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Independent Auditors' Report

To the Board of Finance
Town of East Haddam, 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 East Haddam, Connecticut, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of East Haddam, Connecticut's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of East Haddam, Connecticut, as of June 30, 2016 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Prior Period Adjustment

As discussed in Note 12 to the financial statements, during the fiscal year ended June 30, 2016, prior period adjustments were made with respect to the Town's participation in the State of Connecticut Municipal Employees' Retirement System. The System changed its method of accounting for receivables and the Town recognized the amount payable to the System for prior service costs. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-3 through A-9, the budgetary comparison information on pages A-57 through A-60 and the pension schedules on pages A-61 through A-66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
November 17, 2016

TOWN OF EAST HADDAM, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

This discussion and analysis of the Town of East Haddam, Connecticut's (the Town) financial performance is provided by management to give an overview of the Town's financial activities for the fiscal year ended June 30, 2016. Please read this MD&A in conjunction with the Town's financial statements, Exhibits I to IX.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities by \$77,798,785 (net position). Of this amount, \$15,230,572 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$2,008,362 or 2.6%. Factors leading to this increase were renovations and improvements to the elementary school, infrastructure improvements and the acquisition of public safety and public works equipment.
- During the year, the Town had expenses that were \$2,008,362 less than the \$34,902,426 generated in tax and other revenues for governmental programs.
- The Town's governmental funds reported combined ending fund balances of \$17,169,664, a decrease of \$117,019 in comparison with the prior year. The main factor attributing to the decrease is the Town funding the initial phases of major capital improvements (\$482,940) that will ultimately be bonded. Approximately 21% or \$3,658,848, of this total amount is available for spending at the Town's discretion (unassigned fund balance).
- The unassigned balance for the General Fund was \$4,152,163 or 13.5% of the General Fund budgetary expenditures and other financing uses. The total General Fund balance was \$4,563,643 or 14.8% of the General Fund budgetary expenditures and other financing uses, this represents a decrease of \$181,173.
- The Capital Projects and Reserve Fund (where all capital projects and reserves for capital projects are reflected) increased by \$370,448, for an ending fund balance of \$5,255,223.
- The Town's long-term debt decreased by \$1,207,174, or 7% due to scheduled repayments and refunding of 2008 bonds.

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 in them. The Town's net position, the difference between assets and liabilities, is 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, public safety, public works, health and welfare, recreation and leisure and general administration. 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. The Town establishes many funds to help control and manage financial activities for particular purposes or to show that it is meeting legal responsibilities for using grants and other money (like grants received from the State Department of Education). The Town's funds are divided into three categories: governmental, proprietary 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 in the fund financial statements.
- *Proprietary Funds (Exhibits V, VI and VII)* - When the Town charges customers for the services it provides, whether to outside customers or to other units of the Town, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. Internal service funds (the component of proprietary funds) are used to report activities that provide supplies and services for the Town's other programs and activities - such as the Town's Board of Education Insurance Internal Service Fund.
- *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 net position increased from \$75,970,423 to \$77,798,785. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental activities.

**TABLE 1
NET POSITION**

	Governmental Activities	
	2016	2015
Current and other assets	\$ 19,005,102	\$ 19,265,423
Capital assets	<u>77,683,678</u>	<u>76,565,051</u>
Total assets	<u>96,688,780</u>	<u>95,830,474</u>
Deferred outflows of resources	<u>754,591</u>	<u>87,477</u>
Long-term debt outstanding	18,110,978	18,540,012
Other liabilities	<u>1,526,248</u>	<u>1,500,257</u>
Total liabilities	<u>19,637,226</u>	<u>20,040,269</u>
Deferred inflows of resources	<u>7,360</u>	<u>87,259</u>
Net position:		
Net investment in capital assets	62,128,420	59,760,942
Restricted	439,793	439,793
Unrestricted	<u>15,230,572</u>	<u>15,589,688</u>
Total Net Position	<u>\$ 77,798,785</u>	<u>\$ 75,790,423</u>

Prior period adjustments were made with respect to the Town's participation in the State of Connecticut Municipal Employees' Retirement System. The System changed its method of accounting for receivables and the Town recognized the amount payable to the System for prior service costs.

Net position of the Town's governmental activities increased by 2.6%. 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, decreased from \$15,589,688 to \$15,230,572.

**TABLE 2
CHANGE IN NET POSITION**

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,281,038	\$ 1,140,247
Operating grants and contributions	7,045,641	7,426,255
Capital grants and contributions	1,435,616	1,783,666
General revenues:		
Property taxes	24,628,234	23,847,928
Grants and contributions not restricted to specific purposes	100,910	147,562
Unrestricted investment earnings	291,015	494,451
Other general revenues	119,972	97,983
Total revenues	<u>34,902,426</u>	<u>34,938,092</u>
Program expenses:		
General government	2,752,660	3,317,213
Public safety	1,165,174	957,856
Public works	3,432,111	3,085,314
Health and welfare	486,859	452,148
Recreation and leisure	794,088	647,851
Education	23,583,437	22,823,332
Interest on long-term debt	679,735	667,794
Total program expenses	<u>32,894,064</u>	<u>31,951,508</u>
Increase in Net Position	2,008,362	2,986,584
Net Position July 1, as Restated	<u>75,790,423</u>	<u>72,803,839</u>
Net Position June 30	<u>\$ 77,798,785</u>	<u>\$ 75,790,423</u>

The Town's total revenues were \$34,902,426. The total cost of all programs and services was \$32,894,064. Our analysis below considers the operations of governmental activities.

Governmental Activities

Approximately 71% of the Town's revenues were derived from property taxes, followed by 20% from operating grants and contributions, 4% for capital grants and contributions and then 4% from charges for services.

The mill rate for fiscal year 2016 was 28.68. The mill rate for fiscal year 2015 was 27.90.

For Governmental Activities, approximately 72% of the Town's expenditures related to education, followed by 10% related to public works and 8% related to general government.

Governmental Activities

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

**TABLE 3
GOVERNMENTAL ACTIVITIES**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General government	\$ 2,752,660	\$ 3,317,213	\$ 2,054,415	\$ 2,994,302
Public safety	1,165,174	957,856	1,003,680	827,307
Public works	3,432,111	3,085,314	2,057,351	1,340,510
Health and welfare	486,859	452,148	461,127	426,157
Recreation and leisure	794,088	647,851	576,392	443,392
Education	23,583,437	22,823,332	16,299,069	14,951,280
Other	<u>679,735</u>	<u>667,794</u>	<u>679,735</u>	<u>667,794</u>
Totals	<u>\$ 32,894,064</u>	<u>\$ 31,951,508</u>	<u>\$ 23,131,769</u>	<u>\$ 21,650,742</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 \$17,169,664, which is a decrease of \$117,019 from last year’s total of \$17,286,683.

General Fund Budgetary Highlights

The Town realized a reduction in General Fund interest income; a continued reflection of interest rates in a recessionary economy.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the Town had \$77.7 million invested in a broad range of capital assets, including land, buildings, park facilities, vehicles and equipment and roads (see Table 4). The increase (including additions and deductions) of \$1.1 million was primarily due renovations and improvements to the elementary school, infrastructure improvements and the acquisition of public safety and public works equipment.

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

	Governmental Activities	
	2016	2015
Land	\$ 9,734	\$ 9,734
Building and improvements	49,889	50,396
Furniture and equipment	3,634	2,948
Infrastructure	12,642	12,554
Construction in progress	1,784	993
Totals	<u>\$ 77,683</u>	<u>\$ 76,625</u>

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

Long-Term Debt

TABLE 5
OUTSTANDING DEBT, AT YEAR END

	Governmental Activities	
	2016	2015
General obligation bonds	\$ 14,020,000	\$ 14,950,000
Notes payable	1,510,000	1,787,174
Total	<u>\$ 15,530,000</u>	<u>\$ 16,737,174</u>

At June 30, 2016, the Town had \$15.5 million in bonds and notes outstanding versus \$16.7 million last year. In November 2015 the Town refinanced \$9 million in prior bonds from the Town's 2008 series bonds. The refinancing resulted in a \$686 thousand cumulative net cash flow savings to the Town.

The State limits the amount of general obligation debt that towns 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 \$174 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 adopting the fiscal year 2016-2017 General Fund budget.

Revenues: The Town anticipated revenues from state, federal and local sources to increase by 4.5%. The budget includes no reliance on the general fund to balance the budget. The budget provides for an increase in property taxes of \$701 thousand or 2.9%. The mill rate increased by .67. The mill rate for fiscal year 2016-2017 is 29.35.

Expenses: The expenditure budget for 2016-2017 is \$31,150,888 or an increase of \$863 thousand (over the 2015-2016 original budget). The increase is attributed to improved public safety, support of Education and increased reserving for future capital projects.

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, 7 Main Street, East Haddam, Connecticut 06423.

TOWN OF EAST HADDAM, CONNECTICUT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 9,714,563
Investments	7,420,066
Receivables, net	1,830,925
Due from fiduciary funds	35,295
Inventory	4,253
Capital assets not being depreciated	11,517,690
Capital assets being depreciated, net	66,165,988
Total assets	<u>96,688,780</u>
Deferred Outflows of Resources:	
Deferred charges on refunding	667,271
Changes related to pension actuarial experience	17,274
Changes related to actuarial assumptions	3,393
Employer contributions made subsequent to the measurement date	66,653
Total deferred outflows of resources	<u>754,591</u>
Liabilities:	
Accounts and other payables	1,370,212
Unearned revenue	156,036
Noncurrent liabilities:	
Due within one year	1,800,089
Due in more than one year	16,310,889
Total liabilities	<u>19,637,226</u>
Deferred Inflows of Resources:	
Changes in projected investment earnings	<u>7,360</u>
Net Position:	
Net investment in capital assets	62,128,420
Restricted for trust purposes	439,793
Unrestricted	<u>15,230,572</u>
Total Net Position	<u>\$ 77,798,785</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF EAST HADDAM, CONNECTICUT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 2,752,660	\$ 436,593	\$ 975	\$ 260,677	\$ (2,054,415)
Public safety	1,165,174	157,225	4,269		(1,003,680)
Public works	3,432,111	199,821		1,174,939	(2,057,351)
Health and welfare	486,859	1,504	24,228		(461,127)
Recreation and leisure	794,088	194,950	22,746		(576,392)
Education	23,583,437	290,945	6,993,423		(16,299,069)
Interest on long-term debt	679,735				(679,735)
Total	\$ 32,894,064	\$ 1,281,038	\$ 7,045,641	\$ 1,435,616	(23,131,769)
General revenues:					
Property taxes					24,628,234
Grants and contributions not restricted to specific programs					100,910
Unrestricted net investment income					291,015
Other					119,972
Total general revenues					<u>25,140,131</u>
Change in net position					2,008,362
Net Position at Beginning of Year, as Restated					<u>75,790,423</u>
Net Position at End of Year					<u>\$ 77,798,785</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF EAST HADDAM, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>General</u>	<u>Capital Projects and Reserve Fund</u>	<u>Bonded Capital Projects Fund</u>	<u>A.E. Purple Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 3,361,060	\$ 5,997,963	\$	\$ 150,122	\$ 149,855	\$ 9,659,000
Investments				6,438,018	982,048	7,420,066
Receivables, net	516,745	886,500	200,803		226,877	1,830,925
Due from other funds	1,704,610				262,450	1,967,060
Other					4,253	4,253
Total Assets	<u>\$ 5,582,415</u>	<u>\$ 6,884,463</u>	<u>\$ 200,803</u>	<u>\$ 6,588,140</u>	<u>\$ 1,625,483</u>	<u>\$ 20,881,304</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts and other payables	\$ 394,722	\$ 326,555	\$ 453,909	\$	\$ 96,351	\$ 1,271,537
Due to other funds	262,450	1,302,685	229,834		136,796	1,931,765
Unearned revenue	9,298				146,738	156,036
Total liabilities	<u>666,470</u>	<u>1,629,240</u>	<u>683,743</u>	<u>-</u>	<u>379,885</u>	<u>3,359,338</u>
Deferred inflows of resources:						
Unavailable revenue - property taxes	<u>352,302</u>					<u>352,302</u>
Fund balances:						
Nonspendable				400,000	44,046	444,046
Restricted				6,188,140	1,087,007	7,275,147
Committed		5,255,223			23,682	5,278,905
Assigned	411,480				101,238	512,718
Unassigned	4,152,163		(482,940)		(10,375)	3,658,848
Total fund balances	<u>4,563,643</u>	<u>5,255,223</u>	<u>(482,940)</u>	<u>6,588,140</u>	<u>1,245,598</u>	<u>17,169,664</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,582,415</u>	<u>\$ 6,884,463</u>	<u>\$ 200,803</u>	<u>\$ 6,588,140</u>	<u>\$ 1,625,483</u>	<u>\$ 20,881,304</u>

(Continued on next page)

TOWN OF EAST HADDAM, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2016

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position:
 Amounts reported for governmental activities in the statement of net position (Exhibit I) are
 different because of the following:

Fund balances - total governmental funds (Exhibit III)	\$ 17,169,664
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Capital assets used in governmental activities are not financial
 resources and, therefore, are not reported in the funds:

Governmental capital assets	\$ 104,408,557	
Less accumulated depreciation	<u>(26,724,879)</u>	
Net capital assets		77,683,678

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	296,687
Interest receivable on property taxes	55,615
Deferred amounts on refunding	667,271
Deferred outflows related to actuarial assumptions	3,393
Deferred outflows related to pension actuarial experience	17,274
Deferred outflows for contributions made subsequent to measurement date	66,653

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.

45,363

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

Bonds and notes payable	(15,530,000)
Interest payable on bonds and notes	(88,475)
Compensated absences	(1,101,182)
Bond premium	(692,529)
Termination benefits	(150,225)
Net OPEB obligation	(104,088)
Deferred inflows related to changes in projected investment earnings	(7,360)
MERS prior service costs	(43,640)
Net pension liability	<u>(489,314)</u>

Net Position of Governmental Activities (Exhibit I)	<u>\$ 77,798,785</u>
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The accompanying notes are an integral part of the financial statements

**TOWN OF EAST HADDAM, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	General	Capital Projects and Reserve Fund	Bonded Capital Projects Fund	A.E. Purple Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 24,855,533	\$	\$	\$	\$	\$ 24,855,533
Intergovernmental	6,679,889	92,493	200,803		1,445,378	8,418,563
Charges for services	645,676				648,362	1,294,038
Income on investments	24,532	22,155		201,975	42,353	291,015
Miscellaneous	245,381		8,126		26,785	280,292
Total revenues	<u>32,451,011</u>	<u>114,648</u>	<u>208,929</u>	<u>201,975</u>	<u>2,162,878</u>	<u>35,139,441</u>
Expenditures:						
Current:						
General government	3,256,893				6,717	3,263,610
Public safety	949,824	29,339			78,594	1,057,757
Public works	1,858,776				927,737	2,786,513
Health and welfare	411,309				33,866	445,175
Recreation and leisure	538,977				127,767	666,744
Education	21,557,488	15,603		62,884	965,155	22,601,130
Debt service	1,946,098		132,055			2,078,153
Capital outlay		1,708,239	691,869		89,325	2,489,433
Total expenditures	<u>30,519,365</u>	<u>1,753,181</u>	<u>823,924</u>	<u>62,884</u>	<u>2,229,161</u>	<u>35,388,515</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,931,646</u>	<u>(1,638,533)</u>	<u>(614,995)</u>	<u>139,091</u>	<u>(66,283)</u>	<u>(249,074)</u>
Other Financing Sources (Uses):						
Refunding bond Issuance			9,165,000			9,165,000
Refunding bond premium			660,674			660,674
Payment to escrow agent			(9,693,619)			(9,693,619)
Transfers in	319,257	2,008,981			423,095	2,751,333
Transfers out	<u>(2,432,076)</u>			<u>(289,311)</u>	<u>(29,946)</u>	<u>(2,751,333)</u>
Total other financing sources (uses)	<u>(2,112,819)</u>	<u>2,008,981</u>	<u>132,055</u>	<u>(289,311)</u>	<u>393,149</u>	<u>132,055</u>
Net Change in Fund Balances	(181,173)	370,448	(482,940)	(150,220)	326,866	(117,019)
Fund Balances at Beginning of Year	<u>4,744,816</u>	<u>4,884,775</u>	<u>-</u>	<u>6,738,360</u>	<u>918,732</u>	<u>17,286,683</u>
Fund Balances at End of Year	<u>\$ 4,563,643</u>	<u>\$ 5,255,223</u>	<u>\$ (482,940)</u>	<u>\$ 6,588,140</u>	<u>\$ 1,245,598</u>	<u>\$ 17,169,664</u>

(Continued on next page)

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

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

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

Net change in fund balances - total governmental funds (Exhibit IV) \$ (117,019)

Governmental funds report capital outlays as expenditures and donations of capital assets as revenues. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay 2,496,751
Depreciation expense (1,378,124)

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 (140,200)
Property tax interest and lien revenue - accrual basis change (87,099)
Loans receivable (13,000)

Change in deferred outflows related to pension actuarial experience and assumptions (5,453)
Change in deferred outflows related to contributions made subsequent to the measurement date 5,296

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

Bonds and notes principal payments 1,377,174
Bond premiums (660,674)
Refunding bonds issued (9,165,000)
Payments to bond refunding agent 9,693,619

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 (34,617)
Accrued interest 17,512
MERS prior service costs 10,910
Termination payments 21,284
Amortization of deferred charge on refunding (31,348)
Amortization of bond premiums 35,080
Change in deferred inflows related to changes in projected investments earnings 79,899
Change in net pension liability (95,326)
Net OPEB expense (247)

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. (1,056)

Change in Net Position of Governmental Activities (Exhibit II) \$ 2,008,362

The accompanying notes are an integral part of the financial statements

**TOWN OF EAST HADDAM, CONNECTICUT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016**

	<u>Governmental Activities Internal Service Funds</u>
Assets:	
Cash and cash equivalents	\$ 55,563
Liabilities:	
Accounts and other payables	<u>10,200</u>
Net Position:	
Unrestricted	<u><u>\$ 45,363</u></u>

The accompanying notes are an integral part of the financial statements

**TOWN OF EAST HADDAM, CONNECTICUT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Governmental Activities
	Internal Service Funds
Operating Revenues:	
Employer contribution	\$ 25,275
Employee contribution	<u>41,539</u>
Total operating revenues	<u>66,814</u>
Operating Expenses:	
Administrative expense	5,047
Employee benefits	<u>62,823</u>
Total operating expenses	<u>67,870</u>
Operating Loss	(1,056)
Net Position at Beginning of Year	<u>46,419</u>
Net Position at End of Year	<u>\$ 45,363</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF EAST HADDAM, CONNECTICUT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Governmental Activities <u>Internal Service Funds</u>
Cash Flows from Operating Activities:	
Cash received from employees and employer	\$ 66,814
Cash payments to providers of benefits and administration	<u>(66,658)</u>
Net cash provided by (used in) operating activities	<u>156</u>
Net Increase (Decrease) in Cash and Cash Equivalents	156
Cash and Cash Equivalents at Beginning of Year	<u>55,407</u>
Cash and Cash Equivalents at End of Year	<u>\$ 55,563</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ (1,056)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Change in assets and liabilities:	
Decrease in accounts payable	<u>1,212</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 156</u>

The accompanying notes are an integral part of the financial statements

TOWN OF EAST HADDAM, CONNECTICUT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2016

	Pension Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ 211,064	\$ 338,988
Investments	<u>3,595,525</u>	<u> </u>
Total assets	<u>3,806,589</u>	<u>\$ 338,988</u>
Liabilities:		
Due to other funds	35,295	
Accounts and other payables	<u> </u>	<u>338,988</u>
Total Liabilities	<u>35,295</u>	<u>\$ 338,988</u>
Net Position:		
Held in Trust for Pension Benefits	<u>\$ 3,771,294</u>	

The accompanying notes are an integral part of the financial statements

**TOWN OF EAST HADDAM, CONNECTICUT
STATEMENT OF CHANGES IN PLAN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Pension Trust Funds</u>
Additions:	
Contributions:	
Employer	\$ 200,090
Plan members	<u>189,997</u>
Total contributions	<u>390,087</u>
Investment income:	
Net change in fair value of investments	(25,468)
Interest and dividends	<u>122,539</u>
Net investment income	<u>97,071</u>
Total additions	<u>487,158</u>
Deductions:	
Benefits	158,631
Administration	<u>17,020</u>
Total deductions	<u>175,651</u>
Net Increase	311,507
Net Position at Beginning of Year	<u>3,459,787</u>
Net Position at End of Year	<u>\$ 3,771,294</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of East Haddam, 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 operates under the provisions of the Connecticut General Statutes. The form of government includes a Board of Selectmen consisting of a First Selectman, who is the chief administrative and executive official of the Town, and two other members. The Board of Selectmen and the Town Meeting have the legislative power of the Town and may enact ordinances consistent with the General Statutes. A nine-member Board of Education is responsible for the operation of the public school system.

A six-member Board of Finance is responsible for presenting fiscal operating budgets for Town Meeting approval. The Treasurer receives all money belonging to the Town and makes expenditures based upon the appropriate authority.

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

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

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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 Capital Projects and Reserve Fund is used to set aside funds for future capital purchases. The major sources of revenue for this fund are intergovernmental receipts.

The Bonded Capital Projects Fund is used to account for capital purchases funded from general obligation bonds.

The A.E. Purple Fund is used to account for funds donated to the Town by A.E. Purple to be used for educational purposes. The major sources of revenue for this fund are income on investments.

Additionally, the Town reports the following fund types:

The Internal Service Funds account for the self-insured dental plan for Board of Education employees.

The Pension Trust Funds account for the activities of the East Haddam Pension Plans, which accumulate resources for pension benefit payments to qualified Town and Board of Education employees, as well as volunteer firefighters.

The Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Student Activity Fund, Performance Bonds and Driveway Bonds are the Town's agency funds.

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.

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.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's internal service funds are charges to customers for benefits. Operating expenses for the Internal Service Funds include the cost of benefits 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." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." 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 as of October 1 and billed the following July. Assessments for real and personal property, excluding motor vehicles, are computed at 70% of the market value. Liens are filed on delinquent taxes by June 30 each year. Interest is charged on delinquent taxes at the rate of 1.5% per month (18% per year). An amount of \$19,054 has been established as an allowance for uncollectible taxes. At June 30, 2016, this represents 5.32% of all property taxes receivable.

F. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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 EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

G. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. 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 and improvements	25-50
Furniture and equipment	5-20
Public domain infrastructure	20-50

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).

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 deferred inflows of resources related to pensions in the government-wide statement of net position. A deferred inflow of resources related to pension results from changes in projected investment earnings. 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

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

employees). For the 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. This amount is deferred and recognized as an inflow of resources (revenue) in the period in which the amounts become available.

I. Compensated Absences

Employees are paid by prescribed formula for absence due to vacation or sickness. The liability for accumulated vacation and sick pay earned as of June 30, 2016 is reflected in the government-wide statement of net position.

Town and noncertified Board of Education employees are granted vacation and sick leave based upon length of employment. In the event of termination, employees are compensated for accumulated vacation and, depending on the terms of their union contract, sick time. At year end, accumulated vacation and unused sick leave was valued at \$1,101,182. The General Fund generally funds the cost associated with compensated absences.

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. 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. Significant 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.

K. 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 is restricted because the restrictions 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. The Town currently has assets under restriction in the A.E. Purple Fund, the Scholarship Trust Fund and the Cemetery Trust.

Unrestricted

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

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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 specific purposes 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 (Town of East Haddam Board of Finance).

Assigned Fund Balance

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

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 balance in deficit, it is reported as a negative amount in unassigned fund balance.

L. Termination Benefits

Upon the death or retirement from the teaching profession, a teacher who has been in the East Haddam School System for 20 or more years of active service shall be paid the equivalent of one-half of his or her accumulated sick leave. The teacher will be paid at the beginning of the next fiscal year. The maximum benefit available cannot exceed 40% of the salary schedule pay for the highest step of the MA column. Termination benefits as of June 30, 2016 totaled \$150,225. Payment will be paid over three fiscal years.

M. 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.

N. Net OPEB Obligations

The net OPEB obligation represents the cumulative difference between the annual OPEB cost and the Town’s contributions to the plans. These amounts are calculated on an actuarial basis and are recorded as a noncurrent liability, accordingly, in the government-wide financial statements.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

O. 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

Budgetary Information

The General Fund budget is prepared in accordance with the Connecticut General Statutes.

The First Selectman distributes forms to Town Officials, who compile annual budget requests and return them to the First Selectman. The Board of Selectman prepares its budget document and submits it to the Board of Finance. The Board of Finance reviews all general government budgets with the Board of Selectmen.

The Board of Education prepares its budget document and submits it to the Board of Finance. After reviewing requested expenditures and estimating revenues, the Board of Finance prepares a budget for public hearing. The legal budget is at the departmental level. Following the hearing, the Board meets in public session to prepare a recommended budget for the Town Meeting and referendum. When the budget is approved, the Board of Finance sets the tax rate.

The General Statutes provide the manner that is to be utilized by the Town Meeting in acting upon the budget, as well as the procedures to be utilized for additional appropriations during the year.

Funds for any additional appropriations or any emergency appropriations are drawn as directed by the Board of Finance from any available fund balance, an approved contingency fund or funds received or to be received from state, federal or other sources.

There were supplemental appropriations of \$957,298 during the year, and no appropriations were carried over to fiscal year 2017.

The General Fund budget is prepared on a modified accrual basis of accounting except for four items as follows:

- Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued, and, accordingly, encumbrances outstanding at year end are reflected in budgetary reports as expenditures in the current year.
- The budget for payroll expenditures is prepared on a cash basis. Accrued payroll has been recorded as expenditures (Exhibit IV) in accordance with GAAP.
- The Town does not budget for revenue or expenditures for pension contributions made by the State of Connecticut for East Haddam teachers. The amount of this contribution was \$2,076,537.
- The Maintenance, Technology and Grange Hall Funds are combined for financial reporting purposes and are not budgeted within the General Fund.

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016**

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

Expenditures over Appropriations

Several individual lines within the General Fund budget in which expenditures exceeded appropriations were due to additional administrative costs, staffing reassignments, weather costs and insurance costs and are shown in the following budget lines:

<u>Department</u>	<u>Amount</u>
Conservation Commission	\$ 66
Resident Troopers	29,141
Transfer Station	12,646
Greens Maintenance	6,616
Debt Service	<u>659</u>
Total	<u>\$ 49,128</u>

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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.

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016**

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 does not have a 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*, \$10,396,976 of the Town’s bank balance of \$11,208,495 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 9,296,320
Uninsured and collateral held by the pledging bank’s trust department, not in the Town’s name	<u>1,100,656</u>
Total Amount Subject to Custodial Credit Risk	<u>\$ 10,396,976</u>

Cash Equivalents

At June 30, 2016, the Town’s cash equivalents amounted to \$56,461. 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>Standard & Poor’s</u>
State Short-Term Investment Fund (STIF)	AAAm

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Investments

As of June 30, 2016, the Town had the following investments:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
			<u>Less Than 1</u>	<u>1-10</u>	<u>More Than 10</u>
Interest-bearing investments:					
Certificates of deposit	*	\$ 105,272	\$ 105,272	\$	\$
Corporate bonds	AAA	18,519		18,519	
Corporate bonds	Aa3	4,029		4,029	
Corporate bonds	A1	9,491		9,491	
Corporate bonds	A2	28,225		28,225	
Corporate bonds	A3	43,188		43,188	
Corporate bonds	Baa1	2,155		2,155	
Corporate bonds	Baa2	2,453		2,453	
Corporate bonds	Baa3	5,157		5,157	
U.S. Government obligations	Aaa	<u>668,798</u>	<u>303,113</u>	<u>337,008</u>	<u>28,677</u>
Total		887,287	<u>\$ 408,385</u>	<u>\$ 450,225</u>	<u>\$ 28,677</u>
Other investments:					
Common stock	N/A	3,772,384			
Mutual funds	N/A	4,753,431			
Alternative investments	N/A	<u>1,602,489</u>			
Total		<u>\$ 11,015,591</u>			

*Subject to coverage by Federal Depository Insurance and collateralization.

N/A - Not applicable

Interest Rate Risk

The Town limits Palmer Fund investment maturities for a single security at 30 years and a weighted average portfolio at 15 years as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 limits investments with respect to the Palmer Fund and A.E. Purple Fund in any one issuer that is in excess of 5% and 10%, respectively, of the Town's total investments.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Custodial Credit Risk

Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Town or that sells investments to or buys them for the Town), the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk. At June 30, 2016, the Town had \$3,772,384 uninsured and unregistered securities held by the counterparty, or by its trust department or agent, that were not in the Town's name.

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

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements); followed by quoted prices in inactive markets or for similar assets or with observable inputs (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements). The Town has the following recurring fair value measurements as of June 30, 2016:

	<u>June 30 2016</u>	<u>Fair Value Measurements Using</u>	
		<u>Level 1</u>	<u>Level 2</u>
Investments by Fair Value Level:			
U.S. Government Securities	\$ 668,798	\$ 668,798	\$
Corporate Bonds	113,217	113,217	
Common Stock	3,772,384	3,772,384	
Mutual Funds	4,753,431	1,157,908	3,595,523
Alternative Investments	<u>1,602,489</u>		<u>1,602,489</u>
 Total Investments by Fair Value Level	 \$ <u>10,910,319</u>	 \$ <u>5,712,307</u>	 \$ <u>5,198,012</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. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Town has no Level 3 investments.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

4. RECEIVABLES

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

	<u>General</u>	<u>Capital Projects and Reserve Fund</u>	<u>Bonded Capital Projects Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:					
Interest	\$ 55,615	\$	\$	\$	\$ 55,615
Taxes	358,471				358,471
Accounts	98,995			10,465	109,460
Intergovernmental	22,718	886,500	200,803	216,412	1,326,433
Gross receivables	<u>535,799</u>	<u>886,500</u>	<u>200,803</u>	<u>226,877</u>	<u>1,849,979</u>
Less allowance for uncollectibles	<u>(19,054)</u>				<u>(19,054)</u>
Net Total Receivables	<u>\$ 516,745</u>	<u>\$ 886,500</u>	<u>\$ 200,803</u>	<u>\$ 226,877</u>	<u>\$ 1,830,925</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,734,119	\$	\$	\$ 9,734,119
Construction in progress	933,333	1,449,250	(599,012)	1,783,571
Total capital assets not being depreciated	<u>10,667,452</u>	<u>1,449,250</u>	<u>(599,012)</u>	<u>11,517,690</u>
Capital assets being depreciated:				
Buildings and improvements	64,831,174	181,776		65,012,950
Furniture and equipment	7,764,048	986,865		8,750,913
Infrastructure	18,649,132	477,872		19,127,004
Total capital assets being depreciated	<u>91,244,354</u>	<u>1,646,513</u>	<u>-</u>	<u>92,890,867</u>
Less accumulated depreciation for:				
Buildings and improvements	(14,435,115)	(688,657)		(15,123,772)
Furniture and equipment	(4,816,486)	(300,106)		(5,116,592)
Infrastructure	(6,095,154)	(389,361)		(6,484,515)
Total accumulated depreciation	<u>(25,346,755)</u>	<u>(1,378,124)</u>	<u>-</u>	<u>(26,724,879)</u>
Total capital assets being depreciated, net	<u>65,897,599</u>	<u>268,389</u>	<u>-</u>	<u>66,165,988</u>
Governmental Activities Capital Assets, Net	<u>\$ 76,565,051</u>	<u>\$ 1,717,639</u>	<u>\$ (599,012)</u>	<u>\$ 77,683,678</u>

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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

Governmental activities:	
General government	\$ 56,482
Public safety	96,330
Public works	638,102
Health and welfare	39,152
Recreation and leisure	54,739
Education	<u>493,319</u>
 Total Depreciation Expense - Governmental Activities	 \$ <u><u>1,378,124</u></u>

There are no construction commitments at June 30, 2016.

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

During the course of operations, transactions are processed through the General Fund on behalf of other funds. A summary of interfund balances as of June 30, 2016 is presented below:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental funds	General Fund	\$ 262,450
General Fund	Pension Trust Fund	35,295
General Fund	Reserve for Capital Projects	1,302,685
General Fund	Bonded Capital Projects fund	229,834
General Fund	Nonmajor governmental funds	<u>136,796</u>
		 \$ <u><u>1,967,060</u></u>

All interfund receivables and payables represent routine recurring transactions that are temporary in nature.

Interfund transfers:

	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Reserve for Capital Projects</u>	<u>Nonmajor Govern-mental</u>	
Transfers out:				
General Fund	\$	\$ 2,008,981	\$ 423,095	\$ 2,432,076
A.E. Purple Fund	289,311			289,311
Nonmajor governmental funds	<u>29,946</u>			<u>29,946</u>
 Total	 \$ <u><u>319,257</u></u>	 \$ <u><u>2,008,981</u></u>	 \$ <u><u>423,095</u></u>	 \$ <u><u>2,751,333</u></u>

All transfers represent routine recurring transactions to move resources from one fund to another.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

7. LONG-TERM DEBT

Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 14,950,000	\$ 9,165,000	\$ 10,095,000	\$ 14,020,000	\$ 1,110,000
Clean water notes	82,174		82,174	-	
Notes payable	1,705,000		195,000	1,510,000	210,000
Bond premiums	66,935	660,674	35,080	692,529	
Total bonds payable	<u>16,804,109</u>	<u>9,825,674</u>	<u>10,407,254</u>	<u>16,222,529</u>	<u>1,320,000</u>
OPEB liability	103,841	247		104,088	
Net pension liability	393,988	95,326		489,314	
Compensated absences	1,066,565	36,351	1,734	1,101,182	402,382
MERS prior service costs	54,550		10,910	43,640	10,910
Termination benefits	171,509	65,743	87,027	150,225	66,797
Governmental Activity Long-Term Liabilities	<u>\$ 18,594,562</u>	<u>\$ 10,023,341</u>	<u>\$ 10,506,925</u>	<u>\$ 18,110,978</u>	<u>\$ 1,800,089</u>

Refunding Bonds Issue

On November 19, 2015, the Town issued \$9,165,000 of general obligation refunding bonds with interest rates ranging from 1.5-2.5%. The bonds were issued to refund \$8,995,000 of outstanding principal amounts of the 2008 general obligation bonds. The net proceeds of \$9,693,619 (after an original issue premium of \$660,674 and payment of \$132,055 in underwriter's fees and other issuance costs) were deposited in an irrevocable trust fund under an escrow agreement between the Escrow Agent and the Town. The Escrow Agent will use such proceeds to purchase a portfolio of the United States Treasury State and Local Government Securities. All investment income on and the maturing principal of the escrow securities held in the escrow deposit fund will be irrevocably deposited by the Town for payment of the refunded bonds. The Town refunded the above bonds to reduce total debt service payments over the next five years by \$685,893 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$624,231. As of June 30, 2016, the amount of defeased debt outstanding was \$8,995,000 and the amounts were removed from the governmental activities column of the statement of net position.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

A schedule of bonds and notes outstanding at June 30, 2016 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, 2016</u>
Bonds and notes:					
General obligation	2010	2031	2.0-3.75	\$ 1,688,705	\$ 1,336,105
School	2010	2031	2.0-3.75	2,136,298	1,688,895
School	2008	2028	3.5-4.7	16,150,000	1,506,573
General obligation	2008	2028	3.5-4.7	500,000	323,427
Notes payable	2013	2024	1.5-2.5	2,395,000	1,510,000
Refunding bonds	2015	2028	1.5-2.5	9,165,000	9,165,000
					<u>\$ 15,530,000</u>

The following is a schedule of principal and interest requirements to maturity:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,320,000	\$ 485,013
2018	1,330,000	441,388
2019	1,380,000	387,688
2020	1,370,000	338,576
2021	1,360,000	298,704
2022-2026	6,045,000	907,516
2027-2031	<u>2,725,000</u>	<u>166,109</u>
	<u>\$ 15,530,000</u>	<u>\$ 3,024,994</u>

A summary of bonds authorized unissued is presented below:

<u>Project</u>	<u>Authorization</u>	<u>Bonds and Notes Issued</u>	<u>Grants/ Contributions</u>	<u>Authorized Unissued</u>
Open Space	\$ 5,894,500	\$ 2,188,705	\$ 1,149,000	\$ 2,556,795
Middle School Project	<u>34,118,000</u>	<u>18,506,295</u>	<u>15,340,252</u>	<u>271,453 *</u>
Total	<u>\$ 40,012,500</u>	<u>\$ 20,695,000</u>	<u>\$ 16,489,252</u>	<u>\$ 2,828,248</u>

*The authorized unissued amount is reduced by grants received by the State of Connecticut.

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016**

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	\$ 55,886	\$ 4,217	\$ 51,669
Schools	111,771	12,360	99,411
Sewers	93,143	1,510	91,633
Urban renewal	80,724		80,724
Pension deficit	74,514		74,514

*In no case shall total indebtedness exceed seven times annual receipts from taxation (\$173,866).

**Indebtedness includes bonds authorized unissued of \$271 related to the Middle School, and \$2,557 related to open space.

Accrued sick and vacation pay for general government operations is \$346,528, and the amount for the Board of Education is \$754,654. This is an increase of \$34,617 from the previous year. The Board of Education has liabilities of \$150,225 related to retirement incentives and sick pay buyouts at retirement.

8. 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 for which the Town carries commercial insurance. There are no significant reductions in insurance coverage from the prior year. The amount of claim settlements has not exceeded insurance coverage for each of the past three years.

The Board of Education has a self-insurance plan for dental expenses. Estimated amounts to pay claims are paid into an Internal Service Fund and are available to pay claims and to establish claim reserves of the program. During fiscal year 2016, expenses of \$62,823 were incurred for benefits, insurance premiums and administration. Incurred but not reported health claims of \$8,988 have been accrued as a liability based upon an estimate of historical claim activity by the Plan Administrator.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The following table reflects the activity of the past two years:

	<u>Claims Payable July 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>Claims Payable June 30</u>
2015-2016	\$ 8,988	\$ 62,823	\$ 61,611	\$ 10,200
2014-2015	10,570	52,814	54,396	8,988

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

9. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

A. Firefighters Incentive Plan

Plan Description and Benefits Provided

The Volunteer Fire Department Incentive Plan (Incentive Plan) is a defined benefit pension plan administered by the Town to provide benefits for active Volunteer Firefighters who were members of the of East Haddam Volunteer Fire Department prior to December 31, 2011. Plan provisions are established and amended by ordinance requiring Board of Selectman and Town Meeting approval. The pension plan is part of the Town's financial reporting entity and is accounted for as a pension trust fund. The plan does not issue separate, stand-alone financial reports.

As of June 30, 2016, the plan's membership consisted of:

Retiree and beneficiaries currently receiving benefits	6
Inactive with deferred benefits	6
Current active members	<u>28</u>
Total	<u><u>40</u></u>

Management of the plan rests with the Firefighters Pension Committee, which consists of a member of the Board of Selectmen, a member of the Board of Finance, an officer of the fire department, a member at large and a member of the Board of Fire Commissioners.

Summary of Significant Accounting Policies

The pension trust fund's financial statements are prepared using the accrual basis of accounting. Contributions are recognized when due, pursuant to formal commitments and contractual requirements, and investment income is recognized when earned. Expenses (benefits and administration) are recognized when due and payable in accordance with the terms of the plan.

The plan was previously funded by life insurance policies owned by the members. During the fiscal year, all of these policies were cashed and deposited into an investment account on behalf of the plan members. The value of the life insurance policies are shown as employee contributions.

Investments are valued at fair value, based upon quoted market prices. Securities traded on national exchanges are valued at the last reported sales price. Investment income is recognized as earned.

Volunteer firefighters will be eligible for accrued benefits on their normal retirement date, provided they have completed at least five active years of service in accordance with plan provision by December 31, 2011.

Funding Policy

The Town's current funding policy for pension obligations mirrors the benefits earned during the year. The monthly retirement benefit is \$15 per year for the first 20 years of credited service; thereafter, \$10 per year for the next 10 years of credited service; thereafter \$4 per year for the next 10 years of credited service.

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016**

Investments

Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Firefighters Pension Committee by a majority vote of its members. It is the policy of the Firefighters Pension Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed income	22.0%
Domestic equity	44.0%
International equity	12.0%
International fixed income	9.0%
Cash	<u>13.0%</u>
 Total	 <u><u>100.0%</u></u>

Rate of Return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.51%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Town

The Town's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015.

The components of the net pension liability of the Town at June 30, 2016 were as follows:

Total pension liability	\$ 664,530
Plan fiduciary net position	<u>(500,320)</u>
Town's Net Pension Liability	<u><u>\$ 164,210</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	 75.29%

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016**

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	0.00%
Salary increases	N/A
Investment rate of return	5.50%

Mortality rates were based on the RP-2014 Blue Collar mortality table generationally using MP 2015.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2014 - June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	0.4%
Domestic equity	5.0%
International equity	7.5%
International fixed income	1.5%
Cash	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 5.49%. 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 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 EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 30, 2015	\$ 656,689	\$ 493,177	\$ 163,512
Changes for the year:			
Service cost	9,448		9,448
Interest on total pension liability	35,612		35,612
Differences between expected and actual experience	(2,002)		(2,002)
Changes in assumptions	(804)		(804)
Employer contributions		59,739	(59,739)
Net investment income (loss)		(1,676)	1,676
Benefit payments, including refund to employee contributions	(33,900)	(33,900)	-
Administrative expenses		(17,020)	17,020
Other changes	(513)		(513)
Net changes	<u>7,841</u>	<u>7,143</u>	<u>698</u>
Balances as of June 30, 2016	<u>\$ 664,530</u>	<u>\$ 500,320</u>	<u>\$ 164,210</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 5.50%, 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 (4.50%) or 1 percentage point higher (6.50%) than the current rate:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Town's Net Pension Liability	\$ 252,061	\$ 164,210	\$ 90,361

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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

For the year ended June 30, 2016, the Town recognized pension expense of \$39,527. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Employees' Pension Plan Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 17,274
Changes of assumptions	3,393
Net difference between projected and actual earning on pension plan investments	<u>17,315</u>
Total	<u>\$ 37,982</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 Ended June 30

2017	\$ 4,736
2018	4,736
2019	10,092
2020	8,339
2021	2,647
Thereafter	7,432

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

B. Municipal Employees' Retirement Fund (Savings Plan)

The Municipal Employees' Retirement Fund (Savings Plan) is a defined contribution individual savings account plan. The plan, effective July 1, 1986, covers all full-time Town employees and noncertified school employees who work over 500 hours annually, except for those employees who are covered under the State of Connecticut Municipal Employees' Retirement System. Contributions to the plan are made both by the Board of Education and Town (4.5% and 5.0%, respectively, of annual compensation) and the employee (minimum 2.0-3.5% of annual compensation to a maximum 13%). Currently, there are 78 members participating in the plan. Benefits are vested at 20% after the first two years and 20% each year thereafter, with 100% vesting after six years. Normal retirement age is 65 with provisions for early retirement. The participants are funding individual savings accounts and they have several options as to the method of receiving pension benefits (i.e., lump sum, annuity, etc.). During the year, the employees contributed \$177,750 and employer contributions were \$138,999 to the plan. These amounts represent 5.9% and 4.4%, respectively, of covered payroll of \$3,135,138. Total Town and Board of Education payroll amounted to \$12,309,926.

The plan was created by the authority of the Board of Selectmen and can be amended by that Board. This plan is reported as a Pension Trust Fund in this report. The plan's 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. All investments are invested and administered by the Sentry Insurance Company and are reported at fair value. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

C. Financial Information for Separate Plans

Statement of Net Position

	Pension Trust Funds		
	Employee Savings Plan	Firefighters Incentive Plan	Total Trust Funds
Assets:			
Cash and cash equivalents	\$ 102,616	\$ 108,448	\$ 211,064
Investments	<u>3,168,358</u>	<u>427,167</u>	<u>3,595,525</u>
Total assets	<u>3,270,974</u>	<u>535,615</u>	<u>3,806,589</u>
Liabilities:			
Due to other funds		<u>35,295</u>	<u>35,295</u>
Net Position:			
Held in Trust for Pension Benefits	<u>\$ 3,270,974</u>	<u>\$ 500,320</u>	<u>\$ 3,771,294</u>

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Statement of Changes in Plan Assets

	Pension Trust Funds		
	Employee Savings Plan	Firefighters Incentive Plan	Total Trust Funds
Additions:			
Contributions:			
Employer	\$ 140,351	\$ 59,739	\$ 200,090
Plan members	189,997		189,997
Total contributions	<u>330,348</u>	<u>59,739</u>	<u>390,087</u>
Investment income:			
Net change in fair value of investments		(25,468)	(25,468)
Interest and dividends	98,747	23,792	122,539
Net investment income (loss)	<u>98,747</u>	<u>(1,676)</u>	<u>97,071</u>
Total additions	<u>429,095</u>	<u>58,063</u>	<u>487,158</u>
Deductions:			
Benefits	124,731	33,900	158,631
Administration		17,020	17,020
Total deductions	<u>124,731</u>	<u>50,920</u>	<u>175,651</u>
Change in Net Position	304,364	7,143	311,507
Net Position at Beginning of Year	<u>2,966,610</u>	<u>493,177</u>	<u>3,459,787</u>
Net Position at End of Year	<u>\$ 3,270,974</u>	<u>\$ 500,320</u>	<u>\$ 3,771,294</u>

D. Length of Service Award Plan

Effective January 1, 2012, the Town created a Length of Service Award Plan for Volunteer Members of East Haddam's Volunteer Fire Department (LOSAP). The LOSAP is a defined contribution plan that provides length of service awards to most active volunteer members of the Fire Department. Contribution provisions and benefit provisions of the LOSAP are established by and can be amended by the Board of Finance and Board of Selectmen.

LOSAP covers individuals who perform fire and prevention services without compensation who are over the age of 18 and who were not members of the department on or before December 31, 2011. These individuals are able to enter into the plan when they have reached one year of volunteer service under the plan provisions and are in good standing with the department. Individuals who were members of the department on or before December 31, 2011 are eligible for the plan if they have not received benefits under the Town's Volunteer Incentive Plan and who have five or less years of credited service. Participants opting into this plan, if they were members prior to December 31, 2011, must waive all future benefits with the incentive plan.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Active members in the plan will receive benefits of \$500 for each of the volunteer's first five years of service on July 1st of the plan year that immediately follows the plan year for which the eligible volunteer met the five-year requirement. Participants will receive \$500 for each additional year, not to exceed \$20,000. No volunteers have met this eligibility requirement by the end of the fiscal year, and no employer contributions have been made under this plan as of June 30, 2016.

E. Connecticut State Teachers' Retirement Board

Plan Description

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board. The Teachers Retirement Board issues a publicly available financial report that can be obtained at www.ct.gov.

Benefit Provisions

The plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Normal Retirement

Retirement benefits for employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary).

Early Retirement

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

Disability Retirement

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

Contributions

Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are approved, amended and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

Employer (School Districts)

School District employers are not required to make contributions to the plan.

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016**

The statutes require the State of Connecticut to contribute 100% of each school districts' required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

Employees

Effective July 1, 1992, each teacher is required to contribute 6% of salary for the pension benefit.

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

At June 30, 2016, the Town reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows, due to the statutory requirement that the State pay 100% of the required contribution. The amount recognized by the Town as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>25,916,149</u>
Total	<u>\$ 25,916,149</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. At June 30, 2016, the Town has no proportionate share of the net pension liability.

For the year ended June 30, 2016, the Town recognized pension expense and revenue of \$2,076,537 in Exhibit II for on-behalf amounts for the benefits provided by the State.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increase	3.75-7.00%, including inflation
Investment rate of return	8.50%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010.

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

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap U.S. equities	21.0%	7.3%
Developed non-U.S. equities	18.0%	7.5%
Emerging markets (non-U.S.)	9.0%	8.6%
Core fixed income	7.0%	1.7%
Inflation linked bond fund	3.0%	1.3%
Emerging market bond	5.0%	4.8%
High yield bonds	5.0%	3.7%
Real estate	7.0%	5.9%
Private equity	11.0%	10.9%
Alternative investments	8.0%	0.7%
Liquidity fund	6.0%	0.4%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that State contributions will be made at the actuarially determined contribution rates in the future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The Town's proportionate share of the net pension liability is \$-0- and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

Other Information

Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented as the Town has no obligation to contribute to the plan.

F. Municipal Employees' Retirement System

Plan Description

All full-time employees, except as mentioned above, participate in the Municipal Employees' Retirement System (MERS). MERS is a cost-sharing multiple-employer public employee retirement system established by the State of Connecticut and administered by the State Retirement Commission to provide pension benefits to employees of participating municipalities. Chapters 7-425 to 7-451 of the State of Connecticut General Statutes, which can be amended by legislative action, establishes MERS benefits, member contribution rates and other plan provisions. MERS is considered to be part of the State of Connecticut's financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports can be obtained at www.ct.gov.

Benefit Provisions

The plan provides retirement, disability and death benefits and annual cost-of-living adjustments to plan members and their beneficiaries. Employees are eligible to retire at age 55 with 5 years of continuous service, or 15 years of active aggregate service or 25 years of aggregate service. In addition, compulsory retirement is at age 65 for police and fire members.

Normal Retirement

For members not covered by social security, retirement benefits are calculated as 2% of the average of the three highest paid years of service times the years of service. For members covered by social security, retirement benefits are calculated as 1½% of the average of the three highest paid years of service not in excess of the year's breakpoint plus 2% of average of the three highest paid years of service in excess of the year's breakpoint, times years of service. The year's breakpoint is defined as \$10,700 increased by 6.0% each year after 1982, rounded to the nearest multiple of \$100. Maximum benefit is 100% of average final compensation and the minimum benefit is \$1,000 annually.

Early Retirement

Members must have 5 years of continuous or 15 years of active aggregate service. Benefits are calculated as a service retirement allowance on the basis of the average of the three highest paid years of service to the date of termination. Benefits are deferred to normal retirement age, or an actuarially reduced allowance may begin at the time of separation.

Disability Retirement - Service Connected

This applies to employees who are totally and permanently disabled and such disability has arisen out of and in the course of employment with the municipality. Disability due to heart and hypertension in the case of fire and police is presumed to have been suffered in the line of duty. Benefits are calculated as a service retirement allowance based on compensation and service to the date of the disability with a minimum benefit (including worker's compensation benefits) of 50% of compensation at the time of disability.

Disability Retirement - Non-Service Connected

This applies to employees who have 10 years of service and are totally and permanently disabled. Benefits are calculated as a service retirement allowance based on compensation and service to the date of the disability.

Death Benefit

This applies to employees who are eligible for service, disability or early retirement and married for at least 12 months preceding death. Benefits are calculated based on the average of the three highest paid years of service and creditable service at date of death, payable to the spouse. Benefit is equal to 50% of the average of the life annuity allowance and reduced 50% joint and survivor allowance.

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016**

Contributions

Member

Contributions for members not covered by social security are 5% of compensation; for members covered by social security, 2¼% of compensation up to the social security taxable wage base plus 5%, if any, in excess of such base.

Employer

Participating employers make annual contributions consisting of a normal cost contribution, a contribution for the amortization of the net unfunded accrued liability and a prior service amortization payment, which covers the liabilities of MERS not met by member contributions.

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

At June 30, 2016, the Town reports a liability of \$325,104 for its proportionate share of the net pension liability. The net pension liability was measured at June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation at June 30, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participants, actuarially determined. At June 30, 2016, the Town's proportion was .237%. The increase or decrease in proportion from June 30, 2015 was 0%.

For the year ended June 30, 2016, the Town recognized pension expense of \$35,796. At June 30, 2016, the Town reported deferred inflows and outflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Town contributions subsequent to the measurement date	\$ 66,653	\$
Net difference between projected and actual earning on pension plan investments		<u>24,675</u>
Total	<u>\$ 66,653</u>	<u>\$ 24,675</u>

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Amounts reported as deferred outflows of resources related to Town contributions after the measurement date will be recognized as a reduction of the net pension liability in the subsequent year. Amounts reported as deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2017	\$ 1,281
2018	1,281
2019	1,281
2020	<u>20,832</u>
Total	<u>\$ 24,675</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increase	4.25-11.00%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Table for annuitants and nonannuitants (set forward one year for males and set back one year for females).

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

The target asset allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	16%	5.8%
Developed non- U.S. equities	14%	6.6%
Emerging markets (non-U.S.)	7%	8.3%
Core fixed income	8%	1.3%
Inflation linked bond fund	5%	1.0%
Emerging market bond	8%	3.7%
High yield bonds	14%	3.9%
Real estate	7%	5.1%
Private equity	10%	7.6%
Alternative investments	8%	4.1%
Liquidity fund	3%	0.4%
	<hr/>	
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at the actuarially determined contribution rates in the future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's proportionate share of the net pension liability, calculated using the discount rate of 8.00%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Town's proportionate share of the net pension liability	\$ 585,288	\$ 325,104	\$ 104,666

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016**

Plan Fiduciary Net Position

For the fiscal year ended June 30, 2015, the fiduciary net position of the MERS plan was restated to change the method of accounting for contributions receivable from a present value method to a gross method. The result of the restatement was to decrease the net pension liability and increase the July 1, 2014 fiduciary net position of the MERS plan by \$139,565,000. The effect on the Town of East Haddam’s financial statements was to decrease the net pension liability and increase the government activities’ net position as shown in Note 12.

Payable to MERS

The Town had \$4,682 payable to MERS recorded in accounts payable. This represents the Town’s legally required contribution and related contributions withheld from employees’ salaries.

In addition, the Town has also recorded \$43,640 as a long-term payable to MERS at June 30, 2016. This amount represents prior service costs calculated when the Town entered the plan; as such, the Town has restated beginning net position. The effect of the restatement was to decrease beginning net position and increase accounts payable to MERS as shown in Note 12.

10. OTHER POSTEMPLOYMENT BENEFITS

A. Plan Description

The Town, in accordance with various collective bargaining agreements, is committed to providing medical benefits to certain eligible retirees and their spouses. The Post-Retirement Medical Program (RMP) covers Town and Board of Education employees. Retired program members and beneficiaries are required to contribute active employee premiums. The percentage contribution and the eligibility of the employees and retirees for these benefits vary and are detailed within the Town’s various bargaining agreements. The Town does not issue a separate stand-alone financial statement for this program.

At June 30, 2015, plan membership consisted of the following:

	Post-Retirement Medical Program
Active participants	169
Inactive participants	13
Total Participants	<u>182</u>

B. Funding Policy

The Town funding and payment of postemployment benefits are accounted for in the General Fund on a pay-as-you-go basis. Per the recommendations of the Town's actuary and the size of the current liability, the Town has not established a trust fund to irrevocably segregate assets to fund the liability associated with postemployment benefits in accordance with GASB guidelines. The Town does not have an explicit liability for post-retirement benefits because the retirees pay the full health insurance premium. However, the Town does have an implicit subsidy that recognizes the expected higher health costs attributed to retirees in general (i.e., the real cost of health coverage for retirees is more than the premiums being charged and the excess cost is being funded by the Town.) Although a trust fund may not be established in the future to exclusively control the funding and reporting of postemployment benefits, the Town anticipates a commitment to fund normal cost and a long-term approach to the amortization of the actuarial accrued liability. The goal is to absorb, within the budgetary process, the actual cost of benefits in the determination of the costs of providing services to taxpayers. The Town will evaluate the funding requirements on an annual basis to determine if establishing a trust is prudent.

The Town's funding strategy for postemployment obligations are based upon characteristics of benefits on four distinct groups of employees established within their respective collective bargaining units and/or contracts and include the following:

- UPSEU Board of Education employees are eligible for retiree health care coverage for lifetime upon attainment of age 55 with 20 years of service.
- Teachers and School Administrators are eligible for retiree health care coverage for lifetime at the earlier of age 55 with 20 years of service or 25 years of service.
- Board of Education employees with individual contracts are assumed to be eligible for retiree health care coverage for lifetime upon attainment of age 55 with 20 years of service. The following employees have individual contracts: Superintendent.
- Town employees who retire upon Medicare eligibility are eligible to purchase Medicare Supplement coverage through the Town. No retiree health care benefits are offered to Town employees who retire prior to Medicare eligibility.
- Surviving spouses of retired teachers and nonteachers at the school are allowed to remain on the plan.
- Surviving spouses of retirees and actives eligible to retire are allowed to remain on the plan.

C. Annual OPEB Cost and Net OPEB Obligations

The Town's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Town's net OPEB obligation:

	Post-Retirement Medical Program
Annual required contribution (ARC)	\$ 73,657
Interest on net OPEB obligation	4,673
Adjustment to annual required contribution	<u>(4,426)</u>
Annual OPEB cost	73,904
Contributions made	<u>(73,657)</u>
Increase in net OPEB obligation	247
Net OPEB obligation at beginning of year	<u>103,841</u>
Net OPEB Obligation at End of Year	<u>\$ 104,088</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the previous three fiscal years are presented below.

Fiscal Year Ended	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation
6/30/16	\$ 73,904	\$ 73,657	99.7%	\$ 104,088
6/30/15	74,994	67,575	90.1%	103,841
6/30/14	84,895	73,424	86.5%	96,193

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (OAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	OAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2015	\$	\$ 798,540	\$ 798,500	0 %	\$ 10,993,507	7.3 %
7/1/2014		834,457	834,457	0 %	10,673,308	7.8 %
7/1/2013		962,572	962,572	0 %	10,144,988	9.5 %

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

Schedule of Employer Contributions

<u>Fiscal Year</u>	<u>Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>
6/30/2016	\$ 73,657	\$ 73,657	100.0 %
6/30/2015	67,575	74,994	90.1 %
6/30/2014	73,424	84,695	86.7 %

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

In the latest actuarial valuation, July 1, 2015, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return, which is the rate of the expected long-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date. The actuarial value of assets was determined using an open group. The UAAL is being amortized on a level percentage of pay over 30 years.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

11. FUND BALANCES

A. Components

	<u>General Fund</u>	<u>Reserve for Capital Projects</u>	<u>Bonded Capital Projects Fund</u>	<u>A.E. Purple Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund balances:						
Nonspendable:						
Inventory	\$	\$	\$	\$	\$ 4,253	\$ 4,253
Endowment				400,000	39,793	439,793
Restricted for:						
Capital projects					765,240	765,240
Recreation					59,161	59,161
Education				6,188,140		6,188,140
Health and welfare					222,139	222,139
Sewer use					40,467	40,467
Committed to:						
General government					5,969	5,969
Recreation					17,713	17,713
Open space		5,255,223				5,255,223
Assigned to:						
Education	362,390				90,789	453,179
General government	10,000					10,000
Public safety	18,169				10,449	28,618
Public works	18,321					18,321
Health and welfare	2,600					2,600
Unassigned	<u>4,152,163</u>		<u>(482,940)</u>		<u>(10,375)</u>	<u>3,658,848</u>
Total Fund Balances	<u>\$ 4,563,643</u>	<u>\$ 5,255,223</u>	<u>\$ (482,940)</u>	<u>\$ 6,588,140</u>	<u>\$ 1,245,598</u>	<u>\$ 17,169,664</u>

B. Fund Deficits

The Cafeteria Fund and the Capital Grants fund, nonmajor special revenue funds, have deficit fund balances of \$5,204 and \$918, respectively, primarily due to lunch sales not meeting expenditures and timing of state revenue. This deficit will be funded by General Fund contributions and future state revenue. The Bonded Capital Projects Fund has a deficit of \$482,940 due to timing of projects and will be funded by future bonding.

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016**

12. PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

The following restatements were recorded as described in Note 9F.

	<u>Net Position</u>	<u>Net Pension Liability</u>	<u>Payable to MERS</u>
Balance at June 30, 2015, as previously reported	\$ 75,831,182	\$ 244,267	\$
Adjustments:			
Change in method of accounting for contributions	13,791	(13,791)	
Payable related to prior service costs	<u>(54,550)</u>	<u> </u>	<u>54,550</u>
Balance at July 1, 2015, as Restated	<u>\$ 75,790,423</u>	<u>\$ 230,476</u>	<u>\$ 54,550</u>

13. CONTINGENT LIABILITIES

The Town, its officials, employees, boards and commissions are defendants in several lawsuits. It is the opinion of Town officials 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 EAST HADDAM, CONNECTICUT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Property taxes:				
Current and prior years' levies	\$ 24,398,015	\$ 24,398,015	\$ 24,583,141	\$ 185,126
Interest and penalties	130,000	130,000	252,433	122,433
Other taxes	8,460	8,460	19,959	11,499
Total property taxes	<u>24,536,475</u>	<u>24,536,475</u>	<u>24,855,533</u>	<u>319,058</u>
Intergovernmental revenues:				
General government:				
Chester Assessor agreement	48,352	48,352	48,352	-
PILOT State property	34,187	34,187		(34,187)
Casino funds	27,880	27,880	24,913	(2,967)
State highway - Town Aid Road	334,397	334,397	331,311	(3,086)
Local Capital Improvement Program	89,741	89,741	87,991	(1,750)
Emergency Management Grant	4,100	4,100	4,100	-
Miscellaneous allotments	25,000	25,000	2,546	(22,454)
Police Grant	25,000	25,000		(25,000)
Tax relief veterans, elderly and disabled	78,143	78,143	73,451	(4,692)
PILOT - Goodspeed Opera House	28,500	28,500	28,878	378
Education:				
Adult Education	4,940	4,940	5,185	245
Transportation	61,621	61,621	48,869	(12,752)
Education Cost Sharing/Special Education Grant	<u>3,779,206</u>	<u>3,779,206</u>	<u>3,682,589</u>	<u>(96,617)</u>
Total intergovernmental revenues	<u>4,541,067</u>	<u>4,541,067</u>	<u>4,338,185</u>	<u>(202,882)</u>
Investment and interest income:				
Investment income	<u>18,000</u>	<u>18,000</u>	<u>24,532</u>	<u>6,532</u>
Local revenue:				
Animal Control	1,000	1,000		(1,000)
Assessor fees	500	500	291	(209)
Building Department	105,000	105,000	84,792	(20,208)
Cemeteries	2,360	2,360	1,504	(856)
Fire permits	200	200	60	(140)
Historic District permits	300	300	150	(150)
Land Use Offices permit fees	25,000	25,000	31,555	6,555
Other	25,000	25,000	54,413	29,413
Police special duty	20,252	20,252	28,163	7,911
Rents	14,000	14,000	23,201	9,201
Telecommunications	28,500	28,500	26,864	(1,636)

(Continued on next page)

**TOWN OF EAST HADDAM, CONNECTICUT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Local revenue (continued):				
Conveyance tax	\$ 75,000	\$ 75,000	\$ 109,185	\$ 34,185
Town Clerk fees	199,640	199,640	171,254	(28,386)
Town Clerk licenses	25,000	25,000	21,264	(3,736)
Preservation revenue	7,098	7,098	4,002	(3,096)
Sanitation/Transfer Station	60,000	60,000	36,354	(23,646)
Zoning Board of Appeals	1,500	1,500	1,340	(160)
Libraries:				
Library endowment and trust income	58,000	58,000	57,541	(459)
Library fees and fines	16,100	16,100	6,543	(9,557)
Total local revenue	<u>664,450</u>	<u>664,450</u>	<u>658,476</u>	<u>(5,974)</u>
Other:				
Ray School Corporation	203,859	203,859	203,860	1
Helon Cone Trust	15,000	15,000	18,332	3,332
Libraries			10,189	10,189
Total other	<u>218,859</u>	<u>218,859</u>	<u>232,381</u>	<u>13,522</u>
Total revenues	29,978,851	29,978,851	30,109,107	130,256
Other financing sources:				
Transfers from other funds:				
Albert E. Purple Fund	279,845	279,845	289,311	9,466
Palmer Fund	29,426	29,426	29,946	520
Total Revenues and Other Financing Sources	<u>\$ 30,288,122</u>	<u>\$ 30,288,122</u>	30,428,364	<u>\$ 140,242</u>

Budgetary revenues are different than GAAP revenues because:

State of Connecticut on-behalf contributions to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted	2,076,537
State of Connecticut grants for Special Education Excess Costs are netted for budgetary purposes	265,167
Grange Hall revenue included in General Fund for GAAP purposes, but separate for budgetary purposes	<u>200</u>

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

\$ 32,770,268

**TOWN OF EAST HADDAM, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(Over) Under</u>
General Government:				
Assessor	\$ 128,078	\$ 127,014	\$ 124,726	\$ 2,288
Building maintenance and operation	22,786	22,597	22,434	163
Central services	109,339	108,430	101,418	7,012
Elections and registrars	53,134	55,536	50,956	4,580
Finance Office	65,002	64,462	63,548	914
Planning and Zoning/Land Use Office	165,375	162,001	136,900	25,101
Old Middle School	20,620	17,449	10,948	6,501
Probate Court	10,638	10,638	10,638	-
Selectmen	152,258	151,117	150,380	737
Tax Collector	89,563	88,104	85,956	2,148
Town Clerk	240,123	238,128	208,604	29,524
Board of Finance	134,150	87,205	39,998	47,207
Fringe benefits	1,010,245	1,007,159	883,645	123,514
Insurance	234,777	234,777	216,902	17,875
Legal services	68,500	70,655	66,934	3,721
Board of Assessment Appeals	2,868	2,844	1,889	955
Conservation Commission	15,250	15,123	15,189	(66)
Economic Development Commission	39,921	39,589	30,647	8,942
Historic District Commission	2,899	2,875	435	2,440
Open Space Committee	12,830	12,723	5,308	7,415
Zoning Board of Appeals	4,590	4,552	2,105	2,447
Shared services	1,148,086	1,130,136	1,019,547	110,589
Agriculture Commission	1,150	1,140		1,140
Total general government	<u>3,732,182</u>	<u>3,654,254</u>	<u>3,249,107</u>	<u>405,147</u>
Public safety:				
Building Department	115,355	114,396	110,765	3,631
Emergency management	78,991	87,375	85,556	1,819
Fire Department	252,127	250,032	245,851	4,181
Fire Marshal	33,389	33,112	29,342	3,770
Police officers	364,400	364,400	355,344	9,056
Resident trooper	104,692	104,692	133,833	(29,141)
Total public safety	<u>948,954</u>	<u>954,007</u>	<u>960,691</u>	<u>(6,684)</u>
Public works:				
General highways	1,039,486	1,030,849	1,029,265	1,584
Snow removal	258,545	256,397	210,484	45,913
Town garage maintenance	61,635	61,123	50,502	10,621
Transfer Station	568,443	566,806	579,452	(12,646)
Total public works	<u>1,928,109</u>	<u>1,915,175</u>	<u>1,869,703</u>	<u>45,472</u>

(Continued on next page)

**TOWN OF EAST HADDAM, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance (Over) Under
	Original	Final		
Health and welfare:				
Cemeteries	\$ 10,410	\$ 10,324	\$ 8,599	\$ 1,725
Health District	88,132	88,114	87,859	255
Human Services	3,920	3,920	3,900	20
Senior Services	119,653	118,659	117,605	1,054
Youth and Family Services	195,399	195,399	195,399	-
Total health and welfare	<u>417,514</u>	<u>416,416</u>	<u>413,362</u>	<u>3,054</u>
Recreation and leisure:				
Lakes Association	19,375	19,214	19,214	-
Public Libraries	346,335	343,457	343,197	260
Recreation Commission	114,906	113,951	111,364	2,587
Greens maintenance	44,510	44,140	50,756	(6,616)
Total recreation and leisure	<u>525,126</u>	<u>520,762</u>	<u>524,531</u>	<u>(3,769)</u>
Board of Education	<u>19,407,291</u>	<u>19,407,291</u>	<u>19,393,870</u>	<u>13,421</u>
Debt service	<u>1,994,265</u>	<u>1,945,439</u>	<u>1,946,098</u>	<u>(659)</u>
Total expenditures	<u>28,953,441</u>	<u>28,813,344</u>	<u>28,357,362</u>	<u>455,982</u>
Other financing uses:				
Transfers to other funds:				
Special Revenue Funds	60,500	73,000	73,000	-
Reserve for Capital Projects	1,271,181	2,356,076	2,356,076	-
Historical preservation fund	3,000	3,000	3,000	-
Total other financing uses	<u>1,334,681</u>	<u>2,432,076</u>	<u>2,432,076</u>	<u>-</u>
Total Budgetary Expenditures and Other Financing Uses	<u>\$ 30,288,122</u>	<u>\$ 31,245,420</u>	30,789,438	<u>\$ 455,982</u>
Budgetary expenditures are different than GAAP expenditures because:				
Encumbrances outstanding at June 30, 2016			(411,480)	
Liquidation of prior year encumbrances			229,174	
State of Connecticut on-behalf payments to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted			2,076,537	
Payroll accrual adjustment - payroll budgeted on a cash basis			2,605	
State of Connecticut grants for Special Education Excess Costs are netted for budgetary purposes			<u>265,167</u>	
Total Expenditures and Other Financing Uses as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV			<u>\$ 32,951,441</u>	

**TOWN OF EAST HADDAM, CONNECTICUT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FIREFIGHTERS PENSION PLAN
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 9,448	\$ 9,420	\$ 9,345
Interest	35,612	33,560	33,288
Differences between expected and actual experience	(2,002)	23,844	
Changes of assumptions	(804)	3,144	2,288
Benefit payments, including refunds of member contributions	(33,900)	(35,280)	(37,080)
Other	<u>(513)</u>	<u>(25)</u>	
Net change in total pension liability	7,841	34,663	7,841
Total pension liability - beginning	<u>656,689</u>	<u>622,026</u>	<u>614,185</u>
Total pension liability - ending	<u>664,530</u>	<u>656,689</u>	<u>622,026</u>
Plan fiduciary net position:			
Contributions - employer	59,739	64,601	79,182
Net investment income (loss)	(1,676)	16,978	51,486
Benefit payments, including refunds of member contributions	(33,900)	(35,280)	(37,080)
Administrative expense	(17,020)	(10,021)	(12,687)
Net change in plan fiduciary net position	7,143	36,278	80,901
Plan fiduciary net position - beginning	<u>493,177</u>	<u>456,899</u>	<u>375,998</u>
Plan fiduciary net position - ending	<u>500,320</u>	<u>493,177</u>	<u>456,899</u>
Net Pension Liability - Ending	<u>\$ 164,210</u>	<u>\$ 163,512</u>	<u>\$ 165,127</u>
Plan fiduciary net position as a percentage of the total pension liability	75.29%	75.10%	73.45%
Covered-employee payroll	\$ N/A	\$ N/A	\$ N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A

TOWN OF EAST HADDAM, CONNECTICUT
SCHEDULE OF EMPLOYER CONTRIBUTIONS - FIREFIGHTERS PENSION PLAN
LAST FIVE FISCAL YEARS

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 48,417	\$ 28,708	\$ 29,915	\$ 29,915	\$ 23,957
Contributions in relation to the actuarially determined contribution	<u>35,646</u>	<u>39,705</u>	<u>79,182</u>	<u>64,601</u>	<u>59,739</u>
Contribution Deficiency (Excess)	<u>\$ 12,771</u>	<u>\$ (10,997)</u>	<u>\$ (49,267)</u>	<u>\$ (34,686)</u>	<u>\$ (35,782)</u>
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

Notes to Schedule

Valuation date: June 30, 2015
Measurement date: June 30, 2016
Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	20-year level dollar amortization method (open), using 5.5% discount
Asset valuation method	Market value
Inflation	0.0%
Salary increases	Not applicable
Investment rate of return	5.50%, net of pension plan investment expense, including inflation
Retirement age	100% at age 65
Mortality	RP-2014 Blue Collar Mortality Table projected generationally using MP 2015 mortality improvements according to Scale AA

NOTE: The Pension Trust Fund was established in 2012.

**TOWN OF EAST HADDAM, CONNECTICUT
SCHEDULE OF INVESTMENT RETURNS - FIREFIGHTERS PENSION PLAN
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	2.51 %	1.29 %	14.10 %

**TOWN OF EAST HADDAM, CONNECTICUT
 SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHERS RETIREMENT PLAN
 LAST TWO FISCAL YEARS***

	<u>2015</u>	<u>2016</u>
Town's proportion of the net pension liability	0.00%	0.00%
Town's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>23,954,286</u>	<u>25,916,149</u>
Total	<u>\$ 23,954,286</u>	<u>\$ 25,916,149</u>
Town's covered-employee payroll	\$ 8,748,161	\$ 9,152,747
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	61.51%	59.50%

* The amounts presented for each fiscal year were determined as of December 31.

**TOWN OF EAST HADDAM, CONNECTICUT
 SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
 LAST TWO FISCAL YEARS***

	2015		2016
	(as Restated)		
Town's proportion of the net pension liability	0.24%		0.24%
Town's proportionate share of the net pension liability	\$ 230,476	\$	325,104
Town's covered-employee payroll	\$ 512,160	\$	476,120
Plan fiduciary net position as a percentage of the total pension liability	90.48%		92.72%

* The amounts presented for each fiscal year were determined as of December 31.

Notes to Schedule

Changes in benefit terms	None
Changes of assumptions	During 2013, rates of mortality, withdrawal, retirement and assumed rates of salary increases were adjusted to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five-year period ended June 30, 2012.
Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market

TOWN OF EAST HADDAM, CONNECTICUT
SCHEDULE OF EMPLOYER CONTRIBUTIONS - MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 29,991	\$ 32,097	\$ 32,575	\$ 33,211	\$ 47,896	\$ 58,770	\$ 60,824	\$ 63,306	\$ 64,594	\$ 54,183
Contributions in relation to the actuarially determined contribution	<u>28,148</u>	<u>32,569</u>	<u>34,915</u>	<u>35,180</u>	<u>47,982</u>	<u>57,094</u>	<u>62,612</u>	<u>63,263</u>	<u>61,357</u>	<u>54,183</u>
Contribution Deficiency (Excess)	\$ <u>1,843</u>	\$ <u>(472)</u>	\$ <u>(2,340)</u>	\$ <u>(1,969)</u>	\$ <u>(86)</u>	\$ <u>1,676</u>	\$ <u>(1,788)</u>	\$ <u>43</u>	\$ <u>3,237</u>	\$ <u>-</u>
Covered employee payroll	\$ 417,003	\$ 465,282	\$ 498,780	\$ 469,063	\$ 505,073	\$ 493,889	\$ 531,066	\$ 528,067	\$ 512,160	\$ 476,120
Contributions as a percentage of covered employee payroll	6.75%	7.00%	7.00%	7.50%	9.50%	11.56%	11.79%	11.98%	11.98%	11.38%

Notes to Schedule

Valuation date: June 30, 2014
Measurement date: June 30, 2015
Actuarially determined contribution rates are calculated as of June 30, each biennium for the fiscal years ending two and three years after the valuation date.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level dollar, closed
Single equivalent amortization period	27 years
Asset valuation method	5 years smoothed market (20% write up)
Inflation	3.25%
Salary increases	4.25% - 11%, including inflation
Investment rate of return	8%, net of investment related expense
Changes in assumptions:	In 2013, rates of mortality, withdrawal, retirement and assumed rates of salary increases were adjusted to more closely reflect actual and anticipated experience.