623,701
Total fund balances	<u>11,757,697</u>	<u>2,497,338</u>	<u>9,568,569</u>	<u>869,352</u>	<u>24,692,956</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 18,883,723</u>	<u>\$ 3,076,671</u>	<u>\$ 13,584,811</u>	<u>\$ 3,067,579</u>	<u>\$ 38,612,784</u>

(Continued on next page)

**TOWN OF SOUTHBURY, CONNECTICUT
GOVERNMENTAL FUNDS
BALANCE SHEET (CONTINUED)
JUNE 30, 2018**

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)	\$ 24,692,956
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Governmental capital assets	\$ 184,273,196
Less accumulated depreciation	<u>(92,598,829)</u>
Net capital assets	91,674,367
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	914,986
Interest receivable on property taxes	422,428
Housing and mortgage loans	597,826
Deferred outflows related to differences between expected and actual experience	200,076
Deferred outflows related to the net difference between projected and actual earnings	251,434
Deferred outflows related to changes of assumptions	476,085
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.	6,002
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	271,032
Unamortized bond premium	(327,563)
Bonds and notes payable	(4,375,000)
Interest payable on bonds and notes	(77,991)
Compensated absences	(296,159)
Deferred inflows related to pension economic/demographic gains or losses	(152,418)
Net pension liability	<u>(4,493,896)</u>
Net Position of Governmental Activities (Exhibit I)	<u>\$ 109,784,165</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHURY, CONNECTICUT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>General</u>	<u>Library Gift</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 62,738,339	\$	\$	\$	\$ 62,738,339
Intergovernmental	4,591,336	22,052	2,164,821	573,403	7,351,612
Charges for services	1,587,923			777,346	2,365,269
Income on investments	210,229	132,173	104,596	78	447,076
Miscellaneous	128,376	23,758		51,717	203,851
Total revenues	<u>69,256,203</u>	<u>177,983</u>	<u>2,269,417</u>	<u>1,402,544</u>	<u>73,106,147</u>
Expenditures:					
Current:					
General government	7,474,165			59,645	7,533,810
Public safety	3,486,926			357,656	3,844,582
Public works	3,170,500			5,224	3,175,724
Conservation of health	592,707				592,707
Community activities	1,234,088	77,282		397,028	1,708,398
Education	45,944,867				45,944,867
Capital outlay			4,742,885		4,742,885
Debt service	1,197,825				1,197,825
Total expenditures	<u>63,101,078</u>	<u>77,282</u>	<u>4,742,885</u>	<u>819,553</u>	<u>68,740,798</u>
Excess (Deficiency) of Revenues over Expenditures	<u>6,155,125</u>	<u>100,701</u>	<u>(2,473,468)</u>	<u>582,991</u>	<u>4,365,349</u>
Other Financing Sources (Uses):					
Transfers in	156,228		4,519,529	9,289	4,685,046
Transfers out	(4,159,673)		(6,228)	(519,145)	(4,685,046)
Total other financing sources (uses)	<u>(4,003,445)</u>	<u>-</u>	<u>4,513,301</u>	<u>(509,856)</u>	<u>-</u>
Net Change in Fund Balances	2,151,680	100,701	2,039,833	73,135	4,365,349
Fund Balances at Beginning of Year	<u>9,606,017</u>	<u>2,396,637</u>	<u>7,528,736</u>	<u>796,217</u>	<u>20,327,607</u>
Fund Balances at End of Year	<u>\$ 11,757,697</u>	<u>\$ 2,497,338</u>	<u>\$ 9,568,569</u>	<u>\$ 869,352</u>	<u>\$ 24,692,956</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, 2018**

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)	\$ 4,365,349
---	--------------

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	4,503,202
Depreciation expense	(3,835,374)

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	247,659
Property tax interest and lien revenue - accrual basis change	91,924
Amortization of bond premium	53,846
Mortgage loan receivables	(4,932)
Change in net pension liability	400,049
Change in deferred inflows amounts related to differences between expected and actual experience	142,054
Change in deferred outflows amounts related to differences between expected and actual experience	89,782
Change in deferred outflows amounts related to net difference between projected and actual earnings on pension plan investments	(246,331)
Change in deferred outflows amounts related to changes in assumptions	(386,912)

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	1,015,000
-------------------------	-----------

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	(30,222)
Amortization of deferred charge on refunding	(44,550)
Accrued interest	17,456

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>(382,911)</u>

Change in Net Position of Governmental Activities (Exhibit II)	<u>\$ 5,995,089</u>
--	---------------------

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
	Internal
	Service Funds
Assets:	
Advance to plan administrators	\$ 107,485
Liabilities:	
Claims incurred but not reported	<u>101,483</u>
Net Position:	
Unrestricted	<u>\$ 6,002</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, 2018**

	Governmental Activities
	Internal Service Funds
Operating Revenues:	
Contributions	\$ <u>1,021,674</u>
Operating Expenses:	
Employee benefits	1,272,715
Other expenses	<u>131,870</u>
Total operating expenses	<u>1,404,585</u>
Operating Loss	(382,911)
Net Position at Beginning of Year	<u>388,913</u>
Net Position at End of Year	\$ <u><u>6,002</u></u>

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 JUNE 30, 2018**

	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities:	
Cash received from customers and users	\$ 1,021,674
Payment to suppliers	(131,870)
Payments for employee	(889,804)
Net cash provided by (used in) operating activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents at Beginning of Year	<u>-</u>
Cash and Cash Equivalents at End of Year	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ (382,911)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Increase in advance to plan administrators	351,285
Increase in incurred but not reported	31,626
Net Cash Provided by (Used in) Operating Activities	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF SOUTHBURY, CONNECTICUT
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2018**

	Pension Trust Fund	Agency Fund
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ 170,316	\$ 178,822
Investments:		
Mutual funds and equities	<u>20,537,398</u>	<u> </u>
Total assets	20,707,714	<u>\$ 178,822</u>
Liabilities		
Due to others	<u> </u>	<u>\$ 178,822</u>
Net Position:		
Held in Trust for Pension Benefits	<u>\$ 20,707,714</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, 2018**

	Pension Trust Fund
	<u> </u>
Additions:	
Contributions:	
Plan members	\$ 25,135
Employer	<u>1,354,000</u>
Total contributions	<u>1,379,135</u>
Investment earnings:	
Net change in fair value of investments	784,023
Interest and dividends	<u>463,760</u>
Total investment gain	<u>1,247,783</u>
Less investment expenses:	
Investment management fees	<u>36,685</u>
Net investment gain	<u>1,211,098</u>
Total additions	<u>2,590,233</u>
Deductions:	
Benefits	1,106,371
Fees	<u>14,181</u>
Total deductions	<u>1,120,552</u>
Change in Net Position	1,469,681
Net Position at Beginning of Year	<u>19,238,033</u>
Net Position at End of Year	<u>\$ 20,707,714</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 2014. The Town operates under a Board of Selectmen/Board of Finance/Town Meeting form of government. Services provided include street maintenance, recreation, police and fire protection, planning and zoning, community services and health services. The Town is a member of Regional School District #15, which provides education services for all children.

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

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The Town reports the following major governmental funds:

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

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

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

Additionally, the Town reports the following fund types:

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

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

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

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

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018, this represents 4.2% 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, 2018**

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, 2018**

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 \$1,507,000 during the year ended June 30, 2018. All additional appropriations were made in accordance with the Charter.

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

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

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

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

B. Deficit Fund Equity

The Town Aid Road fund, a nonmajor governmental fund, had a deficit fund balance of \$206 at June 30, 2018. The deficit will be funded by future grants.

**TOWN OF SOUTHBURY, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018**

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

A. Deposits

Deposit Custodial Credit Risk

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

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$1,830,291 of the Town’s bank balance of \$3,258,997 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,599,777
Uninsured and collateralized held by the pledging bank’s trust department, not in the Town’s name	<u>230,514</u>
Total Amount Subject to Custodial Credit Risk	<u>\$ 1,830,291</u>

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Cash Equivalents

At June 30, 2018, the Town's cash equivalents amounted to \$16,232,192. 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, 2018</u>	<u>Standard & Poor's Rating</u>
Wells Fargo	\$ 4,117,153	*
ION Bank ICS	3,500,098	*
Newtown Savings Bank ICS	8,614,941	*

* Not rated

B. Investments

As of June 30, 2018, 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>497,636</u>	\$ _____	\$ <u>497,636</u>
Total		497,636	\$ <u> - </u>	\$ <u>497,636</u>
Other investments:				
Endowment		260,594		
Mutual funds		<u>27,563,556</u>		
Total Investments		<u>\$ 28,321,786</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 SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018, 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 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, 2018:

	<u>June 30, 2018</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Mutual funds	\$ 27,563,556	\$ 27,563,556	\$	\$
Endowment	<u>260,594</u>			<u>260,594</u>
Total Investments by Fair Value Level	<u>\$ 27,824,150</u>	<u>\$ 27,563,556</u>	<u>\$ -</u>	<u>\$ 260,594</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, 2018**

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	\$ 1,068,544	\$	\$	\$ 1,068,544
Interest on taxes	422,428			422,428
Accounts	61,521		58,350	119,871
Housing loans			597,826	597,826
Intergovernmental		63,424		63,424
Gross receivables	<u>1,552,493</u>	<u>63,424</u>	<u>656,176</u>	<u>2,272,093</u>
Less allowance for uncollectibles:				
Taxes	<u>(45,274)</u>			<u>(45,274)</u>
Net Total Receivables	<u>\$ 1,507,219</u>	<u>\$ 63,424</u>	<u>\$ 656,176</u>	<u>\$ 2,226,819</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 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	\$ 19,879,808	\$	\$	\$ 6,279	\$ 19,886,087
Construction in progress	5,951,221	4,503,202		(7,572,503)	2,881,920
Total capital assets not being depreciated	<u>25,831,029</u>	<u>4,503,202</u>	<u>-</u>	<u>(7,566,224)</u>	<u>22,768,007</u>
Capital assets being depreciated:					
Buildings	20,056,515			371,722	20,428,237
Furniture and equipment	16,500,377		(145,788)	325,062	16,679,651
Infrastructure	117,527,861			6,869,440	124,397,301
Total capital assets being depreciated	<u>154,084,753</u>	<u>-</u>	<u>(145,788)</u>	<u>7,566,224</u>	<u>161,505,189</u>
Less accumulated depreciation for:					
Buildings	5,858,375	366,431			6,224,806
Furniture and equipment	10,739,474	1,050,234	(145,788)		11,643,920
Infrastructure	72,311,394	2,418,709			74,730,103
Total accumulated depreciation	<u>88,909,243</u>	<u>3,835,374</u>	<u>(145,788)</u>	<u>-</u>	<u>92,598,829</u>
Total capital assets being depreciated, net	<u>65,175,510</u>	<u>(3,835,374)</u>	<u>-</u>	<u>7,566,224</u>	<u>68,906,360</u>
Governmental Activities Capital Assets, Net	<u>\$ 91,006,539</u>	<u>\$ 667,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,674,367</u>

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Depreciation expense was charged to functions/programs as follows:

Governmental activities:		
General government	\$	367,964
Public safety		540,606
Public works		2,813,960
Community activities		<u>112,844</u>
Total Depreciation Expense - Governmental Activities	\$	<u><u>3,835,374</u></u>

Capital Project Commitments

The Town has active long-term projects as of June 30, 2018. The projects include:

	<u>Appropriation</u>	<u>Expended</u>	<u>Encumbrances</u>	<u>Remaining Balance</u>
Capital	\$ 29,590,412	\$ 26,822,658	\$ 483,379	\$ 2,284,375
Reserve Accounts	24,268,888	19,912,088	1,828,940	2,527,860
Limited Reserve Accounts	20,857,064	20,209,648		647,416

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2018, the interfund receivables and payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental	\$ 1,514,717
	Library Gift	578,617
	Capital Projects	<u>2,849,820</u>
		<u>4,943,154</u>
Capital Projects	Nonmajor Governmental	85,684
	General Fund	<u>4,432,669</u>
		<u>4,518,353</u>
Library Gift	Capital Projects	<u>2,812</u>
Nonmajor Governmental Funds	Capital Projects	375,902
	Library Gift	690
	General Fund	<u>537,056</u>
		<u>913,648</u>
Total		\$ <u><u>10,377,967</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, 2018**

Interfund transfers:

	Transfers In			Total Transfers Out
	General	Capital Projects	Nonmajor Governmental	
Transfers out:				
General Fund	\$	\$ 4,150,384	\$ 9,289	\$ 4,159,673
Capital Projects		6,228		6,228
Nonmajor Governmental		150,000	369,145	519,145
Total Transfers In	\$	\$ 156,228	\$ 4,519,529	\$ 9,289
				\$ 4,685,046

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, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable and other:					
General obligation bonds	\$ 5,390,000	\$	\$ 1,015,000	\$ 4,375,000	\$ 1,015,000
For issuance premiums	381,409		53,846	327,563	
Total bonds payable and other	5,771,409	-	1,068,846	4,702,563	1,015,000
Compensated absences	265,937	30,222		296,159	263,814
Net pension liability	4,893,945		400,049	4,493,896	
Total Governmental Activities Long-Term Liabilities	\$ 10,931,291	\$ 30,222	\$ 1,468,895	\$ 9,492,618	\$ 1,278,814

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

A schedule of bonds and notes outstanding at June 30, 2018 is presented below:

<u>Description</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate (%)</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding June 30, 2018</u>
Bonds payable:					
General purpose	2009	2019	3.52-4.0	\$ 2,400,000	\$ 225,000
General purpose	2010	2023	3.0-4.0	6,080,000	2,560,000
General purpose	2012	2025	2.0-5.0	3,020,000	<u>1,590,000</u>
Total					<u>\$ 4,375,000</u>

Annual maturities of bonds and notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,015,000	\$ 144,325	\$ 1,159,325
2020	780,000	111,025	891,025
2021	780,000	50,750	830,750
2022	775,000	50,750	825,750
2023	765,000	24,813	789,813
2024	<u>260,000</u>	<u>7,800</u>	<u>267,800</u>
Total	<u>\$ 4,375,000</u>	<u>\$ 389,463</u>	<u>\$ 4,764,463</u>

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018, the outstanding bonded indebtedness of the District was \$9,415,000. 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):

<u>Category</u>	<u>Debt Limitation</u>	<u>Indebtedness*</u>	<u>Balance</u>
General purpose	\$ 137,648	\$ 4,375	\$ 133,273
Schools	275,297	6,463	268,834
Sewers	229,414		229,414
Urban renewal	198,825		198,825
Pension deficit	183,531		183,531

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

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

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

8. FUND BALANCE

The components of fund balance for the governmental funds at June 30, 2018 are as follows:

	<u>General Fund</u>	<u>Library Gift</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund balances:					
Nonspendable:					
Inventory	\$ 14,589	\$	\$	\$	\$ 14,589
Prepaid items	229,500				229,500
Restricted for:					
Investments - Reserve Fund			8,700,000		8,700,000
Stability Fund - Reserve Fund			303,034		303,034
Committed to:					
General government				260,115	260,115
Public safety				275,119	275,119
Public works				42,745	42,745
Community activities		2,497,338		291,579	2,788,917
Historical buildings	50,146				50,146
Additional pension funding	180,840				180,840
Salt/overtime-winter					-
Capital projects			565,535		565,535
Assigned to:					
Purchases on order:					
General government	35,730				35,730
Public safety	17,161				17,161
Public works	31,995				31,995
Conservation of health	11,525				11,525
Community activities	94,816				94,816
Subsequent year's budget	1,237,488				1,237,488
Future purposes	5,230,000				5,230,000
Unassigned	<u>4,623,907</u>			(206)	<u>4,623,701</u>
Total Fund Balances	<u>\$ 11,757,697</u>	<u>\$ 2,497,338</u>	<u>\$ 9,568,569</u>	<u>\$ 869,352</u>	<u>\$ 24,692,956</u>

Significant encumbrances of \$191,227 are included in the General Fund assigned fund balance and \$2,312,319 are included in the Capital Projects Fund committed and restricted fund balances as of June 30, 2018.

**TOWN OF SOUTHBURY, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018**

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 2018, total claims expense of \$1,241,089 was incurred by the Town. This expense represents claims processed and an estimate for claims incurred but not reported as of June 30, 2018.

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, 2018 of \$101,483.

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, 2018 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
2017-2018	\$	69,857	\$	1,272,715	\$	1,241,089	\$	101,483
2016-2017		60,171		867,522		857,836		69,857

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 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 SOUTHBURY, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018**

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, 2017, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	80
Terminated plan members entitled to benefits but not yet receiving them	33
Current plan members	<u>77</u>
Total	<u><u>190</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 25.32% of covered payroll. Covered payroll is \$5,347,606 or 79.1% of total Town payroll of \$6,761,050. 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, 2018**

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, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. Cash	5.00 %
U.S. Core Fixed Income	26.50
Global Bonds	5.50
U.S. Large Caps	17.00
U.S. Small & Mid Caps	9.00
Global Equity	2.50
Non-U.S. Equity	24.75
Emerging Markets Equity	2.25
Global REITs	5.00
Commodities	<u>2.50</u>
	<u><u>100.00 %</u></u>

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 6.23%. 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, 2018 were as follows:

Total pension liability	\$ 25,201,610
Plan fiduciary net position	<u>20,707,714</u>
Net Pension Liability	<u>\$ 4,493,896</u>
Plan fiduciary net position as a percentage of the total pension liability	82.17%

**TOWN OF SOUTHBURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Actuarial Assumptions

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (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>
U.S. Cash	0.52 %
U.S. Core Fixed Income	2.65
Global Bonds	1.11
U.S. Large Caps	4.57
U.S. Small & Mid Caps	5.66
Global Equity	5.23
Non-U.S. Equity	6.06
Emerging Markets Equity	8.12
Global REITs	5.74
Commodities	3.07

Discount Rate

The discount rate used to measure the total pension liability was 6.50% for June 30, 2018. 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, 2018**

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, 2017	\$ 24,131,978	\$ 19,238,033	\$ 4,893,945
Changes for the year:			
Service cost	441,526		441,526
Interest on total pension liability	1,561,887		1,561,887
Effect of plan changes	(31,584)		(31,584)
Effect of economic/demographic gains or losses	204,174		204,174
Effect of assumptions changes or inputs			-
Employer contributions		1,354,000	(1,354,000)
Member contributions		25,135	(25,135)
Net investment income		1,211,098	(1,211,098)
Benefit payments	(1,106,371)	(1,106,371)	-
Administrative expenses		(14,181)	14,181
Net changes	<u>1,069,632</u>	<u>1,469,681</u>	<u>(400,049)</u>
Balances as of June 30, 2018	<u>\$ 25,201,610</u>	<u>\$ 20,707,714</u>	<u>\$ 4,493,896</u>

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

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

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Net Pension Liability	\$ 7,455,372	\$ 4,493,896	\$ 2,010,348

**TOWN OF SOUTHURY, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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

For the year ended June 30, 2018, the Town recognized pension expense of \$1,355,358. At June 30, 2018, 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	\$ 152,418	\$ 200,076
Changes of assumptions		476,085
Net difference between projected and actual earnings on pension plan investments		<u>251,434</u>
Total	<u>\$ 152,418</u>	<u>\$ 927,595</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,

2019	\$ 588,184
2020	314,020
2021	(136,557)
2022	<u>9,530</u>
Total	<u>\$ 775,177</u>

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, 2018 were \$54,172 for employees and \$25,242 for the Town.

12. CONTINGENT LIABILITIES

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

**TOWN OF SOUTHURY, CONNECTICUT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Property taxes:				
Property taxes	\$ 61,125,971	\$ 61,125,971	\$ 61,569,104	\$ 443,133
Prior year's taxes	245,305	245,305	345,087	99,782
Motor vehicle supplement	550,000	550,000	612,326	62,326
Interest and liens	200,000	200,000	215,465	15,465
Overpayments	100,000	100,000		(100,000)
Total property taxes	<u>62,221,276</u>	<u>62,221,276</u>	<u>62,741,982</u>	<u>520,706</u>
Intergovernmental revenues:				
State of Connecticut:				
Education Cost Sharing	1,867,610	1,867,610	2,992,048	1,124,438
Other	907,082	907,082	1,490,753	583,671
Telecommunication property tax	140,497	140,497	108,535	(31,962)
Total intergovernmental revenues	<u>2,915,189</u>	<u>2,915,189</u>	<u>4,591,336</u>	<u>1,676,147</u>
Licenses, permits and fees:				
Building and regulatory	234,950	234,950	265,874	30,924
Recreation	368,000	368,000	353,619	(14,381)
Town Clerk	503,313	503,313	503,990	677
Dog licenses and fees	7,227	7,227	7,894	667
Total licenses, permits and fees	<u>1,113,490</u>	<u>1,113,490</u>	<u>1,131,377</u>	<u>17,887</u>
Investment income	<u>143,800</u>	<u>143,800</u>	<u>210,229</u>	<u>66,429</u>
Other	<u>493,430</u>	<u>493,430</u>	<u>652,306</u>	<u>158,876</u>
Transferred in from other funds	<u>100,000</u>	<u>100,000</u>	<u>156,228</u>	<u>56,228</u>
Total	<u>\$ 66,987,185</u>	<u>\$ 66,987,185</u>	<u>69,483,458</u>	<u>\$ 2,496,273</u>

Budgetary revenues are different than GAAP revenues because:

Cancellation of prior year encumbrances are recognized
as budgetary revenue

(71,027)

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

\$ 69,412,431

**TOWN OF SOUTHURY, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
General government:				
Board of Selectmen	\$ 331,207	\$ 339,702	\$ 281,845	\$ 57,857
Town Hall Service expense	61,200	61,200	56,058	5,142
Other expense	130,656	130,656	125,700	4,956
Labor related expense	3,461,772	3,872,822	3,436,444	436,378
Computers	330,568	340,970	311,512	29,458
Probate Court	8,029	8,029	8,029	-
Elections	114,549	115,387	101,797	13,590
Board of Finance	65,200	65,200	58,400	6,800
Board of Assessment Appeals	1,650	1,650	1,519	131
Controller	262,082	273,989	266,953	7,036
Tax Collector	163,067	163,067	130,793	32,274
Assessor	147,121	148,682	143,727	4,955
Town Clerk	248,089	252,961	228,803	24,158
Building Inspector	165,490	167,059	133,392	33,667
Insurance and Bonds	737,403	737,403	650,364	87,039
Legal expense	95,000	95,000	94,154	846
Planning Commission	143,186	144,136	136,693	7,443
Inland Wetlands Commission	91,821	93,092	87,081	6,011
Zoning Commission	20,308	20,308	10,454	9,854
Zoning Board of Appeals	39,437	39,437	3,029	36,408
Economic Development Commission	16,150	16,150	16,115	35
Town properties - inside	335,792	342,515	322,147	20,368
Energy	311,000	311,000	310,386	614
Town properties - outside	509,886	518,251	415,592	102,659
Contingency	300,000	193,758		193,758
Refunds	100,000	230,000	206,269	23,731
Total	<u>8,190,663</u>	<u>8,682,424</u>	<u>7,537,256</u>	<u>1,145,168</u>
Public safety:				
Fire Department/hydrants	491,512	498,512	496,949	1,563
Communications	348,981	368,690	360,382	8,308
Police Protection	2,264,992	2,335,947	2,146,673	189,274
Emergency Management	23,000	23,000	19,210	3,790
Fire Marshal	116,906	116,906	82,633	34,273
Tree Warden	22,450	22,450	21,648	802
Canine Control	79,800	79,800	53,149	26,651
Emergency Services	327,453	327,621	327,621	-
Total	<u>3,675,094</u>	<u>3,772,926</u>	<u>3,508,265</u>	<u>264,661</u>
Highway-public works:				
General maintenance	2,293,819	2,480,476	2,321,534	158,942
Solid waste disposal	895,940	898,036	839,453	58,583
Total	<u>3,189,759</u>	<u>3,378,512</u>	<u>3,160,987</u>	<u>217,525</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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Conservation of health:				
Conservation Commission	\$ 13,500	\$ 13,500	\$ 11,716	\$ 1,784
Department of Health	172,747	172,747	172,747	-
P. River Watershed Coalition	43,400	43,400	40,000	3,400
Lake Zoar Authority	19,568	19,568	19,568	-
Lake Lillinonah Authority	25,909	25,909	25,909	-
Pomperaug Valley Water Authority	200	200		200
Water Pollution Authority	100	100		100
Commission of Services for Elderly	352,965	359,902	344,182	15,720
Total	<u>628,389</u>	<u>635,326</u>	<u>614,122</u>	<u>21,204</u>
Community activities:				
Committee expenses	29,600	29,600	26,384	3,216
Historic Buildings Commission	23,500	23,500	23,500	-
Library	665,629	684,871	650,408	34,463
Recreation Commission	699,450	701,925	656,062	45,863
Other community activities	500	500		500
Total	<u>1,418,679</u>	<u>1,440,396</u>	<u>1,356,354</u>	<u>84,042</u>
Education - Region #15	<u>45,957,456</u>	<u>45,957,456</u>	<u>45,944,867</u>	<u>12,589</u>
Capital outlay - Roads	<u>2,275,000</u>	<u>2,275,000</u>	<u>2,275,000</u>	<u>-</u>
Total expenditures	<u>65,335,040</u>	<u>66,142,040</u>	<u>64,396,851</u>	<u>1,745,189</u>
Transfers out:				
Capital Reserve Fund	1,097,000	1,097,000	1,097,000	-
Capital Transfers Other		700,000	700,000	-
Debt Service	1,197,825	1,197,825	1,197,825	-
Total transfers out	<u>2,294,825</u>	<u>2,994,825</u>	<u>2,994,825</u>	<u>-</u>
Total Expenditures and Transfers	\$ <u>67,629,865</u>	\$ <u>69,136,865</u>	67,391,676	\$ <u>1,745,189</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			(119,011)	
Nonbudgetary items and eliminations related to Debt Management and Historical Buildings funds			(11,914)	
Total Expenditures and Other Financing Uses as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV			\$ <u>67,260,751</u>	

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total pension liability:					
Service cost	\$ 482,164	\$ 465,632	\$ 486,569	\$ 425,211	\$ 441,526
Interest on total pension liability	1,324,663	1,396,685	1,508,808	1,559,415	1,561,887
Effect of plan changes					(31,584)
Effect of economic/demographic gains or losses	(349,016)	(248,639)	215,336	(321,772)	204,174
Effect of assumption changes or inputs		530,487		1,005,067	
Benefit payments, including refunds of member contributions	(493,215)	(527,123)	(596,355)	(763,276)	(1,106,371)
Net change in total pension liability	964,596	1,617,042	1,614,358	1,904,645	1,069,632
Total pension liability - beginning	18,031,337	18,995,933	20,612,975	22,227,333	24,131,978
Total pension liability - ending	<u>18,995,933</u>	<u>20,612,975</u>	<u>22,227,333</u>	<u>24,131,978</u>	<u>25,201,610</u>
Plan fiduciary net position:					
Contributions - employer	836,516	1,075,764	989,000	1,119,000	1,354,000
Contributions - member	23,628	34,709	34,734	27,557	25,135
Net investment income (loss)	1,657,727	171,680	(117,785)	2,015,608	1,211,098
Benefit payments, including refunds of member contributions	(493,215)	(527,123)	(596,355)	(763,276)	(1,106,371)
Administrative expense	(10,981)	(11,455)	(11,278)	(12,288)	(14,181)
Net change in plan fiduciary net position	2,013,675	743,575	298,316	2,386,601	1,469,681
Plan fiduciary net position - beginning	13,795,866	15,809,541	16,553,116	16,851,432	19,238,033
Plan fiduciary net position - ending	<u>15,809,541</u>	<u>16,553,116</u>	<u>16,851,432</u>	<u>19,238,033</u>	<u>20,707,714</u>
Net Pension Liability - Ending	<u>\$ 3,186,392</u>	<u>\$ 4,059,859</u>	<u>\$ 5,375,901</u>	<u>\$ 4,893,945</u>	<u>\$ 4,493,896</u>
Plan fiduciary net position as a percentage of the total pension liability	83.23%	80.30%	75.81%	79.72%	82.17%
Covered employee payroll	\$ 4,667,415	\$ 5,161,863	\$ 5,096,060	\$ 5,806,805	\$ 5,347,606
Net pension liability as a percentage of covered employee payroll	68.27%	78.65%	105.49%	84.28%	84.04%

*Note: This schedule is intended to be ten years. Additional years will be added as information becomes available.

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially determined contribution	\$ 430,307	\$ 474,442	\$ 648,132	\$ 635,095	\$ 621,135	\$ 836,141	\$ 950,764	\$ 988,541	\$ 1,013,607	\$ 1,098,703
Contributions in relation to the actuarially determined contribution	<u>435,000</u>	<u>600,000</u>	<u>648,132</u>	<u>635,095</u>	<u>621,135</u>	<u>836,516</u>	<u>1,075,764</u>	<u>989,000</u>	<u>1,119,000</u>	<u>1,354,000</u>
Contribution Deficiency (Excess)	\$ <u>(4,693)</u>	\$ <u>(125,558)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(375)</u>	\$ <u>(125,000)</u>	\$ <u>(459)</u>	\$ <u>(105,393)</u>	\$ <u>(255,297)</u>
Covered employee payroll	\$ 3,944,816	\$ 4,324,805	\$ 5,158,084	\$ 5,236,678	\$ 5,026,644	\$ 4,667,415	\$ 5,161,863	\$ 5,096,060	\$ 5,806,805	\$ 5,347,606
Contributions as a percentage of covered employee payroll	11.03%	13.87%	12.57%	12.13%	12.36%	17.92%	20.84%	19.41%	19.27%	25.32%

Notes to Schedule

Valuation date: July 1, 2017
 Measurement date: June 30, 2018
 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 6.50%
 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 FIVE FISCAL YEARS***

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Annual money-weighted rate of return, net of investment expense	11.88%	1.06%	(0.70%)	11.80%	6.23%

*Note: This schedule is intended to be ten years. Additional years will be added as information becomes available.

**TOWN OF SOUTHBURY, CONNECTICUT
GENERAL FUND
COMPARATIVE BALANCE SHEET
JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 11,691,625	\$ 8,843,593
Investments	497,636	737,923
Property taxes and interest receivable, net of allowance for uncollectible accounts of \$45,274 in 2018 and 2017	1,445,698	1,108,132
Other accounts receivable	61,521	59,039
Due from other funds	4,943,154	11,373,757
Other assets	<u>244,089</u>	<u>248,117</u>
Total Assets	<u>\$ 18,883,723</u>	<u>\$ 22,370,561</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued expenses	\$ 818,887	\$ 1,100,032
Due to other funds	<u>4,969,725</u>	<u>10,666,681</u>
Total liabilities	<u>5,788,612</u>	<u>11,766,713</u>
Deferred inflows of resources:		
Unavailable revenue - property taxes	914,986	667,327
Unavailable revenue - interest on property taxes	<u>422,428</u>	<u>330,504</u>
Total deferred inflows of resources	<u>1,337,414</u>	<u>997,831</u>
Fund balances:		
Nonspendable	244,089	248,117
Committed	230,986	735,232
Assigned	6,658,715	6,715,924
Unassigned	<u>4,623,907</u>	<u>1,906,744</u>
Total fund balances	<u>11,757,697</u>	<u>9,606,017</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 18,883,723</u>	<u>\$ 22,370,561</u>

TOWN OF SOUTHBURY, CONNECTICUT
 GENERAL FUND
 REPORT OF TAX COLLECTOR
 FOR THE YEAR ENDED JUNE 30, 2018

Grand List	Due Date	Uncollected Taxes July 1, 2017	Lawful Corrections		Transfers to Suspense	Adjusted Taxes Collectible	Collections				Uncollected Taxes June 30, 2018
			Additions	Deductions			Taxes	Interest	Fees	Total	
2016	2017	\$ 61,805,298	\$ 737,353	\$ 152,028	\$	\$ 62,390,623	\$ 61,828,636	\$ 112,818	\$ 1,236	\$ 61,942,690	\$ 561,987
2015	2016	480,067	9,734	13,988		475,813	235,313	52,281	1,656	289,250	240,500
2014	2015	117,755	6,476	845		123,386	60,380	19,505	530	80,415	63,006
2013	2014	61,517	26	17		61,526	15,823	8,602	161	24,586	45,703
2012	2013	21,495		16		21,479	3,033	2,297	54	5,384	18,446
2011	2012	34,582	1	14		34,569				-	34,569
2010	2011	28,635		16		28,619	(13)		24	11	28,632
2009	2010	19,239		14		19,225				-	19,225
2008	2009	14,943				14,943				-	14,943
2007	2008	12,330				12,330				-	12,330
2006	2007	8,627				8,627				-	8,627
2005	2006	6,654				6,654				-	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
		<u>\$ 62,625,064</u>	<u>\$ 753,590</u>	<u>\$ 166,938</u>	<u>\$ -</u>	<u>\$ 63,211,716</u>	62,143,172	195,503	3,661	62,342,336	<u>\$ 1,068,544</u>
					Suspense collections		20,301	11,390	4,864	36,554	
					Total		<u>\$ 62,163,473</u>	<u>\$ 206,893</u>	<u>\$ 8,525</u>	<u>\$ 62,378,890</u>	

**TOWN OF SOUTHBURY, CONNECTICUT
GENERAL FUND
COMBINING BALANCE SHEET SCHEDULE
JUNE 30, 2018**

	<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	\$ 11,691,625	\$	\$	\$	\$ 11,691,625
Investments	497,636				497,636
Receivables, net	1,507,219				1,507,219
Due from other funds	5,154,293		50,146	(261,285)	4,943,154
Other assets	<u>14,589</u>	<u>229,500</u>			<u>244,089</u>
Total Assets	<u>\$ 18,865,362</u>	<u>\$ 229,500</u>	<u>\$ 50,146</u>	<u>\$ (261,285)</u>	<u>\$ 18,883,723</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	\$ 818,887	\$	\$	\$	\$ 818,887
Due to other funds	5,019,871	211,139		(261,285)	4,969,725
Total liabilities	<u>5,838,758</u>	<u>211,139</u>	<u>-</u>	<u>(261,285)</u>	<u>5,788,612</u>
Deferred inflows of resources:					
Unavailable revenue - property taxes	914,986				914,986
Unavailable revenue - interest on property taxes	422,428				422,428
Total deferred inflows of resources	<u>1,337,414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,337,414</u>
Fund balances:					
Nonspendable	14,589	229,500			244,089
Committed	180,840		50,146		230,986
Assigned	6,658,715				6,658,715
Unassigned	4,835,046	(211,139)			4,623,907
Total fund balances	<u>11,689,190</u>	<u>18,361</u>	<u>50,146</u>	<u>-</u>	<u>11,757,697</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 18,865,362</u>	<u>\$ 229,500</u>	<u>\$ 50,146</u>	<u>\$ (261,285)</u>	<u>\$ 18,883,723</u>

**TOWN OF SOUTHBURY, CONNECTICUT
GENERAL FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
JUNE 30, 2018**

	<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	\$ 62,738,339	\$	\$	\$	\$ 62,738,339
Intergovernmental revenues	4,591,336				4,591,336
Charges for services	1,587,923				1,587,923
Income on investments	210,229				210,229
Miscellaneous	128,376				128,376
Total revenues	<u>69,256,203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,256,203</u>
Expenditures:					
Current:					
General government	7,474,165				7,474,165
Public safety	3,486,926				3,486,926
Public works	3,170,500				3,170,500
Conservation of health	592,707				592,707
Community activities	1,222,502		11,586		1,234,088
Education	45,944,867				45,944,867
Debt service		1,197,825			1,197,825
Total expenditures	<u>61,891,667</u>	<u>1,197,825</u>	<u>11,586</u>	<u>-</u>	<u>63,101,078</u>
Excess (Deficiency) of Revenues over Expenditures	<u>7,364,536</u>	<u>(1,197,825)</u>	<u>(11,586)</u>	<u>-</u>	<u>6,155,125</u>
Other Financing Sources (Uses):					
Transfers in	156,228	1,197,825	23,500	(1,221,325)	156,228
Transfers out	<u>(5,380,998)</u>			<u>1,221,325</u>	<u>(4,159,673)</u>
Total other financing sources (uses)	<u>(5,224,770)</u>	<u>1,197,825</u>	<u>23,500</u>	<u>-</u>	<u>(4,003,445)</u>
Net Change in Fund Balances	2,139,766	-	11,914	-	2,151,680
Fund Balances at Beginning of Year	<u>9,549,424</u>	<u>18,361</u>	<u>38,232</u>	<u>-</u>	<u>9,606,017</u>
Fund Balances at End of Year	<u>\$ 11,689,190</u>	<u>\$ 18,361</u>	<u>\$ 50,146</u>	<u>\$ -</u>	<u>\$ 11,757,697</u>

**TOWN OF SOUTHBURY, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Special Revenue Funds					
	Private Duty	Parks and Recreation Programs and Trips	Probate Court	Elderly Services and Program Fund	Town Clerk Record Preservation	Streetscape Reserve
ASSETS						
Cash and cash equivalents	\$	\$ 1,174,531	\$ 81,443	\$ 64,291	\$ 62,964	\$
Accounts receivable	58,350					
Due from other funds	<u>376,286</u>	<u>46,335</u>		<u>62,152</u>		<u>42,745</u>
Total Assets	<u>\$ 434,636</u>	<u>\$ 1,220,866</u>	<u>\$ 81,443</u>	<u>\$ 126,443</u>	<u>\$ 62,964</u>	<u>\$ 42,745</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Due to other funds	\$ 319,071	\$ 1,129,023	\$ 63,074	\$ 13,888	\$ 4,008	\$
Deferred inflows of resources:						
Unavailable revenue - loans receivable						
Fund balances:						
Committed	115,565	91,843	18,369	112,555	58,956	42,745
Unassigned						
Total fund balance	<u>115,565</u>	<u>91,843</u>	<u>18,369</u>	<u>112,555</u>	<u>58,956</u>	<u>42,745</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 434,636</u>	<u>\$ 1,220,866</u>	<u>\$ 81,443</u>	<u>\$ 126,443</u>	<u>\$ 62,964</u>	<u>\$ 42,745</u>

(Continued on next page)

**TOWN OF SOUTHURY, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (CONTINUED)
JUNE 30, 2018**

	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	\$	\$	\$ 28,674	\$ 85,852	\$	\$	\$ 1,497,755
Accounts receivable				597,826			656,176
Due from other funds	159,554	149,907	89,687	1,329		(14,347)	913,648
Total Assets	\$ 159,554	\$ 149,907	\$ 118,361	\$ 685,007	\$ -	\$ (14,347)	\$ 3,067,579
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities:							
Due to other funds	\$	\$ 85,478	\$	\$	\$ 206	\$ (14,347)	\$ 1,600,401
Deferred inflows of resources:							
Unavailable revenue - loans receivable				597,826			597,826
Fund balances:							
Committed	159,554	64,429	118,361	87,181			869,558
Unassigned					(206)		(206)
Total fund balance	159,554	64,429	118,361	87,181	(206)	-	869,352
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 159,554	\$ 149,907	\$ 118,361	\$ 685,007	\$ -	\$ (14,347)	\$ 3,067,579

**TOWN OF SOUTHBURY, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Special Revenue Funds					
	Private Duty	Parks and Recreation Programs and Trips	Probate Court	Elderly Services and Program Fund	Town Clerk Record Preservation	Streetscape Reserve
Revenues:						
Intergovernmental revenues	\$	\$	\$	\$	\$	\$
Charges for services	543,871	101,455	35,052	10,843	6,171	6,676
Income on investments					78	
Miscellaneous		12,308		12,923		15,000
Total revenues	<u>543,871</u>	<u>113,763</u>	<u>35,052</u>	<u>23,766</u>	<u>12,925</u>	<u>15,000</u>
Expenditures:						
Current:						
General government			31,832	20,223	7,590	
Public safety	357,656					
Public works						
Community activities		113,200		1,351		
Total expenditures	<u>357,656</u>	<u>113,200</u>	<u>31,832</u>	<u>21,574</u>	<u>7,590</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>186,215</u>	<u>563</u>	<u>3,220</u>	<u>2,192</u>	<u>5,335</u>	<u>15,000</u>
Other Financing Sources (Uses):						
Transfers in				9,289		
Transfers out	(150,000)					
Total other financing sources (uses)	<u>(150,000)</u>	<u>-</u>	<u>-</u>	<u>9,289</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	36,215	563	3,220	11,481	5,335	15,000
Fund Balances at Beginning of Year	<u>79,350</u>	<u>91,280</u>	<u>15,149</u>	<u>101,074</u>	<u>53,621</u>	<u>27,745</u>
Fund Balances at End of Year	<u>\$ 115,565</u>	<u>\$ 91,843</u>	<u>\$ 18,369</u>	<u>\$ 112,555</u>	<u>\$ 58,956</u>	<u>\$ 42,745</u>

(Continued on next page)

**TOWN OF SOUTHURY, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Loss Reserve	Planning	Community Investment Fund	Small Cities	Town Aid Road	
Revenues:						
Intergovernmental revenues	\$	\$	\$	\$ 198,087	\$ 369,145	\$ 573,403
Charges for services		(1)	9,519	69,931		777,346
Income on investments						78
Miscellaneous	11,486					51,717
Total revenues	<u>11,486</u>	<u>(1)</u>	<u>9,519</u>	<u>268,018</u>	<u>369,145</u>	<u>1,402,544</u>
Expenditures:						
Current:						
General government						59,645
Public safety						357,656
Public works	5,224					5,224
Community activities				282,477		397,028
Total expenditures	<u>5,224</u>	<u>-</u>	<u>-</u>	<u>282,477</u>	<u>-</u>	<u>819,553</u>
Excess (Deficiency) of Revenues over Expenditures	<u>6,262</u>	<u>(1)</u>	<u>9,519</u>	<u>(14,459)</u>	<u>369,145</u>	<u>582,991</u>
Other Financing Sources (Uses):						
Transfers in						9,289
Transfers out					(369,145)	(519,145)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(369,145)</u>	<u>(509,856)</u>
Net Change in Fund Balances	6,262	(1)	9,519	(14,459)	-	73,135
Fund Balances at Beginning of Year	<u>153,292</u>	<u>64,430</u>	<u>108,842</u>	<u>101,640</u>	<u>(206)</u>	<u>796,217</u>
Fund Balances at End of Year	<u>\$ 159,554</u>	<u>\$ 64,429</u>	<u>\$ 118,361</u>	<u>\$ 87,181</u>	<u>\$ (206)</u>	<u>\$ 869,352</u>

**TOWN OF SOUTHBURY, CONNECTICUT
 AGENCY FUND
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>
Defined Contribution Plan				
Assets:				
Cash and cash equivalents	\$ <u>86,043</u>	\$ <u>92,919</u>	\$ <u>140</u>	\$ <u>178,822</u>
Liabilities:				
Due to employees	\$ <u>86,043</u>	\$ <u>92,919</u>	\$ <u>140</u>	\$ <u>178,822</u>

TOWN OF SOUTHBURY, CONNECTICUT
STATEMENT OF DEBT LIMITATION
JUNE 30, 2018
(In Thousands)

Total tax collections, including interest and lien fees						\$	<u>61,177</u>	
BASE						\$	<u>61,177</u>	
		General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit		
Debt limitation:								
2-1/4 times base	\$	137,648	\$		\$		\$	
4-1/2 times base			275,297					
3-3/4 times base				229,414				
3-1/4 times base					198,825			
3 times base							183,531	
		<u>137,648</u>	<u>275,297</u>	<u>229,414</u>	<u>198,825</u>		<u>183,531</u>	
Total debt limitation		<u>137,648</u>	<u>275,297</u>	<u>229,414</u>	<u>198,825</u>		<u>183,531</u>	
Indebtedness:								
Bonds and notes payable		4,375						
Overlapping debt:								
Bonds payable and authorized - Regional District #15*, net of school building grants			6,463					
		<u>4,375</u>	<u>6,463</u>	<u>-</u>	<u>-</u>		<u>-</u>	
Net indebtedness		<u>4,375</u>	<u>6,463</u>	<u>-</u>	<u>-</u>		<u>-</u>	
Debt Limitation in Excess of Outstanding and Authorized Debt	\$	<u>133,273</u>	\$	<u>268,834</u>	\$	<u>229,414</u>	\$	<u>198,825</u>
						\$	<u>183,531</u>	

Note (1): In no case shall total indebtedness exceed seven times annual receipts from taxation (\$428,239).

* 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, 2018, the outstanding bonded indebtedness of the District was \$9,415. 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.

To the Board of Finance
Town of Southbury, Connecticut

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Southbury, Connecticut, for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 17, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

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

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

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

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

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

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Also, a significant deficiency is reported in relation to the financial statement close process. This control deficiency is reported in the state single audit.

Other Matters

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

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

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 12, 2018

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, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

CURRENT YEAR RECOMMENDATIONS

Interfund Balances and Deficit Fund Balances

As part of the regular payment process, the General Fund pays for the expenditures of all funds and cash receipts for all funds are deposited in the General Fund cash account. These transactions create due to/from balances between the funds and are considered reimbursable transactions. These interfund (due to/from) amounts are increasing every year, and this trend has been continuing for several years.

Recommendation:

We recommend that interfund balances should be analyzed and, where possible, funds should reimburse amounts owed to other funds. Due to/from activity should be used for temporary borrowing of funds from one fund to the other and not for the purpose of long-term financing of activities.

Management Response:

The fiscal office has enacted a policy to review, analyze and reconcile the due to/from accounts on a timely basis.

Parks and Recreation Department Deposits

As part of our testing performed over the Parks and Recreation Department in the current year, it was noted that the policy is to deposit cash and checks at the fiscal department every Thursday. Our review has shown that the deposit had occurred on days other than Thursday throughout the year. It was also noted that although the Parks and Recreation Department drops off cash and checks at the fiscal office to be deposited at the bank, our review has shown certain deposits took more than one week to deposit at the bank.

Recommendation:

We recommend that the policies established for the deposits of the Parks and Recreation income be followed to ensure cash is deposited to the bank timely.

Management Response:

The fiscal office has installed new policies to record and deposit the Parks and Recreation income in a timely manner.

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.

2018 Update: The Board of Finance is actively working on integrating this project. Research by the Board of Finance has shown few communities have adopted this practice.

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.

2018 Update: Personnel changes in the fiscal office have improved communications with the Region and the Town feels confident that a more timely posting to the general ledger will be accomplished.

IT Policies and Procedures

During our audit field work, 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.

2018 Update: The IT Steering Committee has met with the Board of Finance to review their priorities and set up a disaster plan checklist. The IT Steering Committee is actively working on formal documentation of this plan.

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 December 12, 2018.

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

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 12, 2018

TOWN OF SOUTHBURY, CONNECTICUT

STATE SINGLE AUDIT REPORT
JUNE 30, 2018

**TOWN OF SOUTHBURY, CONNECTICUT
STATE SINGLE AUDIT REPORT
JUNE 30, 2018
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
Notes to Schedule of Expenditures of State Financial Assistance	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	8-9

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, 2018. 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, 2018.

Report on Internal Control over Compliance

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

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Southbury, Connecticut, as of and for the year ended June 30, 2018, 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 December 12, 2018, 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
December 12, 2018

**TOWN OF SOUTHBURY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2018**

State Grantor/Pass-Through Grantor/ Program Title	State Grant Program Core-CT Number	Expenditures
Connecticut State Library		
ConnectiCard Payments	11000-CSL66051-17010	\$ <u>16,022</u>
Department of Transportation		
Bus Operations	12001-DOT57931-12175	14,147
Town Aid Road Grants-Municipal	12052-DOT57131-43455	469,851
Town Aid Road-STO	13033-DOT57131-43459	184,572
Local Transportation Capital Program	13033-DOT57197-43548	<u>1,915,359</u>
Total Department of Transportation		<u>2,583,929</u>
Economic and Community Development		
Historic Preservation Grants	12060-ECD46840-90455	<u>113,061</u>
Office of Policy and Management		
Reimbursement to Towns - Tax Loss On State Property	11000-OPM20600-17004	12,808
Reimbursement for Property Tax - Disability Exemption	11000-OPM20600-17011	1,612
Property Tax Relief For Veterans	11000-OPM20600-17024	13,871
Municipal Purposes & Projects	12052-OPM20600-43587	41,962
Local Capital Improvement	12050-OPM20600-40254	<u>1,129,578</u>
Total Office of Policy and Management		<u>1,199,831</u>
Total State Financial Assistance Before Exempt Programs		<u>3,912,843</u>
Exempt Programs		
Department of Education		
Education Cost Sharing	11000-SDE64370-17041-82010	<u>2,992,048</u>
Office of Policy and Management		
Municipal Stabilization Grant	11000-OPM20600-17104	251,577
Grants To Towns	12009-OPM20600-17005	<u>37,443</u>
Total Office of Policy and Management		<u>289,020</u>
Total Exempt Programs		<u>3,281,068</u>
Total State Financial Assistance		<u>\$ <u>7,193,911</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, 2018**

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, 2018. 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.

**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, 2018, 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 December 12, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be significant deficiencies.

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*.

The Town of Southbury, Connecticut's Response to Findings

The Town of Southbury, Connecticut's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Southbury, Connecticut's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results 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
December 12, 2018

**TOWN OF SOUTHURY, CONNECTICUT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2018**

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?	X	yes	_____	none reported
Noncompliance material to financial statements noted?	_____	yes	X	no

State Financial Assistance

Internal control over major programs:

Material weakness(es) identified?	_____	yes	X	no
Significant deficiency(ies) identified?	_____	yes	X	none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act?

_____ yes X no

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

State Grantor and Program	State Core-CT Number	Expenditures
Department of Transportation:		
Town Aid Road Grants - Municipal	12052-DOT57131-43455	\$ 469,851
Town Aid Road - STO	13033-DOT57131-43459	184,572
Department of Transportation:		
Local Transportation Capital Program	13033-DOT57197-43548	1,915,359
Dollar threshold used to distinguish between type A and type B programs:		\$ 200,000

II. FINANCIAL STATEMENT FINDINGS

2018-001	Financial Reporting Requirements
Criteria	Management is responsible for establishing and maintaining internal controls to ensure the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).
Condition	<p>Significant audit adjustments were posted to the Town of Southbury, Connecticut's general ledger to properly reflect accounts in accordance with GAAP, including the following:</p> <ul style="list-style-type: none">• Prior year audit adjustments were not recorded in the current year.• Transactions were not recorded in the proper period.• Tax receivables and deferrals were not adjusted at year end.• Intergovernmental receivables and deferrals were not properly recorded at year end
Context	During our audit procedures, misstatements were noted within multiple funds of the Town of Southbury, Connecticut.
Effect	Management-prepared financial statements were not presented in accordance with GAAP.
Cause	Lack of internal controls and procedures in place to ensure the general ledger and financial statements were reported in conformity with GAAP.
Recommendation	We recommend that the Town of Southbury, Connecticut, develop policies and procedures to establish effective internal controls to ensure financial statements are presented in accordance with GAAP.
Views of Responsible Officials	At the close of fiscal year ended July 2017, Southbury's long-standing Treasurer retired, and a new Finance Director was hired and put in place. Moving forward, we will ensure close attention and correction to any issues outlined in your State Single Audit deficiency notice.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

No matters were reported.