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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, 2017, 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, 2017 and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-3 through A-9, the budgetary comparison information on pages A-56 through A-59 and the pension schedules on pages A-60 through A-65 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, 2017

TOWN OF EAST HADDAM, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017. 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 \$80,639,240 (net position). Of this amount, \$17,047,749 (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 \$2,840,455 or 3.6%. Factors leading to this increase were renovations and improvements to the future municipal office complex as well as the elementary school, infrastructure improvements and the acquisition of public safety and public works equipment.
- During the year, the Town had expenses that were \$2,840,455 less than the \$38,203,223 generated in tax and other revenues for governmental programs.
- The Town's governmental funds reported combined ending fund balances of \$14,614,022, a decrease of \$2,555,642 in comparison with the prior year. The decrease is the result of the net change in fund balance in the bonded capital projects fund of \$3,439,024. The bonded capital projects fund deficit was due substantially to expenditures incurred for the renovations and improvements to the future municipal office complex as well as the elementary school. Of total fund balance, \$14,130,590 is nonspendable, restricted, committed or assigned combined leaving an unassigned fund balance of \$483,432.
- The unassigned balance for the General Fund was \$4,427,429 or 14.4% of the General Fund budgetary expenditures and other financing uses. The total General Fund balance was \$4,601,314 or 14.9% of the General Fund budgetary expenditures and other financing uses, this represents an increase of \$37,671.
- The Capital Projects and Reserve Fund (where all capital projects and reserves for capital projects are reflected) increased by \$236,552, for an ending fund balance of \$5,491,775.
- The Town's long-term debt decreased by \$1,320,000 or 8.5% due to scheduled repayments

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 \$77,798,785 to \$80,639,240. 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	
	2017	2016
Current and other assets	\$ 34,015,578	\$ 19,005,102
Capital assets	81,576,100	77,683,678
Total assets	<u>115,591,678</u>	<u>96,688,780</u>
Deferred outflows of resources	<u>819,726</u>	<u>754,591</u>
Long-term debt outstanding	16,706,077	18,110,978
Other liabilities	19,014,138	1,526,248
Total liabilities	<u>35,720,215</u>	<u>19,637,226</u>
Deferred inflows of resources	<u>51,949</u>	<u>7,360</u>
Net position:		
Net investment in capital assets	63,151,698	62,128,420
Restricted	439,793	439,793
Unrestricted	<u>17,047,749</u>	<u>15,230,572</u>
Total Net Position	<u>\$ 80,639,240</u>	<u>\$ 77,798,785</u>

Net position of the Town's governmental activities increased by 3.6%. 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, increased from \$15,230,572 to \$17,047,749.

**TABLE 2
CHANGE IN NET POSITION**

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,245,790	\$ 1,281,038
Operating grants and contributions	8,587,764	7,045,641
Capital grants and contributions	1,564,527	1,435,616
General revenues:		
Property taxes	25,428,365	24,628,234
Grants and contributions not restricted to specific purposes	102,546	100,910
Unrestricted investment earnings	987,137	291,015
Other general revenues	287,094	119,972
Total revenues	<u>38,203,223</u>	<u>34,902,426</u>
Program expenses:		
General government	3,488,285	2,752,660
Public safety	1,295,996	1,165,174
Public works	3,825,994	3,432,111
Health and welfare	459,689	486,859
Recreation and leisure	741,039	794,088
Education	25,067,078	23,583,437
Interest on long-term debt	484,687	679,735
Total program expenses	<u>35,362,768</u>	<u>32,894,064</u>
Increase in Net Position	2,840,455	2,008,362
Net Position July 1,	<u>77,798,785</u>	<u>75,790,423</u>
Net Position June 30	<u>\$ 80,639,240</u>	<u>\$ 77,798,785</u>

The Town's total revenues were \$38,203,223. The total cost of all programs and services was \$35,362,768. Our analysis below considers the operations of governmental activities.

Governmental Activities

Approximately 67% of the Town's revenues were derived from property taxes, followed by 23% from operating grants and contributions, 4% for capital grants and contributions and then 3.3% from charges for services.

The mill rate for fiscal year 2017 was 29.35. The mill rate for fiscal year 2016 was 28.68.

For Governmental Activities, approximately 71% of the Town's expenditures related to education, followed by 11% related to public works and 10% 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**

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
General government	\$ 3,488,285	\$ 2,752,660	\$ 2,733,141	\$ 2,054,415
Public safety	1,295,996	1,165,174	1,071,486	10,003,680
Public works	3,825,994	3,432,111	2,365,593	2,057,351
Health and welfare	459,689	486,859	426,665	461,127
Recreation and leisure	741,039	794,088	544,796	576,392
Education	25,067,078	23,583,437	16,338,319	16,299,069
Other	484,687	679,735	484,687	679,735
Totals	\$ 35,362,768	\$ 32,894,064	\$ 23,964,687	\$ 32,131,769

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 \$14,614,022, which is a decrease of \$2,555,642 from last year's total of \$17,169,664. The decrease is the result of the net change in fund balance in the bonded capital projects fund of \$3,439,024. The bonded capital projects fund deficit was due substantially to expenditures incurred for the renovations and improvements to the future municipal office complex as well as the elementary school.

The general fund is the operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,427,429. As a measure of the general funds liquidity, it is useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 14.4% of total general fund budgetary expenditures and other financing uses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the Town had \$81.6 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 \$3.9 million was primarily due renovations and improvements to the future municipal office complex as well as 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	
	2017	2016
Land	\$ 9,734	\$ 9,734
Building and improvements	52,225	49,889
Furniture and equipment	3,887	3,634
Infrastructure	13,454	12,642
Construction in progress	2,276	1,784
Totals	\$ 81,576	\$ 77,683

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	
	2017	2016
General obligation bonds	\$ 12,910,000	\$ 14,020,000
Notes payable	1,300,000	1,510,000
Total	\$ 14,210,000	\$ 15,530,000

At June 30, 2017, the Town had \$14.2 million in bonds and notes outstanding versus \$15.5 million last year.

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 \$177 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 2017-2018 General Fund budget.

Revenues: The Town anticipated revenues from state, federal and local sources to decrease by 17.0%. The budget includes a reliance on the general fund of \$100,000 to balance the budget. The budget provides for an increase in property taxes of \$292 thousand or 1.2%. The mill rate increased by .23. The mill rate for fiscal year 2017-2018 is 29.58.

Expenses: The expenditure budget for 2017-2018 is \$30,782,211 or a decrease of \$369 thousand (over the 2016-2017 original budget). The decrease is attributed to anticipated reductions in municipal aid from the State of Connecticut.

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, 2017

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 24,358,144
Investments	8,221,537
Receivables, net	1,415,790
Due from fiduciary funds	14,405
Inventory	5,702
Capital assets not being depreciated	12,010,283
Capital assets being depreciated, net	69,565,817
Total assets	<u>115,591,678</u>
Deferred Outflows of Resources:	
Deferred charges on refunding	613,531
Changes related to pensions	206,195
Total deferred outflows of resources	<u>819,726</u>
Liabilities:	
Accounts and other payables	879,123
Unearned revenue	335,015
Bond anticipation notes	17,800,000
Noncurrent liabilities:	
Due within one year	1,809,056
Due in more than one year	14,897,021
Total liabilities	<u>35,720,215</u>
Deferred Inflows of Resources:	
Changes related to pensions	<u>51,949</u>
Net Position:	
Net investment in capital assets	63,151,698
Restricted for trust purposes	439,793
Unrestricted	<u>17,047,749</u>
Total Net Position	<u>\$ 80,639,240</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, 2017**

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	\$ 3,488,285	\$ 436,169	\$ 4,625	\$ 314,350	\$ (2,733,141)
Public safety	1,295,996	219,710	4,800		(1,071,486)
Public works	3,825,994	210,224		1,250,177	(2,365,593)
Health and welfare	459,689	12,082	20,942		(426,665)
Recreation and leisure	741,039	179,152	17,091		(544,796)
Education	25,067,078	188,453	8,540,306		(16,338,319)
Interest on long-term debt	484,687				(484,687)
Total	\$ 35,362,768	\$ 1,245,790	\$ 8,587,764	\$ 1,564,527	(23,964,687)
General revenues:					
Property taxes					25,428,365
Grants and contributions not restricted to specific programs					102,546
Unrestricted net investment income					987,137
Other					287,094
Total general revenues					<u>26,805,142</u>
Change in net position					2,840,455
Net Position at Beginning of Year					<u>77,798,785</u>
Net Position at End of Year					<u>\$ 80,639,240</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF EAST HADDAM, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	<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	\$ 17,862,774	\$ 6,018,993	\$	\$ 144,470	\$ 271,741	\$ 24,297,978
Investments				7,257,758	963,779	8,221,537
Receivables, net	629,262	123,055	430,913		232,560	1,415,790
Due from other funds	1,021,583		13,608,342		274,465	14,904,390
Other					5,702	5,702
Total Assets	<u>\$ 19,513,619</u>	<u>\$ 6,142,048</u>	<u>\$ 14,039,255</u>	<u>\$ 7,402,228</u>	<u>\$ 1,748,247</u>	<u>\$ 48,845,397</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts and other payables	\$ 596,220	\$ 79,663	\$ 26,674	\$	\$ 79,838	\$ 782,395
Due to other funds	13,882,807	570,610		298,504	138,064	14,889,985
Unearned revenue	9,298		134,545		191,172	335,015
Bond anticipation notes payable			17,800,000			17,800,000
Total liabilities	<u>14,488,325</u>	<u>650,273</u>	<u>17,961,219</u>	<u>298,504</u>	<u>409,074</u>	<u>33,807,395</u>
Deferred inflows of resources:						
Unavailable revenue - property taxes	423,980					423,980
Fund balances:						
Nonspendable				400,000	45,495	445,495
Restricted				6,703,724	1,156,389	7,860,113
Committed		5,491,775			37,885	5,529,660
Assigned	173,885				121,437	295,322
Unassigned	4,427,429		(3,921,964)		(22,033)	483,432
Total fund balances	<u>4,601,314</u>	<u>5,491,775</u>	<u>(3,921,964)</u>	<u>7,103,724</u>	<u>1,339,173</u>	<u>14,614,022</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 19,513,619</u>	<u>\$ 6,142,048</u>	<u>\$ 14,039,255</u>	<u>\$ 7,402,228</u>	<u>\$ 1,748,247</u>	<u>\$ 48,845,397</u>

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TOWN OF EAST HADDAM, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2017

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)	\$ 14,614,022
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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	\$ 109,615,182	
Less accumulated depreciation	<u>(28,039,082)</u>	
Net capital assets		81,576,100

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

Property tax receivables greater than 60 days	362,331
Interest receivable on property taxes	61,649
Deferred amounts on refunding	613,531
Deferred outflows related to pensions	206,195

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.

50,772

Long-term liabilities and deferred inflows of resources are not due and payable
 in the current period and, therefore, are not reported in the funds:

Bonds and notes payable	(14,210,000)
Interest payable on bonds and notes	(87,334)
Compensated absences	(1,084,400)
Bond premium	(636,275)
Termination benefits	(83,428)
Net OPEB obligation	(159,956)
Deferred inflows related to pensions	(51,949)
MERS prior service costs	(32,730)
Net pension liability	<u>(499,288)</u>

Net Position of Governmental Activities (Exhibit I)	<u>\$ 80,639,240</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, 2017**

	<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>
Revenues:						
Property taxes	\$ 25,356,687	\$	\$	\$	\$	\$ 25,356,687
Intergovernmental	8,287,970	221,883	230,111		1,543,245	10,283,209
Charges for services	711,244				523,927	1,235,171
Income on investments	24,232	21,029		869,075	72,801	987,137
Miscellaneous	236,655				31,072	267,727
Total revenues	<u>34,616,788</u>	<u>242,912</u>	<u>230,111</u>	<u>869,075</u>	<u>2,171,045</u>	<u>38,129,931</u>
Expenditures:						
Current:						
General government	3,342,400				4,278	3,346,678
Public safety	1,109,957				75,318	1,185,275
Public works	1,971,724				956,067	2,927,791
Health and welfare	439,029				30,259	469,288
Recreation and leisure	557,690				125,366	683,056
Education	23,606,161			54,987	965,964	24,627,112
Debt service	1,805,522		2,820			1,808,342
Capital outlay		1,971,716	3,666,315			5,638,031
Total expenditures	<u>32,832,483</u>	<u>1,971,716</u>	<u>3,669,135</u>	<u>54,987</u>	<u>2,157,252</u>	<u>40,685,573</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,784,305</u>	<u>(1,728,804)</u>	<u>(3,439,024)</u>	<u>814,088</u>	<u>13,793</u>	<u>(2,555,642)</u>
Other Financing Sources (Uses):						
Transfers in	329,046	1,965,356			110,324	2,404,726
Transfers out	<u>(2,075,680)</u>			<u>(298,504)</u>	<u>(30,542)</u>	<u>(2,404,726)</u>
Total other financing sources (uses)	<u>(1,746,634)</u>	<u>1,965,356</u>	<u>-</u>	<u>(298,504)</u>	<u>79,782</u>	<u>-</u>
Net Change in Fund Balances	37,671	236,552	(3,439,024)	515,584	93,575	(2,555,642)
Fund Balances at Beginning 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>
Fund Balances at End of Year	<u>\$ 4,601,314</u>	<u>\$ 5,491,775</u>	<u>\$ (3,921,964)</u>	<u>\$ 7,103,724</u>	<u>\$ 1,339,173</u>	<u>\$ 14,614,022</u>

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

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)	\$ (2,555,642)
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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	5,346,505
Depreciation expense	(1,443,678)

The statement of activities reports losses arising from the trade-in of existing capital assets to acquire new capital assets. Conversely governmental funds do not report any gain or loss on a trade-in of capital assets.	(10,405)
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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	65,644
Property tax interest and lien revenue - accrual basis change	6,034

Change in deferred outflows related to pensions	101,560
---	---------

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	1,320,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	16,782
Accrued interest	1,141
MERS prior service costs	10,910
Termination payments	66,797
Amortization of deferred charge on refunding	(53,740)
Amortization of bond premiums	56,254
Change in deferred inflows related to pensions	(27,274)
Change in net pension liability	(9,974)
Net OPEB expense	(55,868)

Internal service funds are used by management to charge costs to individual funds. The net revenue of certain activities of internal services funds is reported with governmental activities.	<u>5,409</u>
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Change in Net Position of Governmental Activities (Exhibit II)	<u>\$ 2,840,455</u>
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The accompanying notes are an integral part of the financial statements

**TOWN OF EAST HADDAM, CONNECTICUT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017**

	Governmental Activities
	Internal
	Service Funds
Assets:	
Cash and cash equivalents	\$ 60,166
Liabilities:	
Accounts and other payables	<u>9,394</u>
Net Position:	
Unrestricted	<u>\$ 50,772</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, 2017**

	Governmental Activities
	Internal Service Funds
Operating Revenues:	
Employer contribution	\$ 25,760
Employee contribution	<u>41,211</u>
Total operating revenues	<u>66,971</u>
Operating Expenses:	
Administrative expense	6,001
Employee benefits	<u>55,561</u>
Total operating expenses	<u>61,562</u>
Operating Loss	5,409
Net Position at Beginning of Year	<u>45,363</u>
Net Position at End of Year	<u>\$ 50,772</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, 2017**

	Governmental Activities <u>Internal Service Funds</u>
Cash Flows from Operating Activities:	
Cash received from employees and employer	\$ 66,971
Cash payments to providers of benefits and administration	<u>(62,368)</u>
Net cash provided by (used in) operating activities	<u>4,603</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,603
Cash and Cash Equivalents at Beginning of Year	<u>55,563</u>
Cash and Cash Equivalents at End of Year	<u>\$ 60,166</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ 5,409
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>(806)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 4,603</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, 2017

	Pension Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ 227,079	\$ 334,355
Investments	<u>3,761,688</u>	<u> </u>
Total Assets	<u>3,988,767</u>	<u>\$ 334,355</u>
Liabilities:		
Due to other funds	14,405	\$
Accounts and other payables	<u> </u>	<u>334,355</u>
Total Liabilities	<u>14,405</u>	<u>\$ 334,355</u>
Net Position:		
Held in Trust for Pension Benefits	<u>\$ 3,974,362</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, 2017**

	<u>Pension Trust Funds</u>
Additions:	
Contributions:	
Employer	\$ 204,836
Plan members	<u>179,770</u>
Total contributions	<u>384,606</u>
Investment income:	
Net change in fair value of investments	31,555
Interest and dividends	<u>257,430</u>
Net investment income	<u>288,985</u>
Total additions	<u>673,591</u>
Deductions:	
Benefits	461,142
Administration	<u>9,381</u>
Total deductions	<u>470,523</u>
Net Increase	203,068
Net Position at Beginning of Year	<u>3,771,294</u>
Net Position at End of Year	<u>\$ 3,974,362</u>

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of 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, 2017**

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, 2017**

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 \$26,004 has been established as an allowance for uncollectible taxes. At June 30, 2017, this represents 5.89% 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, 2017**

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, differences between projected and actual earnings on investments and contributions subsequent to the measurement date. 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, change in proportionate share of the liability and difference between expected and actual experience. 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

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

employees that are provided with benefits through the pension plan (active employees and inactive 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, 2017 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 \$1,084,400. 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, 2017**

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, 2017 totaled \$83,428. 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, 2017**

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 Selectmen 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 \$48,578 during the year, and no appropriations were carried over to fiscal year 2018.

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 \$3,577,033.
- The Maintenance, Technology and Grange Hall Funds are combined for financial reporting purposes rather than budgeted within the General Fund.

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017**

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, unanticipated repairs, and greater Town Clerk activity (resulting in greater revenue) which are shown in the following budget lines:

<u>Department</u>	<u>Amount</u>
Planning and zoning/land use office	\$ 882
Town clerk	15,705
Shared services	1,621
Police officers	672
Resident trooper	253
Public libraries	5,091
Debt service	<u>509</u>
 Total	 \$ <u><u>24,733</u></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, 2017**

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*, \$24,772,954 of the Town’s bank balance of \$25,687,049 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 22,234,748
Uninsured and collateral held by the pledging bank’s trust department, not in the Town’s name	<u>2,538,206</u>
Total Amount Subject to Custodial Credit Risk	<u>\$ 24,772,954</u>

Cash Equivalents

At June 30, 2017, the Town’s cash equivalents amounted to \$56,807. 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, 2017**

Investments

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

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
			<u>Less Than 1</u>	<u>1-10</u>	<u>More Than 10</u>
Interest-bearing investments:					
Certificates of deposit	*	\$ 105,678	\$ 105,678	\$	\$
Corporate bonds	Aaa	46,801		46,801	
Corporate bonds	Aa1	2,869		2,869	
Corporate bonds	Aa3	3,999	3,999		
Corporate bonds	A1	9,259		9,259	
Corporate bonds	A2	25,951	18,001	7,950	
Corporate bonds	A3	42,596	27,054	15,542	
Corporate bonds	Baa1	2,068		2,068	
Corporate bonds	Baa3	5,106		5,106	
U.S. Government obligations	Aaa	<u>678,481</u>	<u>157,113</u>	<u>480,444</u>	<u>40,924</u>
Total		922,808	\$ <u>311,845</u>	\$ <u>570,039</u>	\$ <u>40,924</u>
Other investments:					
Common stock	N/A	4,396,822			
Mutual funds	N/A	4,992,782			
Alternative investments	N/A	<u>1,670,813</u>			
Total		\$ <u>11,983,225</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, 2017**

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, 2017, the Town had \$4,396,822 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 categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements); followed by quoted prices in inactive markets or for similar assets or with observable inputs (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements). The Town has the following recurring fair value measurements as of June 30, 2017:

	<u>June 30</u> <u>2017</u>	<u>Fair Value Measurements Using</u>	
		<u>Level 1</u>	<u>Level 2</u>
Investments by Fair Value Level:			
U.S. Government securities	\$ 678,481	\$ 678,481	\$
Corporate bonds	138,649	138,649	
Common stock	4,396,822	4,396,822	
Mutual funds	4,992,782	1,231,095	3,761,687
Alternative investments	<u>1,670,813</u>	<u></u>	<u>1,670,813</u>
Total Investments by Fair Value Level	<u>\$ 11,877,547</u>	<u>\$ 6,445,047</u>	<u>\$ 5,432,500</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, 2017**

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	\$ 61,649	\$	\$	\$	\$ 61,649
Taxes	441,223				441,223
Accounts	130,041			10,673	140,714
Intergovernmental	22,353	123,055	430,913	221,887	798,208
Gross receivables	655,266	123,055	430,913	232,560	1,441,794
Less allowance for uncollectibles	(26,004)				(26,004)
Net Total Receivables	<u>\$ 629,262</u>	<u>\$ 123,055</u>	<u>\$ 430,913</u>	<u>\$ 232,560</u>	<u>\$ 1,415,790</u>

5. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,734,119	\$	\$	\$ 9,734,119
Construction in progress	1,783,571	1,819,423	(1,326,830)	2,276,164
Total capital assets not being depreciated	<u>11,517,690</u>	<u>1,819,423</u>	<u>(1,326,830)</u>	<u>12,010,283</u>
Capital assets being depreciated:				
Buildings and improvements	65,012,950	3,031,587		68,044,537
Furniture and equipment	8,750,913	592,437	(139,880)	9,203,470
Infrastructure	19,127,004	1,229,888		20,356,892
Total capital assets being depreciated	<u>92,890,867</u>	<u>4,853,912</u>	<u>(139,880)</u>	<u>97,604,899</u>
Less accumulated depreciation for:				
Buildings and improvements	(15,123,772)	(695,638)		(15,819,410)
Furniture and equipment	(5,116,592)	(329,610)	129,475	(5,316,727)
Infrastructure	(6,484,515)	(418,430)		(6,902,945)
Total accumulated depreciation	<u>(26,724,879)</u>	<u>(1,443,678)</u>	<u>129,475</u>	<u>(28,039,082)</u>
Total capital assets being depreciated, net	<u>66,165,988</u>	<u>3,410,234</u>	<u>(10,405)</u>	<u>69,565,817</u>
Governmental Activities Capital Assets, Net	<u>\$ 77,683,678</u>	<u>\$ 5,229,657</u>	<u>\$ (1,337,235)</u>	<u>\$ 81,576,100</u>

**TOWN OF EAST HADDAM, CONNECTICUT
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Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:	
General government	\$ 54,188
Public safety	131,228
Public works	691,750
Health and welfare	25,690
Recreation and leisure	60,684
Education	<u>480,138</u>
 Total Depreciation Expense - Governmental Activities	 \$ <u><u>1,443,678</u></u>

The Town of East Haddam had active construction commitments at June 30, 2017. The Town's commitments with contractors were as follows:

<u>Project Description</u>	<u>Remaining Commitment</u>
Firehouse Company #2 Renovation	\$ 337,000
Municipal Office Complex:	
GMP Phase I	3,237,604
GMP Phase II	9,844,890

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, 2017 is presented below:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Bonded Capital Projects Fund	General Fund	\$ 13,608,342
General Fund	Reserve for Capital Projects	570,610
General Fund	A.E. Purple Fund	298,504
Nonmajor governmental funds	General Fund	274,465
General Fund	Nonmajor governmental funds	138,064
General Fund	Pension Trust Fund	<u>14,405</u>
		 \$ <u><u>14,904,390</u></u>

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

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

Interfund transfers:

	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Reserve for Capital Projects</u>	<u>Nonmajor Governmental</u>	
Transfers out:				
General Fund	\$	\$ 1,965,356	\$ 110,324	\$ 2,075,680
A.E. Purple Fund	298,504			298,504
Nonmajor governmental funds	<u>30,542</u>			<u>30,542</u>
Total	<u>\$ 329,046</u>	<u>\$ 1,965,356</u>	<u>\$ 110,324</u>	<u>\$ 2,404,726</u>

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

7. LONG-TERM DEBT

Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 14,020,000	\$	\$ 1,110,000	\$ 12,910,000	\$ 1,120,000
Notes payable	1,510,000		210,000	1,300,000	210,000
Bond premiums	<u>692,529</u>		<u>56,254</u>	<u>636,275</u>	
Total bonds payable	16,222,529	-	1,376,254	14,846,275	1,330,000
OPEB liability	104,088	55,868		159,956	
Net pension liability	489,314	9,974		499,288	
Compensated absences	1,101,182	38,222	55,004	1,084,400	401,156
MERS prior service costs	43,640		10,910	32,730	10,910
Termination benefits	<u>150,225</u>		<u>66,797</u>	<u>83,428</u>	<u>66,990</u>
Governmental Activity Long-Term Liabilities	<u>\$ 18,110,978</u>	<u>\$ 104,064</u>	<u>\$ 1,508,965</u>	<u>\$ 16,706,077</u>	<u>\$ 1,809,056</u>

Refunding Bonds

On November 19, 2015, the Town advanced refunded \$8,995,000 of outstanding principal amounts of the 2008 general obligation bonds. As of June 30, 2017, 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. The balance in escrow at June 30, 2017 is \$9,253,136.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

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

<u>Description</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate (%)</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding June 30, 2017</u>
Bonds and notes:					
General obligation	2010	2031	2.0-3.75	\$ 1,688,705	\$ 1,243,000
School	2010	2031	2.0-3.75	2,136,298	1,582,000
School	2008	2028	3.5-4.7	16,150,000	754,400
General obligation	2008	2028	3.5-4.7	500,000	165,600
Notes payable	2013	2024	1.5-2.5	2,395,000	1,300,000
Refunding bonds	2015	2028	1.5-2.5	9,165,000	<u>9,165,000</u>
					<u>\$ 14,210,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
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	1,345,000	268,526
2023-2027	5,755,000	719,278
2028-2031	<u>1,670,000</u>	<u>85,821</u>
	<u>\$ 14,210,000</u>	<u>\$ 2,539,981</u>

A summary of bonds authorized unissued is presented below:

<u>Project</u>	<u>Authorization</u>	<u>Issued</u>	<u>Contributions</u>	<u>Unissued</u>
Open Space	\$ 5,894,500	\$ 2,188,705	\$ 1,149,000	\$ 2,556,795
Middle School Project	34,118,000	18,506,295	15,340,252	271,453 *
East Haddam Elementary School	2,707,000	2,100,000		607,000 *
Former Middle School Conversion	15,000,000	15,000,000		-
Firehouse Improvements	508,000	508,000		-
Town-wide Radio System Improvements	<u>2,100,000</u>	<u>192,000</u>		<u>1,908,000</u>
Total	<u>\$ 60,327,500</u>	<u>\$ 38,495,000</u>	<u>\$ 16,489,252</u>	<u>\$ 5,343,248</u>

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

**TOWN OF EAST HADDAM, CONNECTICUT
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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	\$ 57,004	\$ 22,874	\$ 34,130
Schools	114,008	13,601	100,407
Sewers	95,006		95,006
Urban renewal	82,339		82,339
Pension deficit	76,005		76,005

*In no case shall total indebtedness exceed seven times annual receipts from taxation (\$177,345).

**Indebtedness includes bonds authorized unissued of \$271 related to the Middle School, \$607 for East Haddam Elementary, Radio system improvement for \$1,908 and \$2,557 related to open space of which \$878 is reduced by grants received by the State of Connecticut.

Bond Anticipation Notes

The Town issued bond anticipation notes on June 8, 2017 for \$12,800,000 and \$5,000,000 respectively, maturing on March 8, 2018 with an interest rate of 2.25%.

Compensated Absences

Accrued sick and vacation pay for general government operations is \$384,749, and the amount for the Board of Education is \$699,650. This is a decrease of \$16,782 from the previous year. The Board of Education has liabilities of \$83,428 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 2017, expenses of \$61,562 were incurred for benefits, insurance premiums and administration. Incurred but not reported health claims of \$9,394 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>
2016-2017	\$ 10,200	\$ 61,562	\$ 62,368	\$ 9,394
2015-2016	8,988	62,823	61,611	10,200

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017, the plan's membership consisted of:

Retiree and beneficiaries currently receiving benefits	33
Inactive with deferred benefits	14
Current active members	<u> </u>
Total	<u><u>47</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, 2017**

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, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed income	30.0%
Domestic equity	55.0%
International equity	5.0%
International fixed income	5.0%
Cash	<u>5.0%</u>
 Total	 <u><u>100.0%</u></u>

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.59%. 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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015.

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

Total pension liability	\$ 679,344
Plan fiduciary net position	<u>(572,629)</u>
 Town's Net Pension Liability	 \$ <u><u>106,715</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	 84.29%

**TOWN OF EAST HADDAM, CONNECTICUT
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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 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 5.50%. 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 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, 2017**

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, 2016	\$ 664,530	\$ 500,320	\$ 164,210
Changes for the year:			
Service cost	10,661		10,661
Interest on total pension liability	36,253		36,253
Employer contributions		52,990	(52,990)
Net investment income (loss)		60,800	(60,800)
Benefit payments, including refund to employee contributions	(32,100)	(32,100)	-
Administrative expenses		(9,381)	9,381
Net changes	<u>14,814</u>	<u>72,309</u>	<u>(57,495)</u>
Balances as of June 30, 2017	<u>\$ 679,344</u>	<u>\$ 572,629</u>	<u>\$ 106,715</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	\$ 188,284	\$ 106,715	\$ 31,945

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

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

For the year ended June 30, 2017, the Town recognized pension expense of \$26,387. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Employees' Pension Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,692	\$ 1,602
Changes of assumptions	3,574	644
Net difference between projected and actual earning on pension plan investments		<u>12,013</u>
Total	<u>\$ 20,266</u>	<u>\$ 14,259</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

2018	\$ (2,074)
2019	3,282
2020	1,529
2021	(4,162)
2020	2,647
Thereafter	4,785

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

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 \$185,852 and employer contributions were \$145,636 to the plan. These amounts represent 5.7% and 4.4%, respectively, of covered payroll of \$3,285,049. Total Town and Board of Education payroll amounted to \$12,756,971.

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	\$ 127,579	\$ 99,500	\$ 227,079
Investments	<u>3,274,154</u>	<u>487,534</u>	<u>3,761,688</u>
Total assets	<u>3,401,733</u>	<u>587,034</u>	<u>3,988,767</u>
Liabilities:			
Due to other funds		<u>14,405</u>	<u>14,405</u>
Net Position:			
Held in Trust for Pension Benefits	<u>\$ 3,401,733</u>	<u>\$ 572,629</u>	<u>\$ 3,974,362</u>

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
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Statement of Changes in Plan Assets

	Pension Trust Funds		
	Employee Savings Plan	Firefighters Incentive Plan	Total Trust Funds
Additions:			
Contributions:			
Employer	\$ 151,846	\$ 52,990	\$ 204,836
Plan members	179,770		179,770
Total contributions	<u>331,616</u>	<u>52,990</u>	<u>384,606</u>
Investment income:			
Net change in fair value of investments		31,555	31,555
Interest and dividends	228,185	29,245	257,430
Net investment income (loss)	<u>228,185</u>	<u>60,800</u>	<u>288,985</u>
Total additions	<u>559,801</u>	<u>113,790</u>	<u>673,591</u>
Deductions:			
Benefits	429,042	32,100	461,142
Administration		9,381	9,381
Total deductions	<u>429,042</u>	<u>41,481</u>	<u>470,523</u>
Change in Net Position	130,759	72,309	203,068
Net Position at Beginning of Year	<u>3,270,974</u>	<u>500,320</u>	<u>3,771,294</u>
Net Position at End of Year	<u>\$ 3,401,733</u>	<u>\$ 572,629</u>	<u>\$ 3,974,362</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
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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, 2017.

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.

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.

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017**

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, 2017, 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>32,800,687</u>
Total	<u>\$ 32,800,687</u>

The 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, 2016. At June 30, 2017, the Town has no proportionate share of the net pension liability.

For the year ended June 30, 2017, the Town recognized pension expense and revenue of \$3,557,033 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, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increase	3.25-6.5%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale, and further adjusted to grade in increased rates (5% for females and 8% for males) over age 80 for the period after service retirement and for dependent beneficiaries as well as for active members. The RPH-2014 Disabled Mortality Table projected to 2017 with Scale BB is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

For teachers who retired prior to September 1, 1992, pension benefit adjustments are made in accordance with increases in the Consumer Price Index, with a minimum of 3% and a maximum of 5% per annum.

For teachers who were members of the Teachers' Retirement System before July 1, 2007 and retire on or after September 1, 1992, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 6% per annum. If the return on assets in the previous year was less than 8.5%, the maximum increase is 1.5%.

For teachers who were members of the Teachers' Retirement System after July 1, 2007, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 5% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3%, and if the return on the assets in the previous year was less than 8.5%, the maximum increase is 1.0%.

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 8.00%. 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 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 active service, or 15 year of active noncontinuous aggregate service. In addition, compulsory retirement is at age 65 for police and fire members. Employees under the age of 55 are eligible to retire with 25 years of service under certain conditions.

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.

If any member covered by social security retires before age 62, the member's benefit until the member reaches age 62, or a social security disability award is received, is computed as if the member is not under social security.

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.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
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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.

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, 2017, the Town reports a liability of \$392,573 for its proportionate share of the net pension liability. The net pension liability was measured at June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation at June 30, 2016. 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, 2017, the Town's proportion was .12%. The decrease in proportion from June 30, 2016 was .12%.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

For the year ended June 30, 2017, the Town recognized pension expense of \$94,171. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows 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	\$ 63,369	\$
Net difference between projected and actual earning on pension plan investments	114,100	
Differences between expected and actual experience	8,460	
Change in proportionate share		<u>37,690</u>
Total	<u>\$ 185,929</u>	<u>\$ 37,690</u>

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:

Year Ended June 30,

2018	\$ 80,532
2019	17,163
2020	33,633
2021	<u>16,911</u>
Total	<u>\$ 148,239</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the 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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2007 - June 30, 2012.

Future cost-of-living adjustments for members who retire on or after January 1, 2002 are 60% of the annual increase in the CPI up to 6%. The minimum annual COLA is 2.5%; the maximum is 6%.

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
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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	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.

**TOWN OF EAST HADDAM, CONNECTICUT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017**

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	\$ 619,394	\$ 392,573	\$ 200,235

Payable to MERS

The Town has recorded \$32,730 as a long-term payable to MERS at June 30, 2017. This amount represents prior service costs calculated when the Town entered the plan.

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, 2017, plan membership consisted of the following:

	<u>Post-Retirement Medical Program</u>
Active participants	208
Inactive participants	10
Total Participants	<u>218</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, 2017**

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)	\$ 93,835
Interest on net OPEB obligation	3,706
Adjustment to annual required contribution	<u>(3,624)</u>
Annual OPEB cost	93,917
Contributions made	<u>(38,049)</u>
Increase in net OPEB obligation	55,868
Net OPEB obligation at beginning of year	<u>104,088</u>
Net OPEB Obligation at End of Year	<u>\$ 159,956</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
6/30/17	\$ 93,917	\$ 38,049	40.5%	\$ 159,956
6/30/16	73,904	73,657	99.7%	104,088
6/30/15	74,994	67,575	90.1%	103,841

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
7/1/2016	\$	\$ 1,118,228	\$ 1,118,228	0 %	\$ 11,988,811	9.3 %
7/1/2015		798,540	798,500	0 %	10,993,507	7.8 %
7/1/2014		834,457	834,457	0 %	10,673,308	9.5 %

**TOWN OF EAST HADDAM, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

Schedule of Employer Contributions

<u>Fiscal Year</u>	<u>Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>
6/30/2017	\$ 38,049	\$ 93,835	40.5 %
6/30/2016	73,657	73,657	100.0 %
6/30/2015	67,575	74,994	90.1 %

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, 2017**

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	\$	\$	\$	\$	\$ 5,702	\$ 5,702
Endowment				400,000	39,793	439,793
Restricted for:						
Capital projects					783,278	783,278
Recreation					68,290	68,290
Education				6,703,724		6,703,724
Health and welfare					245,991	245,991
Sewer use					58,830	58,830
Committed to:						
General government					11,971	11,971
Recreation					3,228	3,228
Education					22,686	22,686
Open space		5,491,775				5,491,775
Assigned to:						
Education	173,885				90,789	264,674
Public safety					30,648	30,648
Unassigned	<u>4,427,429</u>		<u>(3,921,964)</u>		<u>(22,033)</u>	<u>483,432</u>
Total Fund Balances	<u>\$ 4,601,314</u>	<u>\$ 5,491,775</u>	<u>\$ (3,921,964)</u>	<u>\$ 7,103,724</u>	<u>\$ 1,339,173</u>	<u>\$ 14,614,022</u>

B. Fund Deficits

The Capital Grants fund, a nonmajor special revenue fund, has a deficit fund balance of \$22,033 due to expenditures exceeding anticipated grant revenues. This deficit will be funded by General Fund contributions. The Bonded Capital Projects Fund has a deficit of \$3,921,964 due to timing of projects and will be funded by future bonding.

12. 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, 2017**

	<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	\$ 25,099,153	\$ 25,099,153	\$ 25,176,071	\$ 76,918
Interest and penalties	140,000	140,000	165,517	25,517
Other taxes	8,460	8,460	15,099	6,639
Total property taxes	<u>25,247,613</u>	<u>25,247,613</u>	<u>25,356,687</u>	<u>109,074</u>
Intergovernmental revenues:				
General government:				
Chester Assessor agreement	50,044	50,044	50,044	-
PILOT State property	8,489	8,489	8,423	(66)
Casino funds	27,085	27,085	27,046	(39)
State highway - Town Aid Road	331,311	331,311	331,211	(100)
Local Capital Improvement Program	87,991	87,991		(87,991)
Municipal Revenue Sales Tax Sharing	268,344	268,344	186,418	(81,926)
Emergency Management Grant	4,100	4,100	4,100	-
Miscellaneous allotments	25,000	25,000		(25,000)
Tax Relief:				
Circuit Breaker	72,820	72,820	60,765	(12,055)
Disability	745	745	483	(262)
Veterans	5,506	5,506	5,829	323
Education:				
Adult Education	5,214	5,214	5,551	337
Transportation	53,290	53,290		(53,290)
Education Cost Sharing/Special	3,777,645	3,777,645	3,731,058	(46,587)
Total intergovernmental revenues	<u>4,717,584</u>	<u>4,717,584</u>	<u>4,410,928</u>	<u>(306,656)</u>
Investment and interest income:				
Investment income	<u>25,000</u>	<u>25,000</u>	<u>24,232</u>	<u>(768)</u>
Local revenue:				
Animal Control	1,000	1,000		(1,000)
Assessor fees	500	500	325	(175)
Building Department	100,000	100,000	131,267	31,267
Cemeteries	2,360	2,360	1,463	(897)
Fire permits	200	200	170	(30)
Historic District permits	300	300	50	(250)
Land Use Offices permit fees	25,000	25,000	17,280	(7,720)
Other	25,000	25,000	75,420	50,420
PILOT Goodspeed Opera House	28,750	28,750	29,552	802
Police special duty	20,000	20,000	43,456	23,456
Rents	16,324	16,324	19,631	3,307
Telecommunications	28,500	28,500	27,433	(1,067)

(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, 2017**

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Local revenue (continued):				
Conveyance tax	\$ 85,000	\$ 85,000	\$ 112,780	\$ 27,780
Town Clerk fees	150,000	150,000	183,602	33,602
Town Clerk licenses	20,000	20,000	21,675	1,675
Sanitation/Transfer Station	50,000	50,000	38,342	(11,658)
Zoning Board of Appeals	1,500	1,500	1,170	(330)
Libraries:				
Library endowment and trust income	58,000	58,000	55,682	(2,318)
Library fees and fines	7,000	7,000	7,975	975
Library receipts - gifts and donations	8,000	8,000	13,331	5,331
Total local revenue	<u>627,434</u>	<u>627,434</u>	<u>780,604</u>	<u>153,170</u>
Other:				
Ray School Corporation	195,000	195,000	203,858	8,858
Helon Cone Trust	19,000	19,000	19,180	180
Total other	<u>214,000</u>	<u>214,000</u>	<u>223,038</u>	<u>9,038</u>
Total revenues	30,831,631	30,831,631	30,795,489	(36,142)
Other financing sources:				
Transfers from other funds:				
Albert E. Purple Fund	289,311	289,311	298,504	9,193
Palmer Fund	29,946	29,946	30,542	596
Total Revenues and Other Financing Sources	<u>\$ 31,150,888</u>	<u>\$ 31,150,888</u>	31,124,535	<u>\$ (26,353)</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	3,577,033
Cancellation of prior year encumbrances are recognized as budgetary revenue	(26,591)
State of Connecticut grants for Special Education Excess Costs are netted for budgetary purposes	270,457
Grange Hall revenue included in General Fund for GAAP purposes, but separate for budgetary purposes	<u>400</u>

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

\$ 34,945,834

**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, 2017**

	Budgeted Amounts		Actual	Variance
	Original	Final		(Over) Under
General Government:				
Assessor	\$ 130,469	\$ 130,469	\$ 125,873	\$ 4,596
Building maintenance and operation	22,786	22,786	20,098	2,688
Central services	110,639	110,639	94,772	15,867
Elections and registrars	56,900	56,900	45,778	11,122
Finance Office	66,372	66,372	65,860	512
Planning and Zoning/Land Use Office	144,868	144,868	145,750	(882)
Municipal Office Complex	17,520	17,520	17,510	10
Probate Court	10,703	10,703	10,703	-
Selectmen	155,508	155,508	147,803	7,705
Tax Collector	94,463	94,463	94,364	99
Town Clerk	210,649	210,649	226,354	(15,705)
Board of Finance	134,150	134,150	43,756	90,394
Fringe benefits	925,713	925,713	861,918	63,795
Insurance	232,850	232,850	230,160	2,690
Legal services	68,500	68,500	66,431	2,069
Board of Assessment Appeals	2,860	2,860	1,298	1,562
Agriculture Commission	1,150	1,150		1,150
Conservation Commission	15,250	15,250	15,232	18
Economic Development Commission	64,036	64,036	6,712	57,324
Historic District Commission	1,625	1,625	936	689
Open Space Committee	7,330	7,330	3,002	4,328
Zoning Board of Appeals	4,600	4,600	763	3,837
Shared services	1,097,894	1,097,894	1,099,515	(1,621)
Total general government	<u>3,576,835</u>	<u>3,576,835</u>	<u>3,324,588</u>	<u>252,247</u>
Public safety:				
Building Department	119,210	119,210	114,131	5,079
Emergency management	98,064	98,064	97,429	635
Fire Department	306,261	306,261	302,974	3,287
Fire Marshal	34,939	34,939	28,473	6,466
Paramedic Services		9,126	9,126	-
Police officers	375,763	375,763	376,435	(672)
Resident trooper	159,542	159,542	159,795	(253)
Total public safety	<u>1,093,779</u>	<u>1,102,905</u>	<u>1,088,363</u>	<u>14,542</u>
Public works:				
General highways	1,081,794	1,081,794	1,049,290	32,504
Snow removal	265,699	265,699	260,238	5,461
Town garage maintenance	63,335	63,335	55,664	7,671
Transfer Station	584,585	584,585	582,096	2,489
Total public works	<u>1,995,413</u>	<u>1,995,413</u>	<u>1,947,288</u>	<u>48,125</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, 2017

	Budgeted Amounts		Actual	Variance (Over) Under
	Original	Final		
Health and welfare:				
Cemeteries	\$ 10,170	\$ 10,170	\$ 8,790	\$ 1,380
Health District	96,158	96,158	95,908	250
Human Services	4,920	4,920	2,900	2,020
Senior Services	129,610	129,610	129,213	397
Youth and Family Services	193,117	193,117	193,117	-
YFS Early Childhood Council	6,250	6,250	6,250	-
Total health and welfare	<u>440,225</u>	<u>440,225</u>	<u>436,178</u>	<u>4,047</u>
Recreation and leisure:				
Lakes Association	19,375	19,375	18,324	1,051
Public Libraries	359,344	359,344	364,435	(5,091)
Recreation Commission	116,154	116,154	107,078	9,076
Greens maintenance	56,885	56,885	56,209	676
Total recreation and leisure	<u>551,758</u>	<u>551,758</u>	<u>546,046</u>	<u>5,712</u>
Board of Education	<u>19,651,637</u>	<u>19,651,637</u>	<u>19,596,168</u>	<u>55,469</u>
Debt service	<u>1,805,013</u>	<u>1,805,013</u>	<u>1,805,522</u>	<u>(509)</u>
Total expenditures	<u>29,114,660</u>	<u>29,123,786</u>	<u>28,744,153</u>	<u>379,633</u>
Other financing uses:				
Transfers to other funds:				
Special Revenue Funds	107,324	107,324	107,324	-
Capital Projects	1,925,904	1,965,356	1,965,356	-
Historical preservation fund	3,000	3,000	3,000	-
Total other financing uses	<u>2,036,228</u>	<u>2,075,680</u>	<u>2,075,680</u>	<u>-</u>
Total Budgetary Expenditures and Other Financing Uses	<u>\$ 31,150,888</u>	<u>\$ 31,199,466</u>	30,819,833	<u>\$ 379,633</u>
Budgetary expenditures are different than GAAP expenditures because:				
Encumbrances outstanding at June 30, 2017			(173,885)	
Liquidation of prior year encumbrances			384,888	
State of Connecticut on-behalf payments to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted			3,577,033	
Payroll accrual adjustment - payroll budgeted on a cash basis			29,837	
State of Connecticut grants for Special Education Excess Costs are netted for budgetary purposes			<u>270,457</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>\$ 34,908,163</u>	

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total pension liability:				
Service cost	\$ 9,345	\$ 9,420	\$ 9,448	\$ 10,661
Interest	33,288	33,560	35,612	36,253
Differences between expected and actual experience		23,844	(2,002)	
Changes of assumptions	2,288	3,144	(804)	
Benefit payments, including refunds of member contributions	(37,080)	(35,280)	(33,900)	(32,100)
Other		(25)	(513)	
Net change in total pension liability	<u>7,841</u>	<u>34,663</u>	<u>7,841</u>	<u>14,814</u>
Total pension liability - beginning	<u>614,185</u>	<u>622,026</u>	<u>656,689</u>	<u>664,530</u>
Total pension liability - ending	<u>622,026</u>	<u>656,689</u>	<u>664,530</u>	<u>679,344</u>
Plan fiduciary net position:				
Contributions - employer	79,182	64,601	59,739	52,990
Net investment income (loss)	51,486	16,978	(1,676)	60,800
Benefit payments, including refunds of member contributions	(37,080)	(35,280)	(33,900)	(32,100)
Administrative expense	(12,687)	(10,021)	(17,020)	(9,381)
Net change in plan fiduciary net position	80,901	36,278	7,143	72,309
Plan fiduciary net position - beginning	<u>375,998</u>	<u>456,899</u>	<u>493,177</u>	<u>500,320</u>
Plan fiduciary net position - ending	<u>456,899</u>	<u>493,177</u>	<u>500,320</u>	<u>572,629</u>
Net Pension Liability - Ending	<u>\$ 165,127</u>	<u>\$ 163,512</u>	<u>\$ 164,210</u>	<u>106,715</u>
Plan fiduciary net position as a percentage of the total pension liability	73.45%	75.10%	75.29%	84.29%
Covered-employee payroll	\$ N/A	\$ N/A	\$ N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 48,417	\$ 28,708	\$ 29,915	\$ 29,915	\$ 23,957	\$ 23,504
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>	<u>52,990</u>
Contribution Deficiency (Excess)	<u>\$ 12,771</u>	<u>\$ (10,997)</u>	<u>\$ (49,267)</u>	<u>\$ (34,686)</u>	<u>\$ (35,782)</u>	<u>\$ (29,486)</u>
Covered-employee payroll	N/A	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	N/A

Notes to Schedule

Valuation date: July 1, 2015

Measurement date: June 30, 2017

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which 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 FOUR FISCAL YEARS**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	14.10 %	1.29 %	2.51 %	9.59 %

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Town's proportion of the net pension liability	0.00%	0.00%	0.00%
Town's proportionate share of the net pension	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>23,954,286</u>	<u>25,916,149</u>	<u>32,800,687</u>
Total	<u>\$ 23,954,286</u>	<u>\$ 25,916,149</u>	<u>\$ 32,800,687</u>
Town's covered-employee payroll	\$ 8,748,161	\$ 9,152,747	\$ 9,490,790
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	61.51%	59.50%	52.26%

Notes to Schedule

Changes in benefit terms	None
Changes of assumptions	<p>During 2016, rates of withdrawal, disability, retirement, mortality and assumed rates of salary increase were adjusted to more closely 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, 2015.</p> <p>During 2011, rates of 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, 2010.</p>
Actuarial cost method	Entry age
Amortization method	Level percent of salary, closed
Remaining amortization period	20.4 years
Asset valuation method	4-year smoothed market
Investment rate of return	8.50%, net of investment related expense

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

	2015		2016		2017
	<u>(as Restated)</u>				
Town's proportion of the net pension liability	0.24%		0.24%		0.12%
Town's proportionate share of the net pension liability	\$ 230,476	\$	325,104	\$	392,573
Town's covered-employee payroll	\$ 512,160	\$	476,120	\$	491,605
Plan fiduciary net position as a percentage of the total pension liability	90.48%		92.72%		88.29%

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 32,097	\$ 32,575	\$ 33,211	\$ 47,896	\$ 58,770	\$ 60,824	\$ 63,306	\$ 64,594	\$ 54,183	\$ 63,369
Contributions in relation to the actuarially determined contribution	<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>	<u>63,369</u>
Contribution Deficiency (Excess)	\$ <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>	\$ <u>-</u>
Covered employee payroll	\$ 465,282	\$ 498,780	\$ 469,063	\$ 505,073	\$ 493,889	\$ 531,066	\$ 528,067	\$ 512,160	\$ 476,120	\$ 491,605
Contributions as a percentage of covered employee payroll	7.00%	7.00%	7.50%	9.50%	11.56%	11.79%	11.98%	11.98%	11.38%	12.89%

Notes to Schedule

Valuation date: June 30, 2016
Measurement date: June 30, 2016
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.