

# BlumShapiro

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## Independent Auditors' Report

To the Board of Finance  
Town of Middlebury, 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 Middlebury, Connecticut, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Middlebury, 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 of 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 Middlebury, Connecticut, as of June 30, 2014 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-39 through A-43 and supplementary pension information on pages A-44 through A-46 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  
December 2, 2014

**TOWN OF MIDDLEBURY, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

This discussion and analysis of the Town of Middlebury, Connecticut's (the Town) financial performance is provided by management to provide an overview of the Town's financial activities for the fiscal year ended June 30, 2014. Please read this MD&A in conjunction with the Town's financial statements, Exhibits I to IX.

**FINANCIAL HIGHLIGHTS**

- The Town's change in net position for governmental activities increased by \$736,080.
- During the year, the Town had expenses that were \$736,080 less than the \$33,593,700 generated in tax and other revenues for governmental programs.
- The total cost of all of the Town's programs was \$32,857,620.
- At the end of the fiscal year the total General Fund balance was \$3,958,984, or 13.2% of General Fund expenditures and transfers out.

**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 two categories: governmental and fiduciary.

- *Governmental Funds (Exhibits III and IV)* - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation included 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. In fact, the Town's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. Internal service funds (the other 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 General Insurance and Medical and Health Insurance internal service funds.
- *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 from a year ago increased from \$46,399,084 to \$47,135,164. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental activities.

**TABLE 1  
NET POSITION**

	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2013</b>
Current assets	\$ 11,157,257	\$ 16,028,318
Capital assets, net of accumulated depreciation	47,828,009	42,184,980
Total assets	<u>58,985,266</u>	<u>58,213,298</u>
 Deferred Outflow of Resources	 <u>47,806</u>	 <u>50,322</u>
 Long-term liabilities outstanding	 10,176,006	 10,401,327
Other liabilities	1,637,044	1,405,310
Total liabilities	<u>11,813,050</u>	<u>11,806,637</u>
 Deferred Inflows of Resources	 <u>84,858</u>	 <u>57,899</u>
 Net Position:		
Net investment in capital assets	40,011,019	33,836,171
Unrestricted	<u>7,124,145</u>	<u>12,562,913</u>
 Total Net Position	 <u>\$ 47,135,164</u>	 <u>\$ 46,399,084</u>

Net position of the Town's governmental activities increased by \$736,080. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - changed from \$12,562,913 at June 30, 2013 to \$7,124,145 at the end of this year. This decrease was offset by an increase in net investment in capital assets that changed from \$33,836,171 to \$40,011,019.

**TABLE 2  
CHANGE IN NET POSITION**

	<b>Governmental Activities</b>	
	<u>2014</u>	<u>2013</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,228,372	\$ 2,397,271
Operating grants and contributions	1,138,406	934,757
Capital grants and contributions	3,051,424	431,908
General revenues:		
Property taxes	27,058,012	26,229,264
Grants and contributions not restricted to specific purposes	82,943	457,114
Unrestricted investment earnings	34,543	41,030
Other general revenues	-	3,655
Total revenues	<u>33,593,700</u>	<u>30,494,999</u>
Program expenses:		
General government	4,170,976	4,152,393
Public safety	2,795,383	2,632,468
Public works	4,045,600	4,568,340
Health and welfare	321,458	133,034
Parks and recreation	756,870	486,738
Library	719,311	435,168
Education	19,694,996	19,093,395
Interest on long-term debt	353,026	138,179
Total program expenses	<u>32,857,620</u>	<u>31,639,715</u>
Increase (Decrease) in Net Position	<u>\$ 736,080</u>	<u>\$ (1,144,716)</u>

The Town's total revenues were \$33,593,700. The total cost of all programs and services was \$32,857,620. Our analysis below considers the operations of governmental activities.

***Governmental Activities***

Approximately 80.5% of the Town's revenues were derived from property taxes, followed by 9.0% from capital grants and contributions, 3.4% from operating grants and contributions, then 6.6% from charges for services. The mill rate for fiscal year 2013-2014 was 28.86. The mill rate for fiscal year 2012-2013 was 28.07.

For Governmental Activities, 60.3% of the Town's expenditures relate to education, 14.4% relate to public works and 13.1% to general government.

**Governmental Activities**

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

**TABLE 3  
GOVERNMENTAL ACTIVITIES**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
General government	\$ 4,170,976	\$ 4,210,532	\$ 3,549,754	\$ 3,673,821
Public safety	2,795,383	2,476,609	2,414,920	1,938,453
Public works	4,045,600	4,663,694	3,239	3,485,817
Health and welfare	321,458	178,318	267,603	163,608
Parks and recreation	756,870	565,188	539,263	353,936
Education	19,694,996	18,677,886	18,969,117	17,993,700
All others	1,072,337	718,053	695,522	715,548
<b>Total</b>	<b>\$ 32,857,620</b>	<b>\$ 31,490,280</b>	<b>\$ 26,439,418</b>	<b>\$ 28,324,883</b>

**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 \$6,108,491 which is a decrease from last year’s total of \$10,789,045. The decrease in combined fund balance is largely attributed to Positive Tax Collections offset by capital outlays on Library Project and Sewer Pump Station Upgrades.

**General Fund Budgetary Highlights**

Revenue was favorable to budget. Prior property taxes \$124,049 and Interest and Lien fees adding \$112,568 and Building Permits increased by \$130,657 to the favorable variance.

Expenditures for general government were under budget spending by \$177,961 due to the positive effect of only 1 Budget referendum, and lower than budgeted Employee Benefits and Insurance costs and lower Capital expenditures.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

At June 30, 2014, the Town had \$47,828,009 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 \$5,643,029 over last year is the addition Donated Land and Completion of Library Addition and Sewer Pump Station Upgrades, new Equipment at Public Works and Police and lower Infrastructure.

**TABLE 4  
CAPITAL ASSETS, Net of Depreciation**

	<b>Governmental Activities</b>	
	<u>2014</u>	<u>2013</u>
Land	\$ 8,250,579	\$ 6,041,254
Construction in progress	-	1,038,623
Buildings and improvements	11,188,907	6,216,858
Equipment	3,285,872	2,951,918
Infrastructure	<u>25,102,651</u>	<u>25,936,327</u>
 Total	 <u>\$ 47,828,009</u>	 <u>\$ 42,184,980</u>

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

*Long-Term Debt*

**TABLE 5  
OUTSTANDING DEBT, AT YEAR END**

	<b>Governmental Activities</b>	
	<u>2014</u>	<u>2013</u>
General obligation bonds	\$ 7,665,000	\$ 8,155,000
Notes payable	<u>9,018</u>	<u>41,808</u>
 Total	 <u>\$ 7,674,018</u>	 <u>\$ 8,196,808</u>

At June 30, 2014, the Town had \$7,674,018 in bonds and notes outstanding versus \$8,196,808 last year due to the start of paying down the debt on the Library Addition and Sewer Pump Station Upgrades project.

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 \$190,850,359 (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 2014-2015 General Fund budget.

- Primarily a residential community, the Town has continued to rely on residential property taxes in the recent years. The increase in the 10/1/2013 grand list of \$928,342,841 was \$932,108 or .10% over last year as the result of minor building growth. The slowdown in the real estate economy has created budgetary pressures in many areas of town government, specifically real estate conveyance tax revenue, slow increase in building permit revenue and lower than expected interest rates thereby reducing investment earnings for the Town.
- The Town's approved Budget for Fiscal year 2014-2015 is \$29,921,877, an increase in total spending of \$94,838. Municipal budgetary expenditures showed a decrease of \$82,749 while total educational budgetary expenditures increased \$177,587.
- The FY 2014-2015 Town Budget was approved at Town Referendum on June 4, 2014. This marked the second time the town budget was approved at a Town referendum as required by the Charter. The mil rate increased from 28.86 mils to 29.34 mils, due to capital budget increase and the increase in the education side of the budget.
- The Town has adopted the most recent State of Connecticut revenue projection estimates in formulating the fiscal year 2014-2015 annual budget. The State of Connecticut has been severely impacted by the dramatic downturn in the economy and at the current time is projecting a very small FY 2014-2015 budget surplus if any.
- The Town remains heavily reliant upon property taxes as the primary source of revenue, as State and Federal revenue sources have continued to decline.

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

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, Town of Middlebury, 1212 Whittemore Road, Middlebury, CT 06762-2425.

## TOWN OF MIDDLEBURY, CONNECTICUT

## STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 5,687,673
Investments	80,720
Receivables, net	4,439,856
Prepaid expenditures	822,941
Net pension asset	60,582
Advance to plan administrator	65,485
Capital assets not being depreciated	8,250,579
Capital assets being depreciated, net	39,577,430
Total assets	<u>58,985,266</u>
Deferred Outflow on Resources:	
Deferred charge on refunding	<u>47,806</u>
Liabilities:	
Accounts and other payables	874,707
Due to other governments	7,391
Unearned revenue	754,946
Due within one year	808,444
Due in more than one year	9,367,562
Total liabilities	<u>11,813,050</u>
Deferred Inflows on Resources:	
Advance tax collections	<u>84,858</u>
Net Position:	
Net investments in capital assets	40,011,019
Unrestricted	<u>7,124,145</u>
Total Net Position	<u>\$ 47,135,164</u>

The accompanying notes are an integral part of the financial statements

TOWN OF MIDDLEBURY, CONNECTICUT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 4,170,976	\$ 536,595	\$ 84,627	\$	\$ (3,549,754)
Public safety	2,795,383	378,436	2,027		(2,414,920)
Public works	4,045,600	1,080,786	320,850	2,640,725	(3,239)
Parks and recreation	756,870	216,687	920		(539,263)
Health and welfare	321,458	13,855		40,000	(267,603)
Library	719,311	2,013	4,103	370,699	(342,496)
Education	19,694,996		725,879		(18,969,117)
Interest on long-term debt	353,026				(353,026)
<b>Total</b>	<b>\$ 32,857,620</b>	<b>\$ 2,228,372</b>	<b>\$ 1,138,406</b>	<b>\$ 3,051,424</b>	<b>(26,439,418)</b>
General revenues:					
Property taxes					27,058,012
Grants and contributions not restricted to specific programs					82,943
Unrestricted investment earnings					34,543
Total general revenues					<u>27,175,498</u>
Change in net position					736,080
Net Position at Beginning of Year					<u>46,399,084</u>
Net Position at End of Year					<u>\$ 47,135,164</u>

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The accompanying notes are an integral part of the financial statements

**TOWN OF MIDDLEBURY, CONNECTICUT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2014**

	<b>General</b>	<b>Capital Projects</b>	<b>Sewer Assessment and Fee Fund</b>	<b>Water Revolving Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,310,880	\$ 1,477,850	\$ 1,295,060	\$ 73,117	\$ 530,766	\$ 5,687,673
Investments		80,720				80,720
Receivables, net	849,269	52,631	2,504,057		684,858	4,090,815
Due from other governments	349,041					349,041
Due from other funds	1,253,501	685,057	248,000		4,598	2,191,156
Prepaid expenditures	822,941					822,941
Total Assets	\$ 5,585,632	\$ 2,296,258	\$ 4,047,117	\$ 73,117	\$ 1,220,222	\$ 13,222,346
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts and other payables	\$ 399,141	\$ 234,062	\$ 98,966		\$ 86,651	\$ 818,820
Due to other funds	307,087	935,552	63,103	830,568	54,846	2,191,156
Due to other governments	7,391					7,391
Unearned revenue	72,002				682,944	754,946
Total liabilities	785,621	1,169,614	162,069	830,568	824,441	3,772,313
Deferred inflows of resources:						
Unavailable revenue - sewer assessments			2,500,515			2,500,515
Advance property tax collections	84,858					84,858
Unavailable revenue - property taxes	756,169					756,169
Total deferred inflows of resources	841,027		2,500,515			3,341,542
Fund balances:						
Nonspendable	822,941					822,941
Restricted			1,384,533		175,051	1,559,584
Committed		1,711,739			236,609	1,948,348
Assigned	112,287					112,287
Unassigned	3,023,756	(585,095)		(757,451)	(15,879)	1,665,331
Total fund balances	3,958,984	1,126,644	1,384,533	(757,451)	395,781	6,108,491
Total Liabilities and Fund Balances	\$ 5,585,632	\$ 2,296,258	\$ 4,047,117	\$ 73,117	\$ 1,220,222	\$ 13,222,346

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## TOWN OF MIDDLEBURY, CONNECTICUT

## BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2014

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	\$ 6,108,491
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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	\$ 88,320,294	
Less accumulated depreciation	<u>(40,492,285)</u>	
Net capital assets		47,828,009

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

Net pension asset	60,582
Property tax receivables greater than 60 days	538,047
Interest receivable on property taxes	218,122
Assessments and user fee receivable	2,500,515

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 assets.

	25,796
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds and loans payable	(7,674,018)
Interest payable on bonds and notes	(16,198)
Compensated absences	(300,434)
Net OPEB obligation	(2,010,776)
Bond premium	(190,778)
Deferred charges on refunding	<u>47,806</u>

Net Position of Governmental Activities (Exhibit I)	<u>\$ 47,135,164</u>
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The accompanying notes are an integral part of the financial statements

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TOWN OF MIDDLEBURY, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Capital Projects</u>	<u>Sewer Assessment and Fee Fund</u>	<u>Water Revolving Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Property taxes	\$ 27,151,682	\$	\$	\$	\$	\$ 27,151,682
Intergovernmental	1,444,580	306,726			60,107	1,811,413
Charges for services	965,964	211,938	1,135,581	20,000	225,870	2,559,353
Income on investments	12,539	17,070	4,034	127	773	34,543
Miscellaneous	505	143,303			30,668	174,476
Total revenues	<u>29,575,270</u>	<u>679,037</u>	<u>1,139,615</u>	<u>20,127</u>	<u>317,418</u>	<u>31,731,467</u>
Expenditures:						
Current:						
General government	3,670,495				3,342	3,673,837
Public safety	2,231,686				293,650	2,525,336
Public works	2,082,116				188,932	2,271,048
Health and welfare	179,348				29,256	208,604
Parks and recreation	417,286				760	418,046
Education	19,694,996					19,694,996
Library	494,580				2,330	496,910
Sewer operations			3,805,117			3,805,117
Debt service	207,979		548,644			756,623
Capital outlay	891,978	1,662,610			6,916	2,561,504
Total expenditures	<u>29,870,464</u>	<u>1,662,610</u>	<u>4,353,761</u>	<u>-</u>	<u>525,186</u>	<u>36,412,021</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(295,194)</u>	<u>(983,573)</u>	<u>(3,214,146)</u>	<u>20,127</u>	<u>(207,768)</u>	<u>(4,680,554)</u>
Other Financing Sources (Uses):						
Transfers in	286,179	211,943				498,122
Transfers out	(211,943)		(286,179)			(498,122)
Total other financing sources (uses)	<u>74,236</u>	<u>211,943</u>	<u>(286,179)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(220,958)	(771,630)	(3,500,325)	20,127	(207,768)	(4,680,554)
Fund Balances at Beginning of Year	<u>4,179,942</u>	<u>1,898,274</u>	<u>4,884,858</u>	<u>(777,578)</u>	<u>603,549</u>	<u>10,789,045</u>
Fund Balances at End of Year	<u>\$ 3,958,984</u>	<u>\$ 1,126,644</u>	<u>\$ 1,384,533</u>	<u>\$ (757,451)</u>	<u>\$ 395,781</u>	<u>\$ 6,108,491</u>

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## TOWN OF MIDDLEBURY, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund

Balances of Governmental Funds to the Statement of Activities:

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

Net change in fund balances - total governmental funds (Exhibit IV)	\$ (4,680,554)
---	----------------

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

Capital outlay	5,231,531
Depreciation expense	(1,763,499)

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources.

Thus the change in net position differs from the change in fund balance by the cost of the assets sold.	(34,328)
---	----------

Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.

	2,209,325
--	-----------

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:

Small Cities loan receivable - accrual basis change	
Property tax receivable - accrual basis change	(57,130)
Property tax interest and lien revenue - accrual basis change	(36,540)
Sewer assessment and sewer receivable - accrual basis change	(253,422)
Net pension asset	318

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:

Bond and note principal payments	522,790
----------------------------------	---------

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	8,916
Accrued interest	(10,887)
Net OPEB expense	(317,930)
Amortization of issuance costs	(117,335)
Amortization of deferred charge on refunding	(2,516)
Amortization of bond premiums	11,545

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>25,796</u>
--	---------------

Change in Net Position of Governmental Activities (Exhibit II)	<u>\$ 736,080</u>
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The accompanying notes are an integral part of the financial statements

## TOWN OF MIDDLEBURY, CONNECTICUT

## STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2014

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
	<u>                    </u>
Assets:	
Advance to plan administrator	\$          65,485
Liabilities:	
Claims payable	<u>                    39,689</u>
Net Position:	
Unrestricted	<u><u>                    25,796</u></u>

The accompanying notes are an integral part of the financial statements

## TOWN OF MIDDLEBURY, CONNECTICUT

STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET POSITION - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
Operating Revenues:	
Contributions	\$ <u>608,166</u>
Operating Expenses:	
Employee benefits	534,589
Other expenses	<u>47,781</u>
Total operating expenses	<u>582,370</u>
Operating Income	25,796
Net Position at Beginning of Year	<u>-</u>
Net Position at End of Year	<u><u>\$ 25,796</u></u>

The accompanying notes are an integral part of the financial statements

## TOWN OF MIDDLEBURY, CONNECTICUT

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
Cash Flows from Operating Activities:	
Cash received for services	\$ 542,681
Cash paid for insurance claims	(542,681)
Net cash provided by operating activities	<u>-</u>
Net Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents at Beginning of Year	<u>-</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ -</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 25,796
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in claims payable	39,689
Increase in advances to pension administrator	<u>(65,485)</u>
Net Cash Provided by Operating Activities	<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements

## TOWN OF MIDDLEBURY, CONNECTICUT

## STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS

JUNE 30, 2014

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
Assets:		
Cash and cash equivalents	\$	\$ 23,900
Investments	<u>14,718,596</u>	
Total assets	14,718,596	<u>\$ 23,900</u>
Liabilities:		
Deposits held for others		<u>\$ 23,900</u>
Net Position:		
Held in Trust for Pension Benefits	<u>\$ 14,718,596</u>	

The accompanying notes are an integral part of the financial statements

## TOWN OF MIDDLEBURY, CONNECTICUT

## STATEMENT OF CHANGES IN PLAN NET POSITION - FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	<b>Pension Trust Fund</b>
	<u>                    </u>
Additions:	
Contributions:	
Employer	\$ 573,603
Plan members	132,170
Total contributions	<u>705,773</u>
Investment income:	
Net appreciation in fair value of investments	2,175,388
Interest income	340
Total investment income	<u>2,175,728</u>
Other revenues:	
Miscellaneous receipts	<u>3,024</u>
Total additions	<u>2,884,525</u>
Deductions:	
Benefits	739,998
Administrative expenses	<u>108,294</u>
Total deductions	<u>848,292</u>
Net Increase	2,036,233
Net Position at Beginning of Year	<u>12,682,363</u>
Net Position at End of Year	<u>\$ 14,718,596</u>

The accompanying notes are an integral part of the financial statements

# TOWN OF MIDDLEBURY, CONNECTICUT

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

The Town was incorporated in 1807. Its current charter was adopted in 1987 and amended as of 2000. The Town operates under a Town Meeting form of government, with a Board of Selectmen consisting of three elected members, and a Board of Finance made up of six elected members and three alternates appointed by the Board of Selectmen. The Town provides a full range of services including public safety, roads, sanitation, health, social services, culture and recreation, education, planning, zoning and general administrative services to its residents.

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

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Town reports the following major governmental funds:

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

The Capital Projects Fund is used to account for financial resources for the acquisition, expansion, betterments and construction of major capital facilities. The major source of revenue for the fund is from intergovernmental revenue and charges for services.

The Sewer Assessment and Fee Fund accounts for all of the financial resources required for extending sewers within the Town. The major source of revenue for the fund is sewer assessment charges.

The Water Revolving Fund accounts for the expansion and betterments to the water distribution system within the Town. The major source of revenue for the fund is water charges.

Additionally, the Town reports the following fund types:

The Internal Service Fund accounts for the self-insured activities related to employee medical insurance.

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

The Agency Funds account for monies held as a custodian for bus trips, operational fuel and the Middlebury Emergency Fund.

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.

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 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." All trade and property tax receivables are shown net of an allowance for uncollectibles. Allowances for uncollectibles are computed based on historical data.

Property taxes are assessed on property as of October 1. Taxes are billed in the following July and are due in two installments, July 1 and the following January 1. Liens on real property are filed on May 1 following the due date. Interest on delinquent taxes accrues at the rate of 1.5% per month. An amount of \$50,000 has been established as an allowance for uncollectible taxes. At June 30, 2014, this represents 7.6% of all property taxes receivable.

## F. Prepaid Items

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

## G. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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	40-50
Building improvements	20
Distribution and collection systems	50
Infrastructure	50
Machinery, equipment and vehicles	5-20

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

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports a deferred charge on refunding 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.

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 advance property tax collections in the government-wide statement of net position and in the governmental funds balance sheet. For governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from several sources: property taxes, special assessments and long-term loans. These amounts are 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 a prescribed formula for absences due to vacation or sickness. The obligation for vacation pay vests when earned. Under various agreements, employees may accumulate unused sick leave to be paid upon retirement. Sick leave and vacation leave expenditures are recognized in the fund financial statements in the current year to the extent they are paid during the year or expected to be paid with available resources. The liability for accrued vacation and sick leave earned is reported in the government-wide statements. Although the liability is liquidated by the General Fund, the only portion of the liability that would be reported by the General Fund at year end would be the amount of unused reimbursable leave payable to employees following their resignation or retirement.

## **J. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any significant applicable bond premium or discount.

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. Net Pension/OPEB Assets/Obligations**

In governmental funds, the net pension/OPEB asset/obligation represents the cumulative difference between the annual pension/OPEB cost and the Town's contributions to the plans. These amounts are calculated on an actuarial basis and are recorded as noncurrent assets and/or noncurrent liabilities, accordingly, in the government-wide financial statements.

## **L. Fund Equity**

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

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

*Restricted Net Position* - Net position is restricted because it is 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 no assets under restriction.

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

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

*Nonspendable Fund Balance* - This represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

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

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

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

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

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

### **Budgetary Information**

The Town adheres to the following procedures in establishing the budget for the General Fund. On or before January 15<sup>th</sup> of each year, the Board of Finance submits to a Town Meeting, at which taxpayer comments are obtained, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.

- Prior to July 1, the budget is legally adopted by vote of the Annual Town Meeting.
- The Town Charter provides the manner which is to be utilized by Town Meeting in acting upon the budget. The budget as adopted by Town meeting provides for departmental appropriations. Transfers and additional appropriations can be made subject to restrictions provided by the Charter, following the approval of the Board of Finance and/or Town Meeting.
- Budgets are adopted on the modified accrual basis of accounting.
- The legal budget is a departmental level budget.
- There were supplemental appropriations of \$330,000 during the year ended June 30, 2014. All additional appropriations were made in accordance with the Charter.

- Budgets for Special Revenue Funds are prepared in accordance with the modified accrual basis of accounting and are adopted by Town Meeting - Capital and Nonrecurring Expenditures, Municipal Infrastructure Trust, and Parks and Recreation Revenue Fund. Budgets for the other special revenue funds are not adopted on an annual basis, but budgets are utilized to account for specific grant programs in accordance with requirements of the grantor agencies.
- Legal authorization for expenditures of the capital project funds are provided by the related bond ordinance and/or intergovernmental grant agreements or Connecticut General Statutes. Capital appropriations do not lapse until completion of the applicable projects. The budget for the Library Improvement Fund is adopted by Town Meeting.

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

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

### **3. CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

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

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

#### **A. Deposits**

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

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$5,389,129 of the Town's bank balance of \$5,925,493 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 4,800,216
Uninsured and collateralized held by the pledging bank's trust department, not in the Town's name	<u>588,913</u>
Total Amount Subject to Custodial Credit Risk	<u>\$ 5,389,129</u>

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

**Cash Equivalents**

At June 30, 2014, the Town had no cash equivalents.

**B. Investments**

As of June 30, 2014, the Town had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Other investments:	
Mutual funds	\$ 14,718,596
Common stock	<u>80,720</u>
Total Investments	<u>\$ 14,799,316</u>

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

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

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

*Custodial Credit Risk* - Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Town or that sells investments to or buys them for the Town), the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town has a policy for custodial credit risk. At June 30, 2014, the Town did not have any uninsured and unregistered securities held by the counter party or by its trust department or agent that were not in the Town's name.

#### 4. RECEIVABLES

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

	<u>General</u>	<u>Capital Projects</u>	<u>Sewer Assessment and Fee Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:					
Interest	\$ 218,122	\$	\$	\$	\$ 218,122
Taxes	649,521				649,521
Accounts	31,626	52,631		684,858	769,115
Sewer benefit			2,504,057		2,504,057
Intergovernmental	349,041				349,041
Gross receivables	<u>1,248,310</u>	<u>52,631</u>	<u>2,504,057</u>	<u>684,858</u>	<u>4,489,856</u>
Less allowance for uncollectibles	<u>50,000</u>				<u>50,000</u>
Net Total Receivables	<u>\$ 1,198,310</u>	<u>\$ 52,631</u>	<u>\$ 2,504,057</u>	<u>\$ 684,858</u>	<u>\$ 4,439,856</u>

#### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 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	\$ 6,041,254	\$ 2,209,325	\$	\$ 8,250,579
Construction in progress	1,038,623		1,038,623	-
Total capital assets not being depreciated	<u>7,079,877</u>	<u>2,209,325</u>	<u>1,038,623</u>	<u>8,250,579</u>
Capital assets being depreciated:				
Buildings	14,757,284	5,449,998		20,207,282
Improvements	1,042,379			1,042,379
Machinery and equipment	2,683,385	206,131	390,341	2,499,175
Furniture and computer equipment	2,322,806			2,322,806
Transportation equipment	6,132,147	614,025		6,746,172
Infrastructure	47,251,901			47,251,901
Total capital assets being depreciated	<u>74,189,902</u>	<u>6,270,154</u>	<u>390,341</u>	<u>80,069,715</u>
Less accumulated depreciation for:				
Buildings	8,887,554	441,199		9,328,753
Improvements	695,251	36,750		732,001
Machinery and equipment	2,478,491		356,013	2,122,478
Furniture and computer equipment	377,246	89,240		466,486
Transportation equipment	5,330,683	362,634		5,693,317
Infrastructure	21,315,574	833,676		22,149,250
Total accumulated depreciation	<u>39,084,799</u>	<u>1,763,499</u>	<u>356,013</u>	<u>40,492,285</u>
Total capital assets being depreciated, net	<u>35,105,103</u>	<u>4,506,655</u>	<u>34,328</u>	<u>39,577,430</u>
Governmental Activities Capital Assets, Net	<u>\$ 42,184,980</u>	<u>\$ 6,715,980</u>	<u>\$ 1,072,951</u>	<u>\$ 47,828,009</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:		
General government	\$	74,067
Public safety		149,897
Public works		1,340,259
Health and welfare		17,635
Parks and recreation		68,776
Library		<u>112,865</u>
Total Depreciation Expense - Governmental Activities	\$	<u><u>1,763,499</u></u>

### Construction Commitments

The government has no active construction projects as of June 30, 2014.

## 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2014, the interfund receivables and payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects	\$ 935,552
General Fund	Sewer Assessment and Fee Fund	63,103
General Fund	Nonmajor Governmental Funds	54,846
General Fund	Water Revolving Fund	200,000
Capital Projects	General Fund	302,489
Capital Projects	Water Revolving Fund	382,568
Sewer Assessment and Fee Fund	Water Revolving Fund	248,000
Nonmajor Governmental Funds	General Fund	<u>4,598</u>
Total		<u><u>\$ 2,191,156</u></u>

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

Interfund transfers:

	<u>Transfers In</u>		
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total</u>
Transfers out:			
Sewer Assessment and Fee Fund	\$ 286,179	\$	\$ 286,179
General Fund	<u>                    </u>	<u>211,943</u>	<u>211,943</u>
Total Transfers Out	<u><u>\$ 286,179</u></u>	<u><u>\$ 211,943</u></u>	<u><u>\$ 498,122</u></u>

All transfers are for regularly recurring operational transfers.

## 7. LONG-TERM DEBT

### Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 8,155,000	\$	\$ 490,000	\$ 7,665,000	\$ 730,000
CWF Loans	41,808		32,790	9,018	6,025
Less deferred amounts:					
For issuance premiums	<u>202,323</u>		<u>11,545</u>	<u>190,778</u>	
Total bonds and notes payable	8,399,131	-	534,335	7,864,796	736,025
Compensated absences	309,350	196,023	204,939	300,434	72,419
Net OPEB obligation	<u>1,692,846</u>	<u>317,930</u>		<u>2,010,776</u>	
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 10,401,327</u>	<u>\$ 513,953</u>	<u>\$ 739,274</u>	<u>\$ 10,176,006</u>	<u>\$ 808,444</u>

A schedule of bond and notes outstanding at June 30, 2014 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, 2014</u>
Bonds and loans payable:					
General purpose	2013	2033	2.0-3.0	\$ 4,900,000	\$ 4,650,000
General purpose refunding	2013	2023	1.0-2.0	3,255,000	3,015,000
Clean Water	1995	2014	2.0	583,971	2,434
Clean Water	1997	2016	2.0	71,833	6,584
Total					<u>\$ 7,674,018</u>

Annual maturities of bonds and notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 736,025	\$ 151,991	\$ 888,016
2016	722,993	145,065	868,058
2017	605,000	135,288	740,288
2018	600,000	125,948	725,948
2019	620,000	116,628	736,628
2020-2024	2,340,000	436,040	2,776,040
2025-2029	1,070,000	245,100	1,315,100
2030-2033	<u>980,000</u>	<u>74,550</u>	<u>1,054,550</u>
Total	<u>\$ 7,674,018</u>	<u>\$ 1,430,610</u>	<u>\$ 9,104,628</u>

## Bond Authorizations

At June 30, 2014, there is no debt authorized but unissued.

## Overlapping Debt

The Town is a member of Regional School District #15, which provides education facilities for grades kindergarten through twelve for the Towns of Middlebury and Southbury. As of June 30, 2014, the District has bonds outstanding of \$18,055,000. The Town of Middlebury's share will be approximately 32% of the remainder or \$5,777,600. These are general obligations of Regional School District #15 and its member towns.

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

<u>Category</u>	<u>Debt Limitation</u>	<u>Indebtedness*</u>	<u>Balance</u>
General purpose	\$ 61,345	\$ 2,204	\$ 59,141
Schools	122,689	5,777	116,912
Sewers	102,241	5,470	96,771
Urban renewal	88,609		88,609
Pension deficit	81,793		81,793

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

In no case shall total indebtedness exceed seven times annual receipts from taxation (\$190,850).

## 8. FUND BALANCE

The components of fund balance for the governmental funds at June 30, 2014 are as follows:

	<u>Major Special Revenue Funds</u>				<u>Nonmajor Governmental Funds</u>	<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Sewer Assessment and Fee Fund</u>	<u>Water Revolving Fund</u>		
Fund balances:						
Nonspendable:						
Prepaid expenditures	\$ 822,941	\$	\$	\$	\$	\$ 822,941
Restricted for:						
Unspent grant balances					175,051	175,051
Assessments			1,384,533			1,384,533
Committed to:						
General government					70,089	70,089
Public safety					45,060	45,060
Public works		1,711,739			79,040	1,790,779
Parks and recreation					20,243	20,243
Library					22,177	22,177
Assigned to:						
General government	17,287					17,287
Subsequent year's budget	95,000					95,000
Unassigned	<u>3,023,756</u>	<u>(585,095)</u>	<u></u>	<u>(757,451)</u>	<u>(15,879)</u>	<u>1,665,331</u>
Total Fund Balances	<u>\$ 3,958,984</u>	<u>\$ 1,126,644</u>	<u>\$ 1,384,533</u>	<u>\$ (757,451)</u>	<u>\$ 395,781</u>	<u>\$ 6,108,491</u>

There are no encumbrances outstanding at year end.

## 9. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

### Pension Trust Fund

#### A. Plan Description

The Town of Middlebury is the administrator of a single-employer Public Employee Retirement System (PERS) established and administered by the Town to provide retirement, disability and death benefits for its employees. The PERS is considered to be part of the Town's financial reporting entity and is included in the Town's financial reports as a pension trust fund. There is no separate report for the pension plan available. The Town has the authority to establish and amend the plan.

Management of the plan rests with the Retirement Board, which consists of three members appointed by the Board of Selectmen. One member is selected as an employee representative, one as a Board of Finance representative and one as a representative of the taxpayers at large.

The PERS covers full-time employees and any part-time employees who work in excess of 20 hours per week. A participant, excluding the exceptions listed below, is eligible for normal retirement at the age of 60 or completion of 10 years of service, but not later than age 65. Normal retirement for police department employees shall be age 47 and completion of 20 years of service, but no later than age 65. Normal retirement for teamsters and dispatchers is the earliest of (a) "Rule of 80" combined years of age and service (minimum age 55), (b) age 60 with 10 years of service, or (c) age 65. The monthly benefit is 2% of the average monthly salary multiplied by the employee's credited service not in excess of 30 years. Police department employees retiring after 20 years of service shall receive credit for 2.5% of the average pay per year of service for the first 20 years of service and 2% for each year of service over 20 years. The plan contains additional provisions for early retirement at a reduced level of benefits and disability retirement benefits. Vesting occurs once an employee completes 10 years of service, except for police union personnel where vesting occurs at 5 years of service. As of July 1, 2013, the plan is closed to new participants.

The membership of the plan consisted of the following at July 1, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	39
Terminated plan members entitled to benefits but not yet receiving them	9
Current plan members	<u>45</u>
Total	<u><u>93</u></u>

#### B. Summary of Significant Accounting Policies and Plan Asset Matters

**Basis of Accounting:** Financial statements are prepared using the accrual basis of accounting for the three defined benefit pension plans. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

**Method Used to Value Investments:** Investments are reported at market value. Securities traded on a national exchange are valued at the last reported sales price. Investment income is recognized as earned.

#### C. Funding Policy

The Town is required to contribute the amounts necessary to fund the PERS and cover all administrative charges. Currently, teamster employees contribute 4.1% of pay, police department employees contribute 3.6% of pay, dispatcher employees contribute 3.4% of pay and all other employees contribute 2.9% of pay. All amounts are determined by annual actuarial valuations and are included as part of the annual budget expenditures. The current contribution rate for the Town is 17.71% of covered payroll. Covered payroll is \$3,239,383 or 78.7% of total Town payroll of \$4,424,723.

**D. Investments**

Investment Policy: The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the PERS Board by a majority vote of its members. It is the policy of the PERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan’s investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board’s adopted asset allocation policy as of June 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50 %
International developed markets equity	10
Core fixed income	25
High-yield fixed income	11
Commodities	2
Cash	2
<b>Total</b>	<b>100 %</b>

Rate of Return: For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.92%. 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**

In accordance with GASB Statement No. 67, the components of the net pension liability of the Town at June 30, 2014 were as follows:

Pension liability	\$ 17,580,717
Plan fiduciary net position	<u>14,718,596</u>
<b>Net Pension Liability</b>	<b>\$ <u>2,862,121</u></b>
 Plan fiduciary net position as a percentage of the total pension liability	 83.72%

The Town’s net pension liability will be required to be recorded on the government-wide statement of net position at June 30, 2015.

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of July 1, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	July 1, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent
Remaining amortization period	21 years
Asset valuation method	Expected asset value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.50%
Inflation	2.55%

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2012-June 30, 2013.

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, 2014 (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>
Domestic equity	6.35 %
International developed markets equity	6.85
Core fixed income	1.95
High-yield fixed income	4.45
Commodities	4.15
Cash	1.55

**Discount Rate:** The discount rate used to measure the total pension liability was 7.50%. 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

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate:** The following presents the net pension liability of the Town, calculated using the discount rate of 7.50%, 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 (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net Pension Liability	\$ 4,729,436	\$ 2,862,121	\$ 1,262,330

**D. Annual Pension Cost and Net Pension Obligations**

In accordance with GASB Statement No. 27, the Town’s annual pension cost and net pension asset to the PERS for the current year were as follows:

Annual required contribution	\$ 573,603
Interest on net pension obligation	(3,293)
Adjustment to annual required contribution	<u>2,975</u>
Annual pension cost	573,285
Contributions made	<u>573,603</u>
Increase in net pension asset	(318)
Net pension asset at beginning of year	<u>(60,264)</u>
Net Pension Asset at End of Year	<u><u>\$ (60,582)</u></u>

The annual required contribution for the current year was determined as part of the July 1, 2013 actuarial valuation using the entry-age normal actuarial cost method. The actuarial assumptions included (a) a 7.50% investment rate of return and (b) 4.5% including 3.5% inflation plus 1.00% merit. The actuarial value of assets was determined using level to pay assuming 3.5% increase, closed.

The following is a summary of certain significant actuarial assumptions and other PERS information:

**E. Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
6/30/12	\$ 609,273	\$ 633,794	104.2%	\$ (43,351)
6/30/13	548,351	565,264	103.1	(60,264)
6/30/14	573,285	573,603	100.0	(60,582)

**F. Town of Middlebury Defined Contribution Retirement Plan**

The Town of Middlebury Defined Contribution Retirement Plan was adopted on August 25, 2011 by the Board of Selectmen and Town Meeting. The plan can be amended by the Board of Selectmen through similar action.

All full-time Town employees are eligible for the plan if they work more than 20 hours a week and are not already participating in the Town’s PERS mentioned above or otherwise excluded per other bargaining agreements. In order to become a participant in the plan, the employee must irrevocably agree to contribute 6% of their compensation to the plan, for which the Town will make a matching contribution of 100% of the mandatory contribution. Benefits are vested at 20% for the first year of service and increases incrementally by 20% until fully vested after 5 years of service. Normal retirement age occurs when the employee reaches their 65<sup>th</sup> birthday and early retirement is eligible at age 59 1/2 if the employee has attained 5 years of service with the Town. There are currently no participants in the plan as of June 30, 2013 and no contributions have been made.

## 10. OTHER POSTEMPLOYMENT BENEFITS

### A. Plan Description

The Town, in accordance with the various collective bargaining agreements, is required to provide health benefits to certain eligible retirees and/or their spouses. The Other Postemployment Benefit (OPEB) program covers most Town employees. Police officers are eligible for medical coverage upon retiring at age 55 with 10 years of service or after age 47 with 20 years of service. Other employees are eligible for medical coverage upon retiring at age 55 with 10 years of service. The contribution requirement of plan members and the Town are established and may be amended by the Town. The Town does not issue a separate stand-alone financial statement for this program.

At July 1, 2013, plan membership consisted of the following:

	<b>Post-Retirement Medical Program</b>
Retired members	18
Active plan members	26
Total Participants	44

### B. Funding Policy

The Town funding and payment of postemployment benefits are accounted for in the General Fund. The Town has not established a trust fund to irrevocably segregate assets to fund the liability associated with postemployment benefits. The Town does not currently have a funding strategy to provide for normal cost and the amortization of the accrued liability. The Town currently contributes enough money to the plan to satisfy the current obligations on a pay-as-you-go basis. Appointed/elected employees pay 100% of the premium if retired prior to age 65 and none of the premium if retired after age 65. All other plan members pay 100% of the premium.

### C. Annual OPEB Cost and Net OPEB Obligations

The Town's annual 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. 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:

	<b>Post-Retirement Medical Program</b>
Annual required contribution (ARC)	\$ 504,794
Interest on net OPEB obligation	67,714
Adjustment to annual required contribution	(61,754)
Annual OPEB cost	510,754
Contributions made	192,824
Increase in net OPEB obligation	317,930
Net OPEB obligation at beginning of year	1,692,846
Net OPEB Obligation at End of Year	\$ 2,010,776

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the fiscal years ended June 30, 2014 and 2013, is presented below.

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost (AOC)</b>	<b>Actual Contribution</b>	<b>Percentage of AOC Contributed</b>	<b>Net OPEB Obligation</b>
6/30/12	\$ 495,966	\$ 127,004	25.61%	\$ 1,384,628
6/30/13	520,289	212,071	40.76	1,692,846
6/30/14	510,754	192,824	37.75	2,010,776

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
7/1/09	\$ -	\$ 6,183,763	\$ 6,183,763	0%	\$ N/A	N/A
7/1/11	-	7,177,368	7,177,368	0	N/A	N/A
7/1/13	-	8,032,697	8,032,697	0	N/A	N/A

**Schedule of Employer Contribution**

<b>Fiscal Year</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
6/30/12	\$ 492,390	25.8%
6/30/13	515,414	41.5
6/30/14	504,794	38.2

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.

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 July 1, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0% investment rate of return assuming a trust fund will not be established. The 3.5% rate is the rate of the expected short-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date. The annual healthcare cost trend rate varies by year and ranges from 9.0% in 2011, grading down 5.0% over an 8-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The amortization period is 30 years.

**11. 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. The amount of claim settlements has not exceeded insurance coverage for each of the past three years.

The Town entered into a Cooperative Agreement with the Town of Southbury and the Regional School District #15 Board of Education, effective July 1, 2013, to facilitate the group purchase of health benefits for active employees and non-Medicare eligible retirees. Under the program, the Town is obligated for claim payments. A schedule of changes in the claims liability for the year ended June 30, 2014 is presented below:

	<u>Claims Payable July 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>Claims Payable June 30</u>
2013-2014	\$ -	\$ 534,589	\$ 494,900	\$ 39,689

**12. CONTINGENT LIABILITIES**

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

**13. FUND DEFICITS**

The Water Revolving Fund and the Police Special Duty Fund have a fund balance deficit of \$757,451 and \$15,879, respectively. The deficits will be funded through future charges for services.

## TOWN OF MIDDLEBURY, CONNECTICUT

## GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

FOR THE YEAR ENDED JUNE 30, 2014

	July 1, 2013		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Property taxes:				
Current year levy	\$ 26,376,555	\$ 26,376,555	\$ 26,368,845	\$ (7,710)
Prior years' collection	230,000	230,000	354,049	124,049
Supplemental auto	160,000	160,000	196,220	36,220
Interest and lien fees	120,000	120,000	232,568	112,568
Assessor personal property audits	25,000	25,000		(25,000)
Total property taxes	<u>26,911,555</u>	<u>26,911,555</u>	<u>27,151,682</u>	<u>240,127</u>
Intergovernmental revenues:				
State of Connecticut:				
Payments in lieu of taxes on state-owned property			20,703	20,703
Disability exemption	1,054	1,054	941	(113)
Tax relief for elderly	39,395	39,395	38,996	(399)
Town aid road	223,391	223,391	222,998	(393)
LOCIP	71,770	71,770	55,001	(16,769)
Veterans exemption	4,977	4,977	4,751	(226)
DEEP Transition Grant			250,000	250,000
Region 15 School Security			40,000	40,000
Equalized cost sharing grant	740,030	740,030	725,879	(14,151)
Mashantucket Pequot grant			16,449	16,449
Telecommunications	30,000	30,000	28,862	(1,138)
Senior Bus Grant			40,000	40,000
Total intergovernmental revenues	<u>1,110,617</u>	<u>1,110,617</u>	<u>1,444,580</u>	<u>333,963</u>

(Continued on next page)

## TOWN OF MIDDLEBURY, CONNECTICUT

## GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
Local revenues:				
Licenses, fees, permits and charges for services:				
Assessment	\$ 450	\$ 450	\$ 688	\$ 238
Tax Collector	250	250	265	15
Town clerk	148,400	148,400	123,750	(24,650)
Building department	130,050	130,050	260,707	130,657
Donation/tower rental	197,937	197,937	193,685	(4,252)
Water commission	4,000	4,000	2,402	(1,598)
Police department	141,300	141,300	115,995	(25,305)
Fire Department			240	240
Waste removal	44,000	44,000	47,850	3,850
Park & recreation	248,550	248,550	205,019	(43,531)
Elderly services	20,475	20,475	13,855	(6,620)
Library	48,185	48,185	2,013	(46,172)
Total local revenues	<u>983,597</u>	<u>983,597</u>	<u>966,469</u>	<u>(17,128)</u>
Investment income	<u>20,000</u>	<u>20,000</u>	<u>12,539</u>	<u>(7,461)</u>
Transfers from other funds:				
Sewer Assessment and Fee Fund	<u>283,270</u>	<u>283,270</u>	<u>286,179</u>	<u>2,909</u>
Total	<u>\$ 29,309,039</u>	<u>\$ 29,309,039</u>	29,861,449	<u>\$ 552,410</u>
Total Revenues and Other Financing Sources as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV			<u>\$ 29,861,449</u>	

## TOWN OF MIDDLEBURY, CONNECTICUT

## GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

FOR THE YEAR ENDED JUNE 30, 2014

	July 1, 2013		Actual	Variance Favorable (Unfavorable)
	Original	Final		
General government:				
Board of Selectmen	\$ 135,530	\$ 137,948	\$ 136,242	\$ 1,706
Department of finance	217,801	217,682	209,858	7,824
Town treasurer	4,582	4,582	4,536	46
Department of assessment	158,379	158,379	157,274	1,105
Tax collector	94,255	95,020	93,639	1,381
Town Clerk	114,729	122,973	122,904	69
Registrar of voters	41,265	41,264	29,417	11,847
Board of Finance	32,029	32,148	32,148	-
Board of assessment appeals	1,550	1,550	1,201	349
Legal	125,000	150,559	150,559	-
Probate court	10,000	2,063	2,063	-
Town hall	71,751	78,396	75,970	2,426
Building department	120,914	123,089	122,088	1,001
Payment to other jurisdictions	48,608	48,608	47,729	879
Planning and zoning	22,400	22,400	17,936	4,464
Zoning board of appeals	5,805	5,805	4,275	1,530
Conservation commission	11,871	12,282	11,977	305
Economic development commission	1,500	1,500	612	888
Historical society	3,900	5,254	5,254	-
Beautification commission	1,475	1,475	1,475	-
Contingency	10,000			-
Computer equipment/technology	75,908	75,908	75,908	-
Employee benefits	2,022,827	2,003,270	1,990,409	12,861
Insurance	394,157	394,157	370,524	23,633
Refunds of excess tax payments	15,000	15,000	6,284	8,716
Total general government	<u>3,741,236</u>	<u>3,751,312</u>	<u>3,670,282</u>	<u>81,030</u>
Public safety:				
Water commission	87,976	87,976	84,147	3,829
Fire department	217,100	238,978	230,846	8,132
Fire Marshal	11,735	11,735	9,731	2,004
Civil preparedness	2,000	2,000	1,717	283
Police department	1,243,633	1,363,658	1,356,014	7,644
Communications center	214,000	536,552	535,550	1,002
Dog pound		14,200	13,681	519
Total public safety	<u>1,776,444</u>	<u>2,255,099</u>	<u>2,231,686</u>	<u>23,413</u>

(Continued on next page)

## TOWN OF MIDDLEBURY, CONNECTICUT

## GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Public works:				
Building and grounds	\$ 275,877	\$ 276,327	\$ 273,921	\$ 2,406
Shepardson community center	48,342	48,342	37,642	10,700
Public works	1,435,622	1,469,235	1,465,244	3,991
Waste removal	316,662	276,404	275,954	450
Capital non recurring	14,200			-
Engineering	17,000	17,000	14,584	2,416
Total public works	<u>2,107,703</u>	<u>2,087,308</u>	<u>2,067,345</u>	<u>19,963</u>
Health and welfare:				
Social services	43,770	43,770	41,203	2,567
Youth and family services	25,000	916		916
Elderly services	114,622	154,622	138,145	16,477
Total health and welfare	<u>183,392</u>	<u>199,308</u>	<u>179,348</u>	<u>19,960</u>
Parks and recreation:				
Parks and recreation - self-sustaining	161,000	161,103	160,970	133
Parks and recreation department	244,794	250,499	247,816	2,683
Parks and recreation revenue fund	8,500	8,500	8,500	-
Total parks and recreation	<u>414,294</u>	<u>420,102</u>	<u>417,286</u>	<u>2,816</u>
Education:				
Payment to Regional School District #15	<u>19,774,403</u>	<u>19,694,996</u>	<u>19,694,996</u>	<u>-</u>
Libraries:				
Library	<u>407,624</u>	<u>407,624</u>	<u>406,924</u>	<u>700</u>
Debt service:				
Principal and interest	<u>292,194</u>	<u>211,541</u>	<u>207,979</u>	<u>3,562</u>

(Continued on next page)

## TOWN OF MIDDLEBURY, CONNECTICUT

## GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Capital expenditures:				
Repairs and replacements	\$ 38,625	\$ 38,625	\$ 3,606	\$ 35,019
Municipal infrastructure fund	244,510	244,510	243,501	1,009
Capital expenditures	<u>634,671</u>	<u>634,671</u>	<u>634,471</u>	<u>200</u>
Total capital expenditures	<u>917,806</u>	<u>917,806</u>	<u>881,578</u>	<u>36,228</u>
Total expenditures	29,615,096	29,945,096	29,757,424	187,672
Transfers to other funds:				
Capital projects	<u>211,943</u>	<u>211,943</u>	<u>211,943</u>	<u>-</u>
Total	<u>\$ 29,827,039</u>	<u>\$ 30,157,039</u>	29,969,367	<u>\$ 187,672</u>
Budgetary expenditures are different than GAAP expenditures because:				
Encumbrances for purchases and commitments ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year received for financial reporting purposes			<u>113,040</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>\$ 30,082,407</u>	

## TOWN OF MIDDLEBURY, CONNECTICUT

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

## LAST FISCAL YEAR

	<u>2014</u>
Total pension liability:	
Service cost	\$ 310,082
Interest	1,252,263
Benefit payments, including refunds of member contributions	<u>(736,761)</u>
Net change in total pension liability	825,584
Total pension liability - beginning	<u>16,755,133</u>
Total pension liability - ending	<u>17,580,717</u>
Plan fiduciary net position:	
Contributions - employer	573,603
Contributions - member	132,170
Net investment income	2,175,728
Benefit payments, including refunds of member contributions	(739,998)
Administrative expense	(108,294)
Other	3,024
Net change in plan fiduciary net position	<u>2,036,233</u>
Plan fiduciary net position - beginning	<u>12,682,363</u>
Plan fiduciary net position - ending	<u>14,718,596</u>
Net Pension Liability - Ending	<u>\$ 2,862,121</u>
Plan fiduciary net position as a percentage of the total pension liability	83.72%
Covered-employee payroll	\$ 3,239,383
Net pension liability as a percentage of covered-employee payroll	88.35%

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Actuarially determined contribution	\$ 344,496	\$ 359,998	\$ 436,651	\$ 456,300	\$ 456,716	\$ 477,268	\$ 583,194	\$ 609,437	\$ 548,902	\$ 573,603
Contributions in relation to the actuarially determined contribution	<u>344,496</u>	<u>359,998</u>	<u>436,651</u>	<u>456,300</u>	<u>472,001</u>	<u>480,918</u>	<u>583,194</u>	<u>633,794</u>	<u>548,902</u>	<u>573,603</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(15,285)</u>	\$ <u>(3,650)</u>	\$ <u>-</u>	\$ <u>(24,357)</u>	\$ <u>-</u>	\$ <u>-</u>
Covered-employee payroll	\$ 3,008,410	\$ 3,367,801	\$ 3,367,801	\$ 3,455,540	\$ 3,455,540	\$ 3,375,682	\$ 3,375,682	\$ 3,482,190	\$ 3,482,190	\$ 3,239,383
Contributions as a percentage of covered-employee payroll	11.45%	10.69%	12.97%	13.20%	13.66%	14.25%	17.28%	18.20%	15.76%	17.71%

**Notes to Schedule**

Valuation date: July 1, 2013  
 Measurement date: June 30, 2014  
 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: Level percentage of payroll, closed  
 Remaining amortization period: 21 years remaining as of July 1, 2013  
 Asset valuation method: Expected asset value and add or subtract 20% of the difference between the expected assets and the market value of assets. The final value is adjusted to be within 20% of market value  
 Inflation: 2.55%  
 Salary increases: 4.5%, average, including inflation  
 Investment rate of return: 7.50%, net of pension plan investment expense, including inflation  
 Retirement age (actives): Police: Age 53 with 20 years of service, but not later than age 65 with 5 years of service  
 Teamsters and Dispatchers: 50% probability of retiring at age 56; 100% retirement at age 62 with 10 years of service but no later than 65 with 5 years of service  
 All other employees: Age 62 with 10 years of service, but not later than age 65 with 5 years of service  
 Retirement age (Inactives): Age 65  
 Mortality: RP 2000 Combined Healthy tables projected using Scale AA to 2103 to reflect current expected experience.

**TOWN OF MIDDLEBURY, CONNECTICUT**

**SCHEDULE OF INVESTMENT RETURNS**

**LAST FISCAL YEAR**

**2014**

Annual money-weighted rate of return, net of investment expense

16.92%