



March 7, 2016

MEMORANDUM TO PROSPECTIVE BIDDERS

**Re: TOWN OF WATERTOWN, CONNECTICUT
\$6,400,000 General Obligation Bond Anticipation Notes**

**Dated: March 24, 2016 Date of Sale: Tuesday, March 15, 2016
Due: October 26, 2016 Time of Sale: 11:30 A.M. (Eastern Time)**

*****Phone Number to Place Bid: (203) 283-1110*****

As per the Notice of Telephone Sale, proposals may be submitted by telephone on Tuesday, March 15, 2016. Please note that a representative of Phoenix Advisors, LLC will be available until 11:30 A.M. (Eastern Time) on the day of the sale to assist with telephone bids. We ask that you submit your final bid by telephone at **(203) 283-1110 no later than 11:30 A.M. on Tuesday, March 15, 2016.**

The issue of notes is exempt from the provisions of Rule 15c2-12, as amended, of the Securities and Exchange Commission. No Official Statement has been prepared by or on behalf of the Issuer for this sale.

The General Purpose Financial Statements have been excerpted from the Annual Financial Report of the Town of Watertown, Connecticut as of June 30, 2015. These excerpts are included in this package. Copies of the complete Annual Financial Report for June 30th are available upon request from Phoenix Advisors, LLC, Attention: Barry J. Bernabe, Managing Director, 53 River Street, Suite 1, Milford, Connecticut, telephone (203) 283-1110.

We trust we may be of service.

PHOENIX ADVISORS, LLC



Telephone Sale Term Sheet

\$6,400,000

General Obligation Bond Anticipation Notes Town of Watertown, Connecticut

Date of Sale:	Tuesday, March 15, 2016 at 11:30 A.M. (Eastern Time).
Location of Sale:	Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, Connecticut 06460. Telephone: (203) 283-1110
Issuer:	Town of Watertown, Connecticut (the "Town").
Issue:	\$6,400,000 General Obligation Bond Anticipation Notes (the "Notes").
Dated Date:	March 24, 2016
Principal and Interest Due:	At maturity on October 26, 2016
Purpose:	The Notes are being issued to finance improvements various school projects.
Denominations:	\$100,000, or integral multiples thereof.
Redemption:	The Notes are not subject to redemption prior to maturity.
Security:	The Notes will be general obligations of the Town and the Town will pledge its full faith and credit to the payment of principal of and interest on the Notes when due.
Credit Rating:	No application for a rating on this Note issue has been made to any credit rating agency. The Town has an outstanding bond rating of "Aa2" from Moody's Investors Service and "AA+" from Standard & Poor's
Basis of Award:	Lowest Net Interest Cost (NIC), as of dated date.
Form of Legal Opinion and Tax Exemption:	See "Appendix – Opinion of Bond Counsel and Tax Exemption."
Bank Qualification:	The Notes shall not be designated by the Town as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Notes.
Registrar, Transfer Agent, Certifying Agent and Paying Agent:	U.S Bank National Association of Hartford, Connecticut, Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, Connecticut 06103. Unless an alternate Certifying Agent, Paying Agent and Registrar is designated by the Town as provided under "Option For No Book Entry" as described in the Notice of Sale.
Option for No Book Entry:	A bidder for the Notes may request that the Notes be issued in the form of a single fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC. See "Option for No Book Entry" in Notice of Sale.
Financial Advisor:	Phoenix Advisors, LLC of Milford, Connecticut will act as Financial Advisor. Telephone (203) 283-1110.
Legal Opinion:	Day Pitney LLP of Hartford, Connecticut will act as Bond Counsel.
Delivery and Payment:	It is expected that delivery of the Notes in book-entry-only form will be made to The Depository Trust Company on or about March 24, 2016. Delivery of the Notes will be made against payment in immediately available Federal Funds.
Issuer Official:	Questions concerning the Town should be directed to Frank Nardelli, Director of Finance, Town Hall Annex, 424 Main Street, Watertown, Connecticut 06795, Telephone: (860) 945-5258 or Mr. Barry J. Bernabe, Managing Director, Phoenix Advisors, LLC, 53 River Street, Milford, Connecticut, Telephone: (203) 283-1110.

NOTICE OF SALE
\$6,400,000
Town of Watertown, Connecticut
Bond Anticipation Notes
(BOOK-ENTRY)

TELEPHONE PROPOSALS will be received by the Town of Watertown, Connecticut until **11:30 A.M. Eastern Time on TUESDAY,**

MARCH 15, 2016

for the purchase of \$6,400,000 Bond Anticipation Notes of the Town of Watertown, dated March 24, 2016, maturing on October 26, 2016 (the "Notes").

The Notes will be payable with interest at maturity. Interest shall be computed on the basis of a 30-day month and a 360-day year. The Notes are not subject to redemption prior to maturity.

The Notes will be general obligations of the Town payable from ad valorem taxes levied on all taxable property in the Town without limitation as to rate or amount except classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts.

DTC Book-Entry. The Notes will be issued by means of a book-entry system with no physical distribution of note certificates made to the public. The Notes will be issued in registered form and one note certificate for each interest rate will be issued to The Depository Trust Company ("DTC"), New York, New York, registered in the name of its nominee, Cede & Co., and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Notes in principal amounts of \$100,000 or any integral multiple thereof, with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures adopted by DTC and its Participants. The purchaser, as a condition to delivery of the Notes, will be required to deposit the note certificates with DTC, registered in the name of Cede & Co. Principal of and interest on the Notes will be payable by the Town or its agent to DTC or its nominee as registered owner of the Notes. Principal and interest payments by DTC to Participants of DTC will be the responsibility of DTC; principal and interest payments to Beneficial Owners by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The Town will not be responsible or liable for payments by DTC to its Participants or by DTC Participants or Indirect Participants to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Notes and the Town fails to identify another qualified securities depository to replace DTC, or (b) the Town determines to discontinue the book-entry system of evidence and transfer of ownership of the Notes, the Town will authenticate and deliver replacement Notes in the form of fully registered certificates. Any such replacement Notes, will provide that principal of and interest on the Notes will be payable to the registered owner upon presentation and surrender of the Notes at the principal office of the Paying Agent, or of its successors as paying agent for the Notes.

Option For No Book Entry. A bidder for the Notes may request that the Notes be issued in the form of a single fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC, provided the bid is for all the Notes at the same interest rate. A bidder for the Notes requesting that the Notes be issued in non-book-entry form may request that it be designated by the Town as the Certifying Agent, Registrar and Paying Agent for the Notes if it is a bank or trust company authorized to act in such capacity pursuant to the Connecticut General Statutes. Any bidder seeking to have the Notes issued in non-book-entry form, or to be designated as Certifying Agent, Registrar and Paying Agent for such Notes, shall indicate this preference to the Town at the time of the submission of the bid. The Town reserves the right to decline any request to issue the Notes in non-book entry form, or to designate the successful bidder as Certifying Agent, Registrar and Paying Agent

for the Notes, if it should determine, in its sole discretion, that issuing the Notes in such manner or with such designation is not in its best interests. If the Notes are issued in non-book-entry form, the successful bidder, and any subsequent registered owner of the Notes, shall not impose on or charge the Town any costs or expenses of any re-registration or transfer of Notes from time to time, including any costs of counsel or of converting the Notes to book-entry only form, or for any costs or expenses of services as Certifying Agent, Registrar and Paying Agent for the Notes if the successful bidder is so designated.

Proposals. Proposals may be made for all or any part of the Notes. No proposal for less than the minimum denomination or for less than par and accrued interest will be entertained. Each proposal must state one rate of interest in a multiple of one-hundredth (1/100) of one-percent (1%) per annum for each part of the Notes bid for in the proposal.

Telephone Proposals Bidding Procedure. Telephone bids for the purchase of the Notes will be received on behalf of the Town by telephone call to a representative of Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, Connecticut at (203) 283-1110.

Basis of Award. As between proposals which comply with this Notice, the Notes will be sold to the responsible bidder or bidders offering to purchase the Notes at the lowest net interest rate, which will be determined for each interest rate stated in the proposal based on the total interest to be payable at such rate and deducting therefrom any premium. If there is more than one responsible bidder making said offer at the same lowest net interest rate, the Notes will be sold to the responsible bidder with a proposal for the highest principal amount of Notes specified or, if the same principal amount of Notes is specified in such proposals, to the responsible bidder whose proposal is selected by the Town by lot from among all such proposals. If a bidder is awarded only a part of the Notes, any premium offered in such proposal will be proportionately reduced so that the resulting net interest rate with respect to the Notes awarded is the same as that contained in the bidder's proposal with respect to the entire amount bid at such rate, carried to four places.

The Town reserves the right to award to any bidder all or any part of the Notes bid for in its proposal. The right is reserved to reject any and all proposals and to reject any proposal not complying with this Notice of Sale and to waive any irregularity or informality with respect to any proposal.

The Town further reserves the right to postpone the sale to another time and date in its sole discretion for any reason. The Town will use its best efforts to notify prospective bidders in a timely manner of any need for a postponement. If the sale is postponed, an alternative bid date will be published on Bloomberg at least 48 hours prior to such alternative bid date. Upon the establishment of an alternative bid date, any bidder may submit proposals for the purchase of the Bonds in accordance with the provisions of this Notice of Sale.

Certifying and Paying Agent. Unless the successful bidder on the Notes is designated as the Certifying Agent, Registrar and Paying Agent for the Notes as provided in "Option For No Book Entry" above, the Notes will be authenticated by U.S. Bank National Association, Hartford, Connecticut, which will also act as Registrar and Paying Agent.

Delivery. At or prior to the delivery of the Notes the successful bidder shall be furnished, without cost, with (a) the approving opinion of Day Pitney LLP of Hartford, Connecticut, Bond Counsel; (b) a signature and no litigation certificate, in form satisfactory to said firm, dated as of the date of delivery of the Notes and receipt of payment therefor, and stating that there is no litigation pending, or to the knowledge of the signer or signers thereof threatened, affecting the validity of the Notes or the power of the Town to levy and collect taxes to pay them; and (c) a receipt of payment for the Notes. U.S. Bank National Association will keep the original opinion and certificates and copies of the supporting documents, which may be examined at its principal office in Hartford, Connecticut, upon reasonable notice.

Bond Counsel Opinion. The opinion of Bond Counsel will cover the following matters: (1) that the Notes will be valid general obligations of the Town when duly certified; (2) that, assuming the accuracy of and compliance by the Town with its representations and covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, under existing statutes, interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; the Notes are not "private activity bonds" and interest on

the Notes is not treated as a preference item for purposes of calculating the Federal alternative minimum tax, but in the case of corporations a portion of such interest may be included in alternative minimum taxable income for purposes of computing any Federal alternative minimum tax; and (3) that, under existing statutes, interest on the Notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the Notes is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. The Notes will *not* be "qualified tax-exempt obligations" for purposes of the deduction by financial institutions of interest expenses that is allocable to tax-exempt obligations.

No Continuing Disclosure or Official Statement. Since the Notes mature not more than nine months from the date of issue and are in denominations of \$100,000 or more, the undertaking to provide an official statement or continuing disclosure under SEC Rule 15c2-12 does not apply to the Notes. Therefore, the Town will not provide an official statement nor enter into a Continuing Disclosure Agreement with respect to the Notes.

CUSIP Numbers. The deposit of the Notes with DTC under a book-entry system requires the assignment of CUSIP numbers prior to delivery. It shall be the responsibility of the purchaser to apply for CUSIP numbers for the Notes prior to delivery. Neither the failure to print such CUSIP number on any note, nor any error with respect thereto, shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Notes. All expenses in relation to the printing of CUSIP numbers on the Notes shall be paid for by the Town; provided, however, that the Town assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers, which charges shall be the responsibility of and shall be paid for by the purchaser.

Reoffering Prices. IT SHALL BE THE RESPONSIBILITY OF THE PURCHASER TO FURNISH TO THE TOWN IN WRITING BEFORE THE DELIVERY OF THE NOTES THE REOFFERING PRICES AT WHICH A SUBSTANTIAL PORTION OF THE NOTES WERE SOLD. The successful bidder may specify that the Bonds as "not reoffered" if the successful bidder certifies that it purchased the specified Bonds for its own account (or the account of a related party) without any present intention of reoffering such Notes to any other investor.

Delivery Date and Payment. The Notes will be delivered against payment in immediately available Federal funds through the facilities of The Depository Trust Company, New York, New York on March 24, 2016.

More Information. For more information regarding this issue and the Town reference is made to the Town's financial statements. Copies of the Town's financial statements may be obtained from Mr. Barry Bernabe, Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, CT 06460 (telephone: (203) 283-1110) or from Mr. Frank J. Nardelli, Finance Director, Town of Watertown, Town Hall, 37 Deforest Street, Watertown, Connecticut 06795 (telephone: (860) 945-5258).

ROBERT M. SCANNELL,
Town Manager

FRANK J. NARDELLI, JR.,
Finance Director

March 7, 2016

TOWN OF WATERTOWN, CONNECTICUT
\$6,400,000 BOND ANTICIPATION NOTES
DATED MARCH 24, 2016; MATURING OCTOBER 26, 2016
APPENDIX - OPINION OF BOND COUNSEL AND TAX EXEMPTION

The following information has been prepared by Bond Counsel in connection with this note issue. Bond Counsel are not passing upon and do not assume responsibility for the accuracy or completeness of the statements made in any information distributed in connection with the note issue (other than matters in this Appendix), and they make no representation that they have independently verified the same.

BOND COUNSEL OPINION

The legal opinion of the firm of Day Pitney LLP of Hartford, Connecticut, Bond Counsel, will be furnished to the successful bidder when the Notes are delivered, and a copy of the legal opinion will be included in the record of proceedings of the Town authorizing the Notes. The opinion will be dated and given on and will speak only as of the date of original delivery of the Notes to the successful bidder.

The opinion of Day Pitney LLP with respect to the Notes will be substantially in the following form:

[FORM OF BOND COUNSEL OPINION]

(date of closing)

Town of Watertown
Watertown, Connecticut

We have represented the Town of Watertown, Connecticut as Bond Counsel in connection with the issuance by the Town of \$6,400,000 Bond Anticipation Notes, dated as of March 24, 2016.

We have examined a record of proceedings authorizing the Notes, and based on our examination, we are of the opinion that the Town of Watertown is authorized to issue the Notes; the Town is duly and legally organized; all proper proceedings for the issuance and delivery of the Notes have been taken; no limitation of indebtedness under the laws of the State of Connecticut has been exceeded in the issuance of the Notes; the Notes will be valid and binding general obligations of the Town when certified as provided thereon by a duly authorized official of U.S. Bank National Association; and the Town has the power to levy ad valorem taxes to pay the Notes against all the taxable property in the Town without limit as to rate or amount except certified forest land taxable at a limited rate and dwelling houses of qualified elderly people of low income or of qualified disabled persons taxable at limited amounts.

It is to be understood that the rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met in order that interest on the Notes is excluded from gross income for Federal income tax purposes. The Town officials authorized to issue the Notes have executed written representations and agreements on behalf of the Town relating to compliance with such provisions of the Code to ensure that the interest on the Notes will be excluded from gross income for Federal income tax purposes.

Based on such representations and agreements and on the record of proceedings authorizing the Notes, and assuming the accuracy of such representations and compliance with such agreements, it is our opinion that, under existing statutes: (1) interest on the Notes is excluded from gross income for Federal income tax purposes pursuant

to Section 103 of the Code; and (2) the Notes are not "private activity bonds" and interest on the Notes is not treated as a preference item for purposes of calculating the Federal alternative minimum tax, but in the case of corporations a portion of such interest may be included in alternative minimum taxable income for purposes of computing any Federal alternative minimum tax.

Based on the record of proceedings authorizing the Notes, it is our opinion that, under existing statutes: (1) interest on the Notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and (2) interest on the Notes is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax.

Very truly yours,

Day Pitney LLP

FEDERAL INCOME TAX.

Interest Excluded From Gross Income. The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements that must be met in order that interest on the Notes is excluded from the gross income of the owners thereof for federal income tax purposes. Some of these requirements must be continuously met subsequent to delivery of the Notes. Failure to comply with any of these requirements may cause the interest on the Notes to be includable in gross income for federal income tax purposes retroactively to the date of their issuance irrespective of the date on which such noncompliance occurs.

The Town officials authorized to issue the Notes will enter into a Tax Compliance Agreement in connection with the delivery of the Notes, which will contain certain representations and covenants on behalf of the Town relating to compliance with such requirements of the Code to ensure that the interest on the Notes will be excluded from the gross income of the owners thereof for federal income tax purposes.

Alternative Minimum Tax. The Code imposes an alternative minimum tax on individuals and an alternative minimum tax on corporations. The alternative minimum tax is imposed on alternative minimum taxable income, which includes preference items. The interest on certain tax-exempt "private activity bonds" is treated as a preference item. The Town's Tax Compliance Agreement will contain certain representations and covenants to ensure that the Notes are not "private activity bonds" so that interest on the Notes will not be treated as a preference item for individuals or corporations in calculating alternative minimum taxable income.

The Code provides, however, that for most corporations a portion of the excess of adjusted current earnings (which includes certain tax-exempt interest) over other alternative minimum taxable income will be included in alternative minimum taxable income for purposes of calculating the corporation's alternative minimum tax.

Financial Institutions. The Code provides that commercial banks, thrift institutions and certain other financial institutions may not deduct the portion of their interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than "qualified tax-exempt obligations". The Notes will **not** be "qualified tax-exempt obligations" for purposes of the deduction for federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

Additional Federal Income Tax Matters. In addition to the matters addressed above, prospective purchasers of the Notes should be aware that the ownership of tax-exempt obligations, such as the Notes, may result in collateral federal income tax consequences to certain taxpayers, including without limitation, taxpayers otherwise eligible for the earned income credit, recipients of Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, certain insurance companies, certain S corporations and foreign corporations

subject to the branch profits tax. Prospective purchasers of the Notes may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

STATE OF CONNECTICUT TAX ON INTEREST.

The opinion of Bond Counsel will state in substance that, based on the record of proceedings authorizing the Notes, under existing statutes: (1) interest on the Notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts, and estates; and (2) interest on the Notes is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Interest on the Notes is included in gross income for purposes of the Connecticut corporation business tax.

Owners of the Notes should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the Notes and the disposition thereof, including the extent to which gains and losses from the sale or exchange of the Notes held as capital assets reduce and increase, respectively, amounts taken into account in computing the Connecticut income tax on individuals, trusts and estates and may affect the net Connecticut minimum tax on such taxpayers who are also required to pay the federal alternative minimum tax.

ORIGINAL ISSUE PREMIUM.

The initial public offering price of certain of the Notes may be greater than the amount payable on the Notes at maturity. The excess of the initial public offering price at which a substantial amount of such Notes are sold over the amount payable thereon at maturity constitutes original issue premium. No representation is made by the Town regarding the prices at which a substantial amount of the Notes ultimately will be sold to the public. An owner who purchases a note with original issue premium must amortize such original issue premium as provided in applicable Treasury Regulations, and amortized premium reduces the owner's basis in the note for federal income tax purposes. Owners of Notes having original issue premium, and especially any owner who is not an original owner of a note who bought the note at its initial public offering price, should consult their tax advisors with respect to the federal and state income tax consequences of the disposition of such notes.

GENERAL.

The opinion of Bond Counsel is rendered as of its date and Bond Counsel assumes no obligation to update or supplement its opinion to reflect any facts or circumstances that may come to its attention, or any changes in law or the interpretation thereof that may occur after the date of its opinion. Legislation affecting municipal bonds is regularly under consideration by the United States Congress. No assurance can be given that pending federal legislation, if any, or federal legislation enacted or proposed after the date of issuance of the Notes will not have an effect on the federal tax status or the market price of the Notes or will not change the effect of other federal tax law consequences, including those discussed above, of owning and disposing of the Notes, and Bond Counsel expresses no opinion thereon. No assurance can be given that future legislation or amendments to the income tax law of the State of Connecticut, if enacted into law, will not contain provisions that could, directly or indirectly, reduce the benefit of the exclusion of the interest on the Notes or any gain made on the sale or exchange thereof from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates, and Bond Counsel expresses no opinion thereon. Prospective owners of the Notes are advised to consult their tax advisors regarding the potential tax consequences of proposed federal or State of Connecticut tax legislation, if any, affecting municipal bonds.

The discussion above does not purport to address all aspects of federal, state, or local taxation that may be relevant to a particular owner of the Notes. Prospective owners of the Notes, particularly those who may be subject to special rules, are advised to consult their tax advisors regarding the federal, state, and local tax consequences of owning and disposing of the Notes, including any tax consequences arising under the laws of any other state or other taxing jurisdiction.

TOWN OF WATERTOWN, CONNECTICUT

FINANCIAL INFORMATION

Excerpted from the
Annual Financial Statements of
The Town of Watertown, Connecticut
Year Ended June 30, 2015

INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Watertown, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Watertown, Connecticut, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Watertown, Connecticut's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Watertown, Connecticut, as of June 30, 2015 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.

Emphasis of Matter - Change in Method of Accounting for Pensions

As described in Note 2 to the financial statements, the Town changed its method for accounting and financial reporting for pensions as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent To the Measurement Date - an Amendment of GASB Statement No. 68*, both effective July 1, 2014, which resulted in the Town restating net position for recognition of the Town's pension related activity incurred prior to July 1, 2014. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Prior Period Restatements

As described in Note 17 to the financial statements, the July 1, 2014 opening net position of the governmental activities and the other governmental fund financial statements have been restated to reflect additional claims liability and an elimination of unavailable revenue. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 14, the budgetary comparison information on pages 87 through 93, the schedule of changes in net pension liability and related ratios – Town Retirement System on page 94, schedule of Town contributions – Town Retirement System on page 95, schedule of investment returns – Town Retirement System on page 96, schedule of changes in net pension liability and related ratios – Police Pension on page 97, schedule of Town contributions – Police Pension on page 99, schedule of investment returns – Police Pension on page 99, schedule of the Town's proportionate share of the net pension liability and related ratios – State Teachers Retirement System on page 100, schedule of contributions – State Municipal Employees Retirement System on page 101, and schedule of Town's proportionate share of the net pension liability – State Municipal Employees Retirement System on page 102, 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.

Supplementary and Other Information

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

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

The accompanying General Fund balance sheet as of June 30, 2014 included in the combining and individual fund statements for comparative purposes was included in the 2014 financial statements audited by other auditors who expressed an unmodified opinion on those financial statements, and an in relation to opinion on the General Fund balance sheet specifically, in their report dated December 30, 2014.

The introductory and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2016, on our consideration of the Town of Watertown, Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Watertown, Connecticut's internal control over financial reporting and compliance.

Marcum LLP

New Haven, CT
January 28, 2016

TOWN OF WATERTOWN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

This discussion and analysis of the Town of Watertown, 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, 2015. Please read this MD&A in conjunction with the transmittal letter and the Town's financial statements, Exhibits I to IX.

FINANCIAL HIGHLIGHTS

- The Town's total net position decreased \$10.3 million as a result of this year's operations. Net position of our governmental activities decreased by \$9.0 million.
- During the year, the Town had expenses that were \$2.3 million more than the \$78.4 million generated in tax and other revenues for governmental programs.
- In the Town's business-type activities, total net position decreased \$969 thousand.
- Unrestricted net position decreased by \$3.4 million (\$2.8 million in 2015 compared with \$6.2 million in 2014).
- Total cost of all of the Town's programs was \$85.4 million with no new programs added this year.
- The General Fund reported an unassigned fund balance this year of \$7.4 million.
- The resources available for appropriation were \$995 thousand more than budgeted for the General Fund. Expenditures were kept within spending limits.

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 deferred outflows and liabilities and deferred inflows 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.

TOWN OF WATERTOWN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2015

These two statements report the Town's net position and changes in them. The Town's net position, the difference between assets and deferred outflows and liabilities and deferred inflows, 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, we divide the Town into two types of activities:

- *Governmental Activities* - Most of the Town's basic services are reported here, including education, public safety, public works, parks and recreation, health and welfare and general administration. Property taxes, charges for services, and state and federal grants finance most of these activities.
- *Business-Type Activities* - The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's sewer, water and golf course operations are reported here.

FUND FINANCIAL STATEMENTS

The fund financial statements begin with Exhibit III and provide detailed information about the most significant funds - not the Town as a whole. Some funds are required to be established by Charter. However, the Town Council establishes many other funds to help control and manage financial activities for particular purposes (like the Board of Education Community Service Fund) or to show that it is meeting legal responsibilities for using grants and other money (like grants received for education from the state and federal governments). The Town's funds are divided into three categories: governmental, proprietary and fiduciary.

- *Governmental Funds (Exhibits III and IV)* - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation included with the fund financial statements.

TOWN OF WATERTOWN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2015

- *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 Health and Dental Benefits and Workers' Compensation Internal Service Funds.
- *Fiduciary Funds (Exhibits VIII and IX)* - The Town is the trustee, or fiduciary, for its employees' pension plans. 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.

TOWN OF WATERTOWN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Town's combined net position decreased from a year ago from \$156.4 million to \$146.1 million. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental and business-type activities.

TABLE 1 - NET POSITION (in thousands)

<i>In Thousands</i>	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 30,913	\$ 28,892	\$ 5,983	\$ 7,193	\$ 36,896	\$ 36,085
Capital assets, net of accumulated depreciation	<u>195,266</u>	<u>197,373</u>	<u>14,810</u>	<u>14,974</u>	<u>210,076</u>	<u>212,347</u>
Total assets	<u>226,179</u>	<u>226,265</u>	<u>20,793</u>	<u>22,167</u>	<u>246,972</u>	<u>248,432</u>
Deferred Outflows of Resources:						
Deferred outflows - pension	128	--	26	--	154	--
Deferred charge on refunding	<u>1,533</u>	<u>1,248</u>	<u>--</u>	<u>--</u>	<u>1,533</u>	<u>1,248</u>
	<u>1,661</u>	<u>1,248</u>	<u>26</u>	<u>--</u>	<u>1,687</u>	<u>1,248</u>
Long-term liabilities outstanding	86,628	77,848	2,289	3,036	88,917	80,884
Other liabilities	<u>11,262</u>	<u>12,136</u>	<u>744</u>	<u>514</u>	<u>12,006</u>	<u>12,650</u>
Total liabilities	<u>97,890</u>	<u>89,984</u>	<u>3,033</u>	<u>3,550</u>	<u>100,923</u>	<u>93,534</u>
Deferred Inflows of Resources:						
Deferred inflows - pension	<u>1,451</u>	<u>--</u>	<u>138</u>	<u>--</u>	<u>1,589</u>	<u>--</u>
Net Position:						
Net investment in capital assets	138,858	132,293	14,810	12,408	153,668	144,701
Restricted	285	289	--	--	--	--
Unrestricted	<u>(10,644)</u>	<u>4,947</u>	<u>2,838</u>	<u>6,209</u>	<u>(7,806)</u>	<u>11,156</u>
Total Net Position	<u>\$ 128,499</u>	<u>\$ 137,529</u>	<u>\$ 17,648</u>	<u>\$ 18,617</u>	<u>\$ 146,147</u>	<u>\$ 156,146</u>

Net position of the Town's governmental activities decreased by \$9.0 million (\$128.5 million in 2015 compared with \$137.5 million in 2014). The 2014 reported net position includes a re-allocation between net investment in capital assets and unrestricted. The Town's unrestricted net position of \$(10.6) million decreased \$15.6 million compared with last years' unrestricted net position of \$4.9 million. The decrease is primarily attributable to the net repayment of bonds of \$1.8 million, decreases of net capital assets of \$855 thousand, the recognition of net pension liabilities of \$7.0 million, and an overall decrease to net position of \$2.3 million. Unrestricted net position can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. Net investment in capital assets increased \$6.6 million.

TOWN OF WATERTOWN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2015

During 2015 the net position of the Town's business-type activities decreased by \$969 thousand. Unrestricted net position decreased \$3.4 million (\$2.8 million in 2015 compared with \$6.2 million in 2014). Contributing factors to the change in total net position and unrestricted net position follows Table 2. The Town generally can only use this net position to finance the continuing operations of the Sewer Authority, Water Authority and Crestbrook Golf Enterprise Funds.

TABLE 2 - CHANGE IN NET POSITION (in thousands)

<i>In Thousands</i>	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues	\$ 3,806	\$ 3,461	\$ 3,688	\$ 3,837	\$ 7,494	\$ 7,298
Charges for services						
Operating grants and contributions	18,448	19,480	--	--	18,448	19,480
Capital grants and contributions	2,372	950	--	93	2,372	1,043
General revenues						
Property taxes	50,739	49,498	--	--	50,739	49,498
Grants and contributions not restricted to specific purposes	1,166	1,150	--	--	1,166	1,150
Unrestricted investment earnings	32	29	6	6	38	35
Other general revenues	1,876	444	--	--	1,876	444
Total revenues	<u>78,439</u>	<u>75,012</u>	<u>3,694</u>	<u>3,936</u>	<u>82,133</u>	<u>78,948</u>
Expenses						
General government	14,642	9,637	--	--	14,642	9,637
Public safety	6,771	6,180	--	--	6,771	6,180
Public works	6,030	5,195	--	--	6,030	5,195
Parks and recreation	989	1,363	--	--	989	1,363
Health and welfare	281	529	--	--	281	529
Education	49,788	48,281	--	--	49,788	48,281
Interest on long-term debt	2,169	2,587	--	--	2,169	2,587
Sewer	--	--	2,229	2,098	2,229	2,098
Water	--	--	1,688	1,463	1,688	1,463
Golf	--	--	813	642	813	642
Total expenses	<u>80,670</u>	<u>73,772</u>	<u>4,730</u>	<u>4,203</u>	<u>85,400</u>	<u>77,975</u>
Excess (deficiency)						
before transfers	(2,231)	1,240	(1,036)	(267)	(3,267)	973
Transfers	(67)	43	67	(43)	--	--
Increase (decrease) in net position	<u>\$ (2,298)</u>	<u>\$ 1,283</u>	<u>\$ (969)</u>	<u>\$ (310)</u>	<u>\$ (3,267)</u>	<u>\$ 973</u>

TOWN OF WATERTOWN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2015

The Town's total revenues were \$82.0 million. The total cost of all programs and services was \$85.4 million. Our analysis below separately considers the operations of governmental and business-type activities.

GOVERNMENTAL ACTIVITIES

The Town's governmental activities reported a decrease of \$2.2 million in net position in 2015. The decrease was principally driven by the capitalization of public works construction expenditures. The Town's total governmental revenue for the year was \$78.4 million. Total program expenses were \$80.6 million. During 2015, property taxes increased \$1.24 million as the Town's property tax mill rate increased 4.03 mills from 2014 to 2015, due to revaluation.

BUSINESS-TYPE ACTIVITIES

The Town's business-type activities reported a decrease of \$969 thousand in net position in 2015.

Table 3 presents the cost of each of the Town's five largest programs - general government, public safety, public works, education and parks and recreation - 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 (in thousands)

<i>In Thousands</i>	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General government	\$ 14,642	\$ 9,637	\$ 13,392	\$ 8,128
Public safety	6,771	6,180	5,962	5,563
Public works	6,030	5,195	5,277	4,232
Parks and recreation	989	1,363	164	866
Education	49,788	48,281	29,047	28,304
All others	<u>2,450</u>	<u>3,116</u>	<u>2,202</u>	<u>2,789</u>
	<u>\$ 80,670</u>	<u>\$ 73,772</u>	<u>\$ 56,044</u>	<u>\$ 49,882</u>

TOWN OF WATERTOWN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2015

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 \$15.6 million, which is an increase of \$4.3 million from last year's total of \$11.3 million. During 2015, the Town's general fund balance increased by \$342 thousand and the capital improvement fund increased by \$2.65 million and the non-major governmental funds increased by \$384 thousand.

PROPRIETARY FUNDS

Net position of the Town's three self-insured internal service funds increased by \$117 thousand during the year. The Health and Dental Benefits Fund reported an operating income of \$411.6 thousand. Net position of the Town's Workers' Compensation Fund decreased \$280.4 thousand as claims experience was higher than last year. Net position of the Town's General Liabilities Deductibles Fund decreased by \$13.6 thousand, which was primarily attributable to claim activity.

The Town operates three enterprise funds that comprise the Town's business-type activities. The enterprise funds account for the operations of providing sewer and water services to Town businesses and residents and to account for the Town's Crestbrook golf course. Analysis of the Town's enterprise funds is included in the above business-type activities section.

GENERAL FUND BUDGETARY HIGHLIGHTS

The actual revenue exceeded the budgetary revenues estimate of \$66.5 million by \$995 thousand as property tax collections exceeded budgetary estimates as the tax collector foreclosed on overdue real estate accounts. During the year the Town approved \$895,018 of additional General Fund appropriations to fund various unanticipated expenditures. The Town expended \$442 thousand less than the amended appropriated budget amount of \$67.5 million.

The Town's General Fund balance of \$7.9 million reported on Exhibit III differs from the General Fund's budgetary fund balance of \$7.4 million. This is because budgetary fund balance included a reservation of \$489 thousand of outstanding encumbrances at year end which are reported as expenditures for budgetary purposes.

TOWN OF WATERTOWN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2015, the Town had \$210.0 million invested in a broad range of capital assets, including land, buildings, park facilities, vehicles and equipment, roads, bridges, and water and sewer lines - Table 4. This amount represents a net decrease of \$2.3 thousand, over last year.

TABLE 4 - CAPITAL ASSETS AT YEAR END (in thousands)

<i>In Thousands</i>	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land	\$ 2,598	\$ 2,598	\$ 1,020	\$ 1,020	\$ 3,618	\$ 3,618
Construction in progress	56,092	71,941	--	--	56,092	71,941
Buildings and improvements	82,982	69,230	947	1,007	83,929	70,237
Vehicles	1,077	1,167	94	52	1,171	1,219
Machinery and equipment	1,289	1,194	6	15	1,295	1,209
Infrastructure	<u>51,229</u>	<u>51,243</u>	<u>12,743</u>	<u>12,880</u>	<u>63,972</u>	<u>64,123</u>
	<u>\$ 195,267</u>	<u>\$ 197,373</u>	<u>\$ 14,810</u>	<u>\$ 14,974</u>	<u>\$ 210,077</u>	<u>\$ 212,347</u>

This year's major capital outlay additions included:

Highway construction equipment	\$ 356,603
Motor vehicles	370,314
Road Improvements	941,425
Davis Street water main	296,257
Veterans part improvements	<u>431,416</u>
	<u>\$ 2,396,015</u>

The Town's fiscal year 2014-2015 capital budget calls for the continued capital outlay on the \$4.0 million of approved project authorization for various public works capital improvements. More detailed information about the Town's capital assets is presented in Note 6 to the financial statements.

TOWN OF WATERTOWN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2015

LONG-TERM DEBT

At June 30, 2015, the Town had \$66 million in bonds and serial notes outstanding versus \$71 million last year as shown in Table 5.

TABLE 5 - OUTSTANDING DEBT AT YEAR END (in thousands)

<i>In Thousands</i>	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 57,487	\$ 58,876	\$ --	\$ --	\$ 57,487	\$ 58,876
Serial notes payable	--	--	2,113	2,566	2,113	2,566
Bond anticipation notes (backed by the Town)	<u>6,700</u>	<u>9,700</u>	<u>--</u>	<u>--</u>	<u>6,700</u>	<u>9,700</u>
	<u>\$ 64,187</u>	<u>\$ 68,576</u>	<u>\$ 2,113</u>	<u>\$ 2,566</u>	<u>\$ 66,300</u>	<u>\$ 71,142</u>

The Town's general obligation bond rating is AA+. The State limits the amount of general obligation debt that municipalities can issue based on formula determined under State Statutes based on type of debt and tax base. The Town's outstanding general obligation debt is significantly below this \$355 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 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2016 budget tax rates, and fees that will be charged for the business-type activities. One of those factors is the economy. The Town's unemployment had a decrease, averaging annual rate of 4.99%. Unemployment in the Town now stands at 4.7% versus 5.0% a year ago. This compares with the State's unemployment rate of 4.8% and the national rate of 5.8%.

Inflation in the Northeast area continues to be less than the national Consumer Price Index (CPI) increase. The Town required one budget referendums to pass its 2015-2016 budget. The mill rate for fiscal year 2015-2016 is 30.10 mills, which is a .98 mill increase from the prior year. The Board of Education budget increased 2.99% and the Town's portion increased 3.09%.

In the Town's 2015-2016 budget, the Town did not use any of the fund balance to balance the budget.

Future year's budgets will be impacted by health, insurance and debt service.

TOWN OF WATERTOWN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2015

As for the Town's business-type activities, we expect that the 2015-16 operating income will increase based on recent decisions. The Water and Sewer Department continues to expand its utilities, which increases users. This expansion program combined with maintaining stable rates and low operating costs should enable an increase in net position. The Water and Sewer Department has completed a Water and Sewer Cost of Services rate study, which will moderately increase rates in fiscal year 2015-2016.

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 Watertown, 424 Main Street, Watertown, Connecticut 06795.

BASIC FINANCIAL STATEMENTS

TOWN OF WATERTOWN, CONNECTICUT

EXHIBIT I

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 16,704,398	\$ 3,252,574	\$ 19,956,972
Receivables, net	13,867,913	936,227	14,804,140
Internal balances	318,975	(318,975)	--
Inventories	21,431	--	21,431
Other charges	--	2,112,839	2,112,839
Capital assets			
Assets not being depreciated	58,690,193	1,019,600	59,709,793
Assets being depreciated, net	<u>136,576,864</u>	<u>13,789,912</u>	<u>150,366,776</u>
Total Assets	<u>226,179,774</u>	<u>20,792,177</u>	<u>246,971,951</u>
Deferred Outflows of Resources			
Deferred outflows - pension	127,669	26,149	153,818
Deferred charge on refunding	<u>1,533,138</u>	<u>--</u>	<u>1,533,138</u>
	<u>1,660,807</u>	<u>26,149</u>	<u>1,686,956</u>
Liabilities			
Accounts and other payables	3,798,855	292,331	4,091,186
Bond anticipation notes payable	6,700,000	451,228	7,151,228
Unearned revenue	763,565	--	763,565
Noncurrent liabilities			
Due within one year	7,154,373	84,038	7,238,411
Due in more than one year	<u>79,473,520</u>	<u>2,204,782</u>	<u>81,678,302</u>
Total Liabilities	<u>97,890,313</u>	<u>3,032,379</u>	<u>100,922,692</u>
Deferred Inflows of Resources			
Deferred inflows - pension	<u>1,451,303</u>	<u>138,157</u>	<u>1,589,460</u>
Net Position			
Net investment in capital assets	138,857,588	14,809,512	153,667,100
Restricted for trust purposes			
Expendable	124,206	--	124,206
Nonexpendable	160,887	--	160,887
Unrestricted	<u>(10,643,716)</u>	<u>2,838,278</u>	<u>(7,805,438)</u>
Total Net Position	<u>\$ 128,498,965</u>	<u>\$ 17,647,790</u>	<u>\$ 146,146,755</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT

EXHIBIT II

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 14,642,335	\$ 1,239,983	\$ 10,372	\$ --	\$ (13,391,980)	\$ --	\$ (13,391,980)
Public safety	6,771,122	808,950	--	--	(5,962,172)	--	(5,962,172)
Public works	6,029,759	134,453	27,931	589,962	(5,277,413)	--	(5,277,413)
Parks and recreation	989,044	393,356	5,555	425,716	(164,417)	--	(164,417)
Health and welfare	281,496	--	119,999	--	(161,497)	--	(161,497)
Education	49,786,691	1,228,975	18,284,030	1,226,962	(29,046,724)	--	(29,046,724)
Interest on long-term debt	<u>2,169,068</u>	<u>--</u>	<u>--</u>	<u>129,054</u>	<u>(2,040,014)</u>	<u>--</u>	<u>(2,040,014)</u>
Total Governmental activities	<u>80,669,515</u>	<u>3,805,717</u>	<u>18,447,887</u>	<u>2,371,694</u>	<u>(56,044,217)</u>	<u>--</u>	<u>(56,044,217)</u>
Business-type activities							
Sewer	2,229,460	1,810,092	--	--	--	(419,368)	(419,368)
Water	1,687,777	1,365,078	--	--	--	(322,699)	(322,699)
Golf	<u>812,641</u>	<u>512,715</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(299,926)</u>	<u>(299,926)</u>
Total Business-type activities	<u>4,729,878</u>	<u>3,687,885</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,041,993)</u>	<u>(1,041,993)</u>
Total	<u>\$ 85,399,393</u>	<u>\$ 7,493,602</u>	<u>\$ 18,447,887</u>	<u>\$ 2,371,694</u>	<u>(56,044,217)</u>	<u>(1,041,993)</u>	<u>(57,086,210)</u>
General revenues							
Property taxes					50,738,912	--	50,738,912
Grants and contributions not restricted to specific programs					1,165,543	--	1,165,543
Unrestricted investment earnings					32,070	6,130	38,200
Miscellaneous					1,905,304	--	1,905,304
Loss on disposal of assets					(28,595)	--	(28,595)
Transfers					<u>(66,828)</u>	<u>66,828</u>	<u>--</u>
Total general revenues and transfers					<u>53,746,406</u>	<u>72,958</u>	<u>53,819,364</u>
Change in net position					(2,297,811)	(969,035)	(3,266,846)
Net Position - Beginning of year, as restated					<u>130,796,776</u>	<u>18,616,825</u>	<u>149,413,601</u>
Net Position - End of year					<u>\$ 128,498,965</u>	<u>\$ 17,647,790</u>	<u>\$ 146,146,755</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT

EXHIBIT III

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2015

	General	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 9,191,841	\$ 4,120,274	\$ 2,237,289	\$ 15,549,404
Accounts receivables, net	4,734,936	8,009,108	1,123,869	13,867,913
Due from other funds	906,009	--	--	906,009
Inventories	<u>--</u>	<u>--</u>	<u>21,431</u>	<u>21,431</u>
Total Assets	<u>\$ 14,832,786</u>	<u>\$ 12,129,382</u>	<u>\$ 3,382,589</u>	<u>\$ 30,344,757</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts and other payables	\$ 2,576,036	\$ 253,086	\$ 82,681	\$ 2,911,803
Due to other funds	--	433,255	153,779	587,034
Bond anticipation notes payable	--	6,700,000	--	6,700,000
Unearned revenue	<u>609,311</u>	<u>--</u>	<u>154,254</u>	<u>763,565</u>
Total Liabilities	<u>3,185,347</u>	<u>7,386,341</u>	<u>390,714</u>	<u>10,962,402</u>
Deferred Inflows of Resources				
Unavailable revenues				
Property taxes	906,688	--	--	906,688
Special assessments	941,522	--	--	941,522
School building grants	1,842,295	--	--	1,842,295
Other receivables	<u>97,539</u>	<u>--</u>	<u>--</u>	<u>97,539</u>
Total Deferred Inflows of Resources	<u>3,788,044</u>	<u>--</u>	<u>--</u>	<u>3,788,044</u>
Fund Balances				
Nonspendable	--	--	182,318	182,318
Restricted	--	4,743,041	363,804	5,106,845
Committed	--	--	2,438,907	2,438,907
Assigned	488,840	--	--	488,840
Unassigned	<u>7,370,555</u>	<u>--</u>	<u>6,846</u>	<u>7,377,401</u>
Total Fund Balances	<u>7,859,395</u>	<u>4,743,041</u>	<u>2,991,875</u>	<u>15,594,311</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 14,832,786</u>	<u>\$ 12,129,382</u>	<u>\$ 3,382,589</u>	<u>\$ 30,344,757</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT

EXHIBIT III

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2015

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position:

Amounts reported for governmental activities in the statement of net position are different because of the following:

Fund balances - total governmental funds	\$	15,594,311
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	\$	261,966,068
Less accumulated depreciation		<u>(66,699,011)</u>
Net capital assets		195,267,057
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recorded in the funds:		
Property tax receivables greater than 60 days		733,688
Interest receivable on property taxes		173,000
Receivable from the State for school construction projects		1,842,295
Assessment receivables		941,522
Other accounts receivable		97,539
Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the statement of net position.		
		(2,010,659)
Deferred outflows and inflows as well as long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds payable		(55,580,000)
Deferred charge on refunding		1,533,138
Deferred outflows - pension		127,669
Deferred inflows - pension		(1,451,303)
Unamortized premiums		(1,907,323)
Interest payable on bonds		(807,723)
Capital leases		(829,470)
Compensated absences		(3,485,992)
Retirement obligations		(353,058)
Net OPEB obligation		(14,542,308)
Landfill closure monitoring obligation		(293,620)
Net pension liabilities		<u>(6,549,798)</u>
Net Position of Governmental Activities (Exhibit I)	\$	<u><u>128,498,965</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT

EXHIBIT IV

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

FOR THE YEAR ENDED JUNE 30, 2015

	General	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 50,856,154	\$ --	\$ --	\$ 50,856,154
Intergovernmental revenues	18,117,139	1,624,467	2,573,405	22,315,011
Licenses, permits and charges for services	3,266,303	--	1,621,617	4,887,920
Investment income	24,543	5,808	1,666	32,017
Other revenue	458,913	605	190,212	649,730
Total Revenues	<u>72,723,052</u>	<u>1,630,880</u>	<u>4,386,900</u>	<u>78,740,832</u>
Expenditures				
Current				
General government	2,551,251	--	135,853	2,687,104
Public safety	5,343,081	--	9,059	5,352,140
Public works	3,756,872	--	472,213	4,229,085
Parks and recreation	812,692	--	374,301	1,186,993
Health and welfare	143,104	--	101,274	244,378
Education	44,456,479	--	3,103,297	47,559,776
Other	8,205,314	--	--	8,205,314
Capital outlay	418,681	1,945,212	--	2,363,893
Debt service	6,616,270	400,000	--	7,016,270
Total Expenditures	<u>72,303,744</u>	<u>2,345,212</u>	<u>4,195,997</u>	<u>78,844,953</u>
Excess (Deficiency) of Revenues over Expenditures	<u>419,308</u>	<u>(714,332)</u>	<u>190,903</u>	<u>(104,121)</u>
Other Financing Sources (Uses)				
Transfers in	43,579	366,803	231,232	641,614
Transfers out	(668,631)	(2,029)	(37,782)	(708,442)
Issuance of refunding bonds	6,265,000	--	--	6,265,000
Payment to refunded bond escrow agent	(6,607,647)	--	--	(6,607,647)
Bond premium	472,694	--	--	472,694
Bond proceeds	--	3,000,000	--	3,000,000
Issuance of capital leases	418,681	--	--	418,681
Total Other Financing Sources	<u>(76,324)</u>	<u>3,364,774</u>	<u>193,450</u>	<u>3,481,900</u>
Net Change in Fund Balances	342,984	2,650,442	384,353	3,377,779
Fund Balances - Beginning as restated	<u>7,516,411</u>	<u>2,092,599</u>	<u>2,607,522</u>	<u>12,216,532</u>
Fund Balances - End	<u>\$ 7,859,395</u>	<u>\$ 4,743,041</u>	<u>\$ 2,991,875</u>	<u>\$ 15,594,311</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT

EXHIBIT IV

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

FOR THE YEAR ENDED JUNE 30, 2015

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 are different because:

Net change in fund balances - total governmental funds (Exhibit IV)	\$	3,377,779
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		2,160,612
Depreciation expense		(4,238,428)
In the statement of activities, only the loss on the disposal of capital assets is reported. Thus the change in net position differs from the change in fund balance by this loss		
		(28,595)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds, and revenue recognized in the funds are not reported in the statement of activities:		
School building grant receipts		(551,527)
Property tax receivable - accrual basis change		(79,242)
Property tax interest and lien revenue - accrual basis change		(38,000)
Assessment receivables		47,099
Other accounts receivable - accrual basis change		5,711
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized and deferred in the statement of activities. The details of these differences in the treatment of long-term debt and related items are as follows:		
Issuance of bonds		(3,000,000)
Bond principal payments		4,745,000
Issuance of refunding bonds		(6,265,000)
Bonds refunded		6,275,000
Deferred charge on refunding		332,648
Premium on refunded bonds		(472,694)
Amortization of premiums		106,047
Amortization of deferred charge on refunding		(47,943)
Accrued interest on bonds		50,714
Capital lease payments		542,255
Capital lease financing		(418,681)
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:		
Change in long-term compensated absences		175,526
Change in long-term retirement obligations		167,120
Change in landfill post closure care		125,590
Change in net OPEB obligation		(2,256,838)
Change in net pension obligations		(3,129,587)
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.		
		117,623
Change in Net Position of Governmental Activities (Exhibit II)	\$	(2,297,811)

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT
STATEMENT OF NET POSITION – PROPRIETARY FUNDS

EXHIBIT V

JUNE 30, 2015

	Business-Type Activities				Governmental
	Sewer Authority	Water Authority	Nonmajor		Internal Service
			Crestbrook Golf Operation	Total	
Assets					
Current assets					
Cash and cash equivalents	\$ 1,754,590	\$ 1,497,984	\$ --	\$ 3,252,574	\$ 1,154,994
Receivables, net					
User charges	588,756	347,471	--	936,227	--
Total current assets	<u>2,343,346</u>	<u>1,845,455</u>	<u>--</u>	<u>4,188,801</u>	<u>1,154,994</u>
Noncurrent assets					
Other charges	2,112,839	--	--	2,112,839	--
Capital assets					
Assets not being depreciated	--	84,600	935,000	1,019,600	--
Assets being depreciated, net	6,920,264	6,562,895	306,753	13,789,912	--
Total noncurrent assets	<u>9,033,103</u>	<u>6,647,495</u>	<u>1,241,753</u>	<u>16,922,351</u>	<u>--</u>
Total Assets	<u>11,376,449</u>	<u>8,492,950</u>	<u>1,241,753</u>	<u>21,111,152</u>	<u>1,154,994</u>
Deferred Outflows of Resources					
Deferred outflows - pension	7,691	7,691	10,767	26,149	--
Liabilities					
Current liabilities					
Accounts and other payables	161,262	124,008	7,061	292,331	79,328
Due to other funds	9,946	--	309,029	318,975	--
Notes payable	451,228	--	--	451,228	--
Compensated absences	28,970	28,970	26,098	84,038	--
Risk management claims	--	--	--	--	487,000
Total current liabilities	<u>651,406</u>	<u>152,978</u>	<u>342,188</u>	<u>1,146,572</u>	<u>566,328</u>
Noncurrent liabilities					
Notes payable	1,661,611	--	--	1,661,611	--
Net pension liability	146,453	146,453	124,136	417,042	--
Compensated absences	33,293	33,293	59,543	126,129	--
Risk management claims	--	--	--	--	2,599,325
Total noncurrent liabilities	<u>1,841,357</u>	<u>179,746</u>	<u>183,679</u>	<u>2,204,782</u>	<u>2,599,325</u>
Total Liabilities	<u>2,492,763</u>	<u>332,724</u>	<u>525,867</u>	<u>3,351,354</u>	<u>3,165,653</u>
Deferred Inflows of Resources					
Deferred inflows - pension	43,615	43,615	50,927	138,157	--
Net Position					
Net investment in capital assets	6,920,264	6,647,495	1,241,753	14,809,512	--
Unrestricted	1,927,498	1,476,807	(566,027)	2,838,278	(2,010,659)
Total Net Position	<u>\$ 8,847,762</u>	<u>\$ 8,124,302</u>	<u>\$ 675,726</u>	<u>\$ 17,647,790</u>	<u>\$ (2,010,659)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT

EXHIBIT VI

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

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities				Governmental
	Sewer Authority	Water Authority	Nonmajor Crestbrook Golf Operation	Total	Internal Service
Operating Revenues					
Charges for services	\$ 1,807,452	\$ 1,317,659	\$ 498,765	\$ 3,623,876	\$ 12,749,049
Permits and fees	2,640	1,200	--	3,840	--
Other	--	46,219	13,950	60,169	--
Total Operating Revenues	<u>1,810,092</u>	<u>1,365,078</u>	<u>512,715</u>	<u>3,687,885</u>	<u>12,749,049</u>
Operating Expenses					
Salaries	243,191	243,193	259,944	746,328	--
Benefits	186,756	186,802	314,609	688,167	--
Purchased services	1,049,355	1,025,589	202,198	2,277,142	--
Depreciation	249,800	232,193	35,890	517,883	--
Amortization of deferred charge	453,213	--	--	453,213	--
Claims	--	--	--	--	10,682,924
Premiums and administrative charges	--	--	--	--	1,948,971
Total Operating Expenses	<u>2,182,315</u>	<u>1,687,777</u>	<u>812,641</u>	<u>4,682,733</u>	<u>12,631,895</u>
Operating Income (Loss)	<u>(372,223)</u>	<u>(322,699)</u>	<u>(299,926)</u>	<u>(994,848)</u>	<u>117,154</u>
Nonoperating Revenue (Expenses)					
Investment earnings	3,253	2,877	--	6,130	469
Interest expense	(47,145)	--	--	(47,145)	--
Net Nonoperating Revenues (Expenses)	<u>(43,892)</u>	<u>2,877</u>	<u>--</u>	<u>(41,015)</u>	<u>469</u>
Income (Loss) Before Transfers	(416,115)	(319,822)	(299,926)	(1,035,863)	117,623
Transfers in	--	95,417	21,411	116,828	--
Transfers out	(10,000)	(40,000)	--	(50,000)	--
Change in Net Position	(426,115)	(264,405)	(278,515)	(969,035)	117,623
Net Position - Beginning of year, as restated	<u>9,273,877</u>	<u>8,388,707</u>	<u>954,241</u>	<u>18,616,825</u>	<u>(2,128,282)</u>
Net Position - End of year	<u>\$ 8,847,762</u>	<u>\$ 8,124,302</u>	<u>\$ 675,726</u>	<u>\$ 17,647,790</u>	<u>\$ (2,010,659)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

EXHIBIT VII

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities				Governmental Activities
	Sewer Authority	Water Authority	Nonmajor Crestbrook Golf Operation	Total	Internal Service
Cash Flows from Operating Activities					
Cash received from charges for services	\$ 1,810,562	\$ 1,351,980	\$ 512,715	\$ 3,675,257	\$ 12,583,583
Cash received from others	--	--	--	--	2,466
Cash paid to vendors	(1,163,698)	(1,139,931)	(156,303)	(2,459,932)	
Cash paid to employees for services	(393,742)	(393,790)	(377,823)	(1,165,355)	(12,425,012)
Net Cash Provided by (Used in) Operating Activities	<u>253,122</u>	<u>(181,741)</u>	<u>(21,411)</u>	<u>49,970</u>	<u>161,037</u>
Cash Flows from Noncapital and Related Financing Activities					
Cash received from other funds	--	--	21,411	21,411	--
Cash paid to other funds	(10,000)	55,417	--	45,417	--
Net Cash Provided by (Used in) Noncapital and Related Financing Activities	<u>(10,000)</u>	<u>55,417</u>	<u>21,411</u>	<u>66,828</u>	<u>--</u>
Cash Flows from Capital and Related Financing Activities					
Purchase of capital assets	(28,411)	(324,670)	--	(353,081)	--
Principal payment on notes	(453,213)	--	--	(453,213)	--
Interest payment on notes	(47,145)	--	--	(47,145)	--
Net Cash Used in Capital and Related Financing Activities	<u>(528,769)</u>	<u>(324,670)</u>	<u>--</u>	<u>(853,439)</u>	<u>--</u>
Cash Flows from Investing Activities					
Income on investments	3,253	2,877	--	6,130	469
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(282,394)</u>	<u>(448,117)</u>	<u>--</u>	<u>(730,511)</u>	<u>161,506</u>
Cash and Cash Equivalents - Beginning of year	<u>2,036,984</u>	<u>1,946,101</u>	<u>--</u>	<u>3,983,085</u>	<u>993,488</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,754,590</u>	<u>\$ 1,497,984</u>	<u>\$ --</u>	<u>\$ 3,252,574</u>	<u>\$ 1,154,994</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities					
Operating income (loss)	\$ (372,223)	\$ (322,699)	\$ (299,926)	\$ (994,848)	\$ 117,154
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation and amortization expense	703,013	232,193	35,891	971,097	--
(Increase) decrease in receivables	470	(13,098)	--	(12,628)	--
Decrease in deferred outflows	49,926	49,926	120,709		
Increase (decrease) in accounts payable and accrued liabilities	(114,343)	(114,342)	45,894	(182,791)	43,883
Increase compensated absences	1,536	1,536	3,395	6,467	--
Increase (decrease) in net pension liability	(22,827)	(22,827)	34,331	--	--
Increase in deferred inflows	7,570	7,570	38,295	--	--
	<u>625,345</u>	<u>140,958</u>	<u>278,515</u>	<u>1,044,818</u>	<u>43,883</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 253,122</u>	<u>\$ (181,741)</u>	<u>\$ (21,411)</u>	<u>\$ 49,970</u>	<u>\$ 161,037</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT

EXHIBIT VIII

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

JUNE 30, 2015

	Pension Trust Funds	OPEB Trust Fund	Agency Funds
Assets			
Cash and cash equivalents	\$ --	\$ 1,404	\$ 472,404
Investments - mutual funds	<u>39,071,182</u>	<u>--</u>	<u>--</u>
Total Assets	<u>39,071,182</u>	<u>1,404</u>	<u>472,404</u>
Liabilities			
Due to student groups and agencies	<u>--</u>	<u>--</u>	<u>\$ 472,404</u>
Net Position			
Net position restricted for pensions	<u>\$ 39,071,182</u>	<u>\$ 1,404</u>	

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT

EXHIBIT IX

STATEMENT OF CHANGES IN PLAN NET POSITION – FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2015

	Pension Trust Funds	OPEB Trust Fund
Additions		
Contributions:		
Employer	\$ 1,152,929	\$ --
Plan members	519,632	--
Total contributions	1,672,561	--
Investment income:		
Net appreciation in fair value of investments	967,732	--
Interest and dividends	863,299	--
Total investment gain	1,831,031	--
Less investment expense	(137,939)	--
Net investment gain	1,693,092	--
Total Additions	3,365,653	--
Deductions		
Benefits	2,200,608	--
Administration	83,020	--
Total Deductions	2,283,628	--
Net Increase in Net Position	1,082,025	--
Net Position Restricted for Pensions - Beginning of year	37,989,157	1,404
Net Position Restricted for Pensions - End of year	\$ 39,071,182	\$ 1,404

The accompanying notes are an integral part of these financial statements.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Watertown, 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 settled in 1780 and adopted its current Charter in 1961. The Town operates under a Town Council/Town Manager form of government as prescribed by the Connecticut General Statutes and its Charter. The Town Manager is responsible for presenting fiscal operating budgets to the Town Council for referendum. The Town provides the following services as authorized by its Charter: public safety (police and fire), public works (streets and highway), public health and social services, sewers and water, a free public library and education encompassing grades K-12.

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. The effect of interfund activity has been eliminated from these statements to avoid distorted results. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and pension trust funds 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 Improvement Fund accounts for the proceeds of general obligation bonds and grants for various construction, renovation and improvement projects.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. *MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)*

The Town reports the following major proprietary funds:

Sewer Authority accounts for the cost of operations and collection of fees for the Town's sewer activities.

Water Authority accounts for the cost of operations and collection of fees for the Town's water consumption program.

Additionally, the Town reports the following fund types:

The Internal Service Funds account for the Town's risk management program.

The Pension Trust Funds account for the activities of the Town's retirement system, which accumulates resources for pension benefit payments to qualified Town employees.

The OPEB Trust Funds account for the activities of the Town's postemployment benefits system, which accumulates resources for health benefit payments to qualified Town retirees and their spouses.

The Agency Funds account for monies held by the Town in an agent capacity for student groups and developer funds.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include property taxes.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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 enterprise funds and of the Town's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. 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 4.

Investments for the Town are reported at fair value.

E. RECEIVABLES AND PAYABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown net of an allowance for uncollectibles.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. *RECEIVABLES AND PAYABLES (CONTINUED)*

Property taxes on all property are assessed as of October 1 prior to the beginning of the fiscal year and become legally due and payable on the following July 1 and January 1. If taxes are unpaid as of June 30 following the payable date, a lien is placed on the real property. Property assessments are made at 70% of the market value. Property taxes receivable are recorded on the due date. Taxes not paid within 30 days of the due date are subject to an interest charge of 1-1/2% per month.

Property tax revenue is recorded when it becomes available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, such time thereafter shall not exceed 60 days.

F. *INVENTORIES*

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

G. *CAPITAL ASSETS*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 3 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. Infrastructure asset thresholds for additions have been established at \$25,000 for road overlays and \$100,000 for new construction.

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 of business-type activities is included as part of the capitalized value of the assets constructed.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. CAPITAL ASSETS (CONTINUED)

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Vehicles	3
Building improvements	20
Infrastructure	20-100
Machinery and equipment	5

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. The Town also reports within its government-wide statement of net position as deferred outflows amounts paid during its 2015 year end into pension plans which include Town employees. The net pension liabilities associated with the Town administered plans were measured as of June 30, 2015. The net pension liability for Town employees participating in the State of Connecticut Municipal Employees Retirement Fund (MERS) was measured as of June 30, 2014. The Town amounts paid in 2015 to the MERS plan will be reflected within the Town's pension expense and related liability when the net pension liability is measured for the next fiscal year.

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. 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, school building grants, and other receivables. These amounts are deferred and recognized as an inflow of resources

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (CONTINUED)

(revenue) in the period in which the amounts become available. Also, within the government-wide statement of net position the Town reports as deferred inflows amounts representing the net difference between differences between expected and actual results, changes in assumptions and projected and actual earnings of its pension plans. The amounts will be amortized over a five year closed period beginning in the year in which the difference occurred. See Note 13 for further detail.

I. COMPENSATED ABSENCES

Under the terms of various Town Employee Union contracts, the following reflects the compensated absences for each contract group:

- Non Organized – accumulate up to 200 days, pay out of ½ up to 100 days
- Police – accumulate up to 150 days, pay out of the full 150 days
- White Collar – accumulate up to 175 days, pay out of ½ up to 87.5 days
- Supervisors – accumulate up to 200 days, pay out of ½ up to 100 days
- Communications – accumulate up to 150 days, pay out of ½ up to 87.5 days
- Highway – accumulate up to 200 days, pay out of ½ up to 100 days

The Board of Education's policy states after twenty (20) years of teaching service in the Town of Waterford and upon death or retirement of a member of the professional staff, the payment shall be based on the teacher's existing per diem rate, and ten (10%) percent of days in excess of one hundred fifty days at that teacher's existing per diem rate, over and above their regular compensation. No teacher hired after May 1, 1997 will be entitled to such pay. The total of such pay, per diem rate and accumulated days is capped on the amount each teacher hired prior to May 1, 1997, as of July 2000.

J. LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest rate method. Bonds payable are reported net of any significant applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses in the year they are incurred.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. LONG-TERM OBLIGATIONS (CONTINUED)

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 in the year they are incurred.

K. NET POSITION AND FUND BALANCES

In the government-wide financial statements, net position is defined as and is classified in the following categories:

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

Restricted Net Position - Restrictions are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

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

In fund financial statements, fund balance is defined as, and is classified in, the following categories:

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

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.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. NET POSITION AND FUND BALANCES (CONTINUED)

Committed Fund Balance - This represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority, the Town Council. The Town Council is the highest level of decision-making authority for the government that can, by adoption of an Ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the Ordinance remains in place until a similar action is taken (the adoption of another Ordinance) to remove or reverse the limitation.

Assigned Fund Balance - This balance represents amounts constrained for the intent to be used for a specific purpose by the Town Council or Town department heads who have been delegated authority to assign amounts by the Town Charter.

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.

L. ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 2 – CHANGE IN METHOD FOR ACCOUNTING FOR PENSIONS

On July 1, 2014, the Town adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB No. 68 requires cost-sharing employers to recognize liabilities, deferred outflows of resources, deferred inflows or resources, and expenses for their proportionate share of the totals for the plans in which its employees participated (Connecticut Municipal Employees Retirement System (MERS), Town of Watertown Employees Plan, and Town of Watertown Police Benefit Fund). The Connecticut Municipal Employees' Retirement System did not have all of the information needed to fully restate the prior period financial statements, the Town has elected to apply the "cumulative effect" method, as discussed in GASB No. 68, for the MERS plan by restating beginning net position as of July 1, 2014. As of July 1, 2014, the Town recorded adjustments totaling \$5,010,222 to reduce beginning net position in accordance with GASB o. 68, as amended for all its pension plans as follows:

Governmental Activities	\$ 4,743,845
Business-Type Activities	<u>266,377</u>
	<u>\$ 5,010,222</u>

GASB No. 71 requires that, at transition, a government recognize a deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the net pension liability at the end of the government's reporting period. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB No 68. As of July 1, 2014, the Town recorded an adjustment of \$165,978, included above, to increase beginning net position for contributions made to MERS from July 1, 2013 through June 30, 2014 as follows:

Governmental Activities	\$ 137,573
Business-Type Activities	<u>28,405</u>
	<u>\$ 165,978</u>

See Note 17 for a detail of the effect on opening net position of these adjustments.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

The Town adheres to the following procedures in establishing the budgetary data included in the General Fund.

In January, department heads, offices or agencies of the Town, including the Board of Education, must file estimates of expenditures for the ensuing fiscal year to the Town Manager.

In April, the Town Manager submits a proposed budget for the General Fund to the Town Council. After various public hearings, the Town Council recommends these budgets, as revised, for adoption at the referendum in May.

Budget control is established at the department level. Under the Town Charter, no officer of the Town may involve the Town in any obligation to spend money for any purpose in excess of the amount appropriated for the department until such matter has been approved and voted by the Council. Management may make changes to line items within a department without the approval of the Town Council. Town Meeting approval is required for additional appropriations over \$25,000. Additional appropriations of \$895,018 from fund balance were approved during the fiscal year for the General Fund in accordance with Charter requirements.

Formal budgetary integration is employed as a management control device for the General Fund during the year. Formal budgetary integration is not employed in Capital Projects and Special Revenue Funds because budgetary control is alternately achieved by constraints imposed by the project authorization or grant awards related to these funds.

Except for encumbrance accounting and budgeting for year end accrued payroll, the budget is prepared on the modified accrual basis of accounting. The legal level of control, the level at which expenditures may not exceed appropriations, is at the department level.

Generally, all unencumbered appropriations lapse at year end except those for capital projects funds. Appropriations for capital projects are continued until completion of applicable projects even when projects extend more than one fiscal year.

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

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

LOSSES AND DEFICITS

Certain individual funds had losses or fund balance/net position deficits at June 30, 2015 as follows:

	Operational Loss	Deficit Fund Balance / Net Position
Business-Type Activities:		
Sewer Fund	\$ 416,115	\$ --
Water Fund	319,822	--
Crestbrook Golf Course	299,926	--
Internal Service Funds		
Workers' Compensation	280,385	2,420,404
General Liability Deductibles	13,615	--
Nonmajor Governmental Funds:		
Summer Studies Program	1,815	--
Pay for Play Sports Program	33,145	--
Preservation of historical documents	23,233	--
Small Cities	45,987	--
Oakville Green Development Trust	602	--
Town Improvement Trust	2,109	--
Park Development Trust	932	--
Police Asset Forfeitures	1,611	--
Public Works Equipment Replacement	89,880	--

Any deficits will be reduced in future years when additional revenues are recognized by the funds or the General Fund appropriates and transfers funds.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interests in custodial arrangements or pools maintaining constant net position values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net position 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 does 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 3-270) 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.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

DEPOSITS

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

As of June 30, 2015, the carrying amount of all Town deposits and cash on hand was \$20,430,780. The bank balances of these funds totaled \$21,178,718, and of that amount, \$19,664,980 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 17,698,482
Uninsured and collateral held by the pledging bank's trust department, not in the Town's name	<u>1,966,448</u>
Total amount subject to custodial credit risk	<u>\$ 19,664,930</u>

CASH EQUIVALENTS

At June 30, 2015, the Town's cash equivalents amounted to \$513,738. The following table provides a summary of the Town's cash equivalents (excluding U.S. government guaranteed obligations) as rated by a nationally recognized statistical rating organization. The pools all have maturities of less than one year.

	<u>Standard & Poor's</u>
State Short-Term Investment Fund (STIF)	AAA/m

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

CASH EQUIVALENTS (CONTINUED)

The Treasurer's Short-Term Investment Fund (STIF) is an investment pool of high-quality, short-term money market instruments. Operated in a manner similar to money market mutual funds. STIF is rated AAAM by Standards & Poor's, and has an average maturity of under 60 days. Created in 1972, STIF serves as an investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the State. STIF seeks a high level of current income as is consistent with, first, the safety of principal invested by the State, municipalities and others, and, second, the provision of liquidity to meet investors' daily cash flow requirements.

INVESTMENTS

As of June 30, 2015, the Town had the following investments, all within their pension funds:

Investment Type	Credit Rating	Fair Value
Other investments:		
Mutual funds	N/A	<u>\$ 39,071,182</u>

N/A - Not applicable

Interest Rate Risk - The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. 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 no investment policy that would further limit its investment choices. All of the Town's investments are invested in various pooled accounts and mutual funds that have not been rated by nationally recognized statistical rating organizations. The Town's Pension Trust investments are maintained with Prudential.

Concentration of Credit Risk - The Town does not have a formal investment policy that restricts investments in any one issuer that is in excess of five percent of the Town's total investments.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

At June 30, 2015, the investments below, within the Town's pension funds, exceeded five percent of total Town investments:

Guaranteed Deposit Account	\$ 5,647,437
Bond Enhanced Index Fund	3,244,980
S&P 500 Index	3,369,339
Private Placement Fund	4,613,396

Custodial Credit Risk - Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Town or that sells investments to or buys them for the Town), the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk. At June 30, 2015, the Town did not have any uninsured and unregistered securities held by the counterparty, or by its trust department or agent that were not in the Town's name.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 5 – RECEIVABLES

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

	General	Capital Improvement Fund	Sewer Authority	Water Authority	Nonmajor Funds	Total
Receivables:						
Taxes	\$ 1,198,868	\$ --	\$ --	\$ --	\$ --	\$ 1,198,868
Accrued interest on taxes	331,000	--	--	--	--	331,000
Intergovernmental	2,025,600	8,009,108	--	--	236,669	10,271,377
User charges	--	--	588,756	347,471	--	936,227
Assessments	941,522	--	--	--	--	941,522
Accounts	419,409	--	--	--	--	419,409
Housing loans	--	--	--	--	887,200	887,200
Gross receivables	<u>4,916,399</u>	<u>8,009,108</u>	<u>588,756</u>	<u>347,471</u>	<u>1,123,869</u>	<u>14,985,603</u>
Less allowance for uncollectible:						
Taxes	(125,000)	--	--	--	--	(125,000)
Accrued interest on taxes	(33,000)	--	--	--	--	(33,000)
Accounts	<u>(23,463)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(23,463)</u>
Total allowance	<u>(181,463)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(181,463)</u>
Net total receivables	<u>\$ 4,734,936</u>	<u>\$ 8,009,108</u>	<u>\$ 588,756</u>	<u>\$ 347,471</u>	<u>\$ 1,123,869</u>	<u>\$ 14,804,140</u>

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,597,876	\$ --	\$ --	\$ 2,597,876
Construction in progress	<u>71,940,935</u>	<u>27,351</u>	<u>15,875,969</u>	<u>56,092,317</u>
Total capital assets not being depreciated	<u>74,538,811</u>	<u>27,351</u>	<u>15,875,969</u>	<u>58,690,193</u>
Capital assets being depreciated				
Buildings and improvements	92,840,078	15,875,969	--	108,716,047
Vehicles	8,379,009	313,490	56,445	8,636,054
Machinery and equipment	5,912,244	446,930	--	6,359,174
Infrastructure	<u>78,191,759</u>	<u>1,372,841</u>	<u>--</u>	<u>79,564,600</u>
Total capital assets being depreciated	<u>185,323,090</u>	<u>18,009,230</u>	<u>56,445</u>	<u>203,275,875</u>
Less accumulated depreciation for				
Buildings and improvements	23,609,901	2,124,024	--	25,733,925
Vehicles	7,211,698	374,686	27,850	7,558,534
Machinery and equipment	4,718,235	351,272	--	5,069,507
Infrastructure	<u>26,948,599</u>	<u>1,388,446</u>	<u>--</u>	<u>28,337,045</u>
Total accumulated depreciation	<u>62,488,433</u>	<u>4,238,428</u>	<u>27,850</u>	<u>66,699,011</u>
Total capital assets being depreciated, net	<u>122,834,657</u>	<u>13,770,802</u>	<u>28,595</u>	<u>136,576,864</u>
Governmental Activities				
Capital Assets, net	<u>\$ 197,373,468</u>	<u>\$ 13,798,153</u>	<u>\$ 15,904,564</u>	<u>\$ 195,267,057</u>

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 1,019,600	\$ --	\$ --	\$ 1,019,600
Total capital assets not being depreciated	<u>1,019,600</u>	<u>--</u>	<u>--</u>	<u>1,019,600</u>
Capital assets being depreciated				
Buildings and improvements	2,759,827	--	--	2,759,827
Vehicles	290,390	56,824	--	347,214
Machinery and equipment	953,799	--	--	953,799
Infrastructure	<u>23,240,251</u>	<u>296,257</u>	<u>--</u>	<u>23,536,508</u>
Total capital assets being depreciated	<u>27,244,267</u>	<u>353,081</u>	<u>--</u>	<u>27,597,348</u>
Less accumulated depreciation for				
Buildings and improvements	1,752,465	60,563	--	1,813,028
Vehicles	237,917	15,540	--	253,457
Machinery and equipment	939,202	8,486	--	947,688
Infrastructure	<u>10,359,968</u>	<u>433,295</u>	<u>--</u>	<u>10,793,263</u>
Total accumulated depreciation	<u>13,289,552</u>	<u>517,884</u>	<u>--</u>	<u>13,807,436</u>
Total capital assets being depreciated, net	<u>13,954,715</u>	<u>(164,803)</u>	<u>--</u>	<u>13,789,912</u>
Business-Type Activities				
Capital Assets, net	<u>\$ 14,974,315</u>	<u>\$ (164,803)</u>	<u>\$ --</u>	<u>\$ 14,809,512</u>

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 24,492
Public safety	566,024
Public works	1,798,572
Parks and recreation	182,826
Education	<u>1,666,514</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 4,238,428</u>
Business-type activities	
Sewer	\$ 249,800
Water	232,193
Golf	<u>35,891</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 517,884</u>

CONSTRUCTION COMMITMENTS

The Town has the following active construction/renovation projects as of June 30, 2015. At year end, the Town's commitments with contractors are as follows:

	Project Authorization	Current Expenditures	Cumulative Expenditures	Encumbered	Project Balance
Watertown High School Renovation	\$ 56,157,000	\$ 27,351	\$ 56,092,317	\$ --	\$ 64,683
Polk School Renovation	12,517,000	899	9,850,199	5,751	2,661,050
Swift School Reconstruction	34,368,919	2,851	34,100,726	2,514	265,679
Roadway and Drainage Improvements	2,034,704	4,725	1,816,614	6,445	211,645
Road, Bridge & Drainage Improvements	<u>4,000,000</u>	<u>1,075,861</u>	<u>1,915,709</u>	<u>251,824</u>	<u>1,832,467</u>
	<u>\$ 109,077,623</u>	<u>\$ 1,111,687</u>	<u>\$ 103,775,565</u>	<u>\$ 266,534</u>	<u>\$ 5,035,524</u>

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

During the course of operations, transactions are processed through a fund on behalf of another fund. Additionally, revenues received in one fund are transferred to another fund. A summary of interfund balances as of June 30, 2015 is presented below:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Improvement Fund	\$ 433,255
	Special Revenue Fund (LOCIP)	153,779
	Sewer Fund	9,946
	Crestbrook Golf Operation	<u>309,029</u>
		<u><u>\$ 906,009</u></u>

A summary of interfund transfers is presented below:

	Transfers in					Total Transfers Out
	General Fund	Capital Improvement Fund	Water Authority	Crestbrook Golf	Nonmajor Governmental Funds	
Transfers:						
General Fund	\$ --	\$ 366,803	\$ 85,417	\$ 21,411	\$ 195,000	\$ 668,631
Capital Improvement Fund	2,029	--	--	--	--	2,029
Water Authority	40,000	--	--	--	--	40,000
Sewer Authority			10,000			10,000
Nonmajor Governmental Funds	<u>1,550</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>36,232</u>	<u>37,782</u>
Total Transfers In	<u><u>\$ 43,579</u></u>	<u><u>\$ 366,803</u></u>	<u><u>\$ 95,417</u></u>	<u><u>\$ 21,411</u></u>	<u><u>\$ 231,232</u></u>	<u><u>\$ 758,442</u></u>

The Town pays the debt service of the water and sewer funds. The Town's cost is partially offset by transfer of the homeowner assessment payments collected by the Water and Sewer Authority to the Town's General Fund.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015 was as follows:

	Beginning Balance (as restated)	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 57,335,000	\$ 9,265,000	\$ 11,020,000	\$ 55,580,000	\$ 4,905,000
Add unamortized premiums	<u>1,540,676</u>	<u>472,694</u>	<u>106,047</u>	<u>1,907,323</u>	<u>--</u>
Total bonds payable	<u>58,875,676</u>	<u>9,737,694</u>	<u>11,126,047</u>	<u>57,487,323</u>	<u>4,905,000</u>
Capital leases	953,043	418,681	542,255	829,469	398,006
Compensated absences	3,661,518	614,249	789,775	3,485,992	1,174,059
Retirement obligations	520,178	183,814	350,934	353,058	172,308
Landfill closure	419,210	--	125,590	293,620	18,000
Net OPEB obligation	12,285,470	3,455,906	1,199,068	14,542,308	--
Risk management claims	3,121,770	10,629,014	10,664,459	3,086,325	487,000
Net pension obligations	<u>5,010,222</u>	<u>2,886,563</u>	<u>1,346,987</u>	<u>6,549,798</u>	<u>--</u>
Governmental Activity					
Long-Term Liabilities	<u>\$ 84,847,087</u>	<u>\$ 27,925,921</u>	<u>\$ 26,145,115</u>	<u>\$ 86,627,893</u>	<u>\$ 7,154,373</u>

Typically, the General Fund liquidates the liabilities for the retirement obligations, the OPEB obligation and compensated absences.

Bonds and serial notes payable at June 30, 2015 comprise the following:

	Year of Issue	Maturity Date	Interest Rate %	Original Amount Issue	Balance June 30, 2015
Governmental					
General purpose and schools	2009	04/01/2016	2.50 - 4.50	\$ 16,200,000	\$ 810,000
General purpose and schools	2013	03/15/2028	2.00 - 3.00	2,000,000	1,730,000
General purpose	2015	03/15/2035	2.00 - 4.00	3,000,000	3,000,000
Refunding bonds (2010 - Series B)	2015	09/15/2029	2.00 - 4.00	5,550,000	5,550,000
Refunding bonds (2007 - Series C)	2018	09/15/2027	2.00 - 4.00	715,000	715,000
Refunding bonds (1996, 1999 and 2000)	2005	08/01/2019	3.00 - 5.00	15,535,000	4,590,000
Refunding bonds (2003 - 2009)	2010	06/30/2023	3.00 - 5.00	18,760,000	15,510,000
Refunding bonds (2003, 2004, 2005)	2012	08/02/2025	2.00 - 4.00	6,110,000	5,570,000
Refunding bonds (2007, 2008, 2009)	2012	05/29/2029	2.00 - 3.00	9,505,000	9,505,000
Refunding bonds (2008, 2009)	2013	01/15/2033	2.50 - 4.00	<u>8,600,000</u>	<u>8,600,000</u>
Total General Town Bonds				<u>\$ 85,975,000</u>	<u>\$ 55,580,000</u>

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize bonds payable as of June 30, 2015 are as follows:

Due During Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 4,905,000	\$ 1,952,323	\$ 6,857,323
2017	4,955,000	1,774,281	6,729,281
2018	5,030,000	1,572,806	6,602,806
2019	5,045,000	1,354,181	6,399,181
2020	4,370,000	1,162,188	5,532,188
2021 - 2025	19,095,000	3,591,129	22,686,129
2026 - 2030	10,215,000	1,016,869	11,231,869
2031 - 2035	<u>1,965,000</u>	<u>142,350</u>	<u>2,107,350</u>
	<u>\$ 55,580,000</u>	<u>\$ 12,566,127</u>	<u>\$ 68,146,127</u>

GENERAL OBLIGATION BONDS – ADVANCE REFUNDINGS

On April 15, 2015, the Town issued \$6,265,000 of general obligation refunding bonds with interest rates ranging from 2% to 4%. The proceeds of the two issues, \$6,737,694 (including bond premium of \$472,694) were used to advance refund the remaining principal amounts of \$5,625,000 of 2010 Series B bonds and \$650,000 of 2007 Series C bonds. The net proceeds of \$6,607,647 were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments of the refunded bonds. As a result, the remaining portions of the 2007 Series C and 2010 Series B bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The refunding will reduce total debt service payments over the next fifteen years by approximately \$456,000 and represents an economic gain (difference between present values of the debt service payments on the old and new debt) of approximately \$355,000. At June 30, 2015, the balance in escrow was \$5,913,425, and balance of the refunded bonds was \$5,625,000.

PRIOR YEARS DEFEASANCE OF DEBT

In prior years, the Town advance refunded certain bond issuances to reduce its total debt service payments. As a result, the refunded bonds are considered defeased and have been removed from the Town's financial statements. At June 30, 2015, the amount of defeased bonds outstanding is \$10,530,000. The amount held in escrow related to these bonds is \$10,865,409 at June 30, 2015.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT (CONTINUED)

CAPITAL LEASES

The Town has entered into multi-year capital leases for the purchase of various capital items including public works equipment, vehicles and other office equipment. The assets acquired through capital leases are as follows:

Asset class	
Vehicles	\$ 3,953,457
Machinery and equipment	<u>888,627</u>
Total gross value	4,842,084
Less accumulated depreciation	<u>3,495,724</u>
Net undepreciated value	<u>\$ 1,346,360</u>

The net undepreciated value approximates the capital lease principal balance payable at June 30, 2015.

The following is a summary of capital lease commitments as of June 30, 2015:

Year Ending June 30,	Amount
2016	\$ 422,430
2017	280,452
2018	127,788
2019	<u>41,938</u>
Total lease payments	872,608
Less amount representing interest	<u>(43,139)</u>
Present Value of Minimum Lease Payments	<u>\$ 829,469</u>

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LANDFILL CLOSURE

Solid waste landfill closure and postclosure care requirements have been established by the State of Connecticut Department of Environmental Protection Agency and the Federal Environmental Protection Agency. The costs associated with monitoring and maintaining the landfill area during the postclosure period are the responsibility of the Town. The estimated project costs of this postclosure period are \$293,620. The cost estimate is subject to change due to inflation or changes in cost estimate components. Current year costs amounted to \$18,094.

RETIREMENT OBLIGATIONS

The liability for retirement obligations to retired employees of the Board of Education as of June 30, 2015 is \$353,058. This amount consists of payments due to retired individuals for compensated absences payments and retirement incentives that have been amortized over the following years:

Fiscal Year Ending June 30,	Amount
2016	\$ 172,308
2017	119,478
2018	<u>61,272</u>
	<u>\$ 353,058</u>

BOND ANTICIPATION NOTES

The Town uses bond anticipation notes during the construction period of various public projects prior to the issuance of the bonds at the completion of the project. The Town has issued the following bond anticipation notes during the year ended June 30, 2015:

Outstanding, July 1, 2014	\$ 9,700,000
Repayments	(9,700,000)
New borrowings	<u>6,700,000</u>
Outstanding, June 30, 2015	<u>\$ 6,700,000</u>

The bond anticipation notes outstanding on June 30, 2015 mature on March 26, 2016 and bear interest of 1.25%.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT (CONTINUED)

BUSINESS-TYPE ACTIVITIES

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015 was as follows:

	Beginning Balance (as restated)	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
State of Connecticut - serial note	\$ 2,566,052	\$ --	\$ 453,213	\$ 2,112,839	\$ 451,228
Net pension liability	266,377	235,387	84,722	417,042	--
Compensated absences	<u>203,700</u>	<u>6,467</u>	<u>--</u>	<u>210,167</u>	<u>84,038</u>
Business-Type Activity					
Long-Term Liabilities	<u>\$ 3,036,129</u>	<u>\$ 241,854</u>	<u>\$ 537,935</u>	<u>\$ 2,740,048</u>	<u>\$ 535,266</u>

SERIAL NOTES AND OTHER CHARGES

The State of Connecticut Department of Environmental Protection has provided Clean Water Financing in the form of serial notes to the City of Waterbury for sewage treatment plant upgrades. Pursuant to the provisions of the Waterbury/Watertown Intermunicipal Agreement finalized in January 2001 regarding the Sewer Treatment Plant Upgrade Project CWF-201, the Town is responsible for \$9,026,538 (10.166%) of the capital cost of the project. The Watertown Fire District has been allocated 32.72% of the Town's share of the project cost. The Town receives monthly reimbursements from the Watertown Fire District to offset the cost to the Sewer Authority Enterprise Fund. The Town pays its proportionate share of the project costs through the repayment of 2% serial notes directly to the State of Connecticut. The outstanding principal balance that the Town is responsible for is \$2,112,839 as of June 30, 2015.

The costs incurred and capitalized by the City of Waterbury to improve and upgrade its sewer treatment plant are not considered capital assets of the Town. Therefore, an Other Charge of \$2,112,839 has been recorded to offset the related liability reported in the Sewer Authority Enterprise Fund. The Other Charge will be amortized annually by the amount of principal paid to the State of Connecticut on the serial notes. Amortization for 2015 totaled \$453,213.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT (CONTINUED)

SERIAL NOTES AND OTHER CHARGES (CONTINUED)

Serial notes payable at June 30, 2015 comprise the following:

	Year of Issue	Maturity Date	Interest Rate %	Original Amount Issue	Balance June 30, 2015
State of Connecticut serial note					
CWF 201-D-1	2001	07/31/2016	2.0	\$ 616,135	\$ 39,681
CWF 201-C-2	2001	06/30/2020	2.0	<u>8,085,318</u>	<u>2,073,158</u>
Total State of Connecticut serial notes				<u>8,701,453</u>	<u>2,112,839</u>
Total Business-Type Activity Bonds and Serial Notes				<u>\$ 8,701,453</u>	<u>\$ 2,112,839</u>

The annual requirements to amortize serial notes payable as of June 30, 2015 are as follows:

Due During Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 451,228	\$ 38,121	\$ 489,349
2017	417,715	29,375	447,090
2018	414,632	21,077	435,709
2019	414,632	12,784	427,416
2020	<u>414,632</u>	<u>4,492</u>	<u>419,124</u>
	<u>\$ 2,112,839</u>	<u>\$ 105,849</u>	<u>\$ 2,218,688</u>

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT (CONTINUED)

BONDS AUTHORIZED/UNISSUED

Bonds authorized/unissued are as follows:

Description	Authorized	Bonds/ Notes	Grants Received	Authorized Unissued
Watertown High School Renovations and Additions	\$ 56,157,000	\$ 24,600,000	\$ 26,262,988	\$ 5,294,012
Judson Elementary School Renovations and Additions	15,859,000	7,500,000	7,389,408	969,592
Polk School Renovation Renovations and Additions	12,517,000	5,500,000	5,030,678	1,986,322
Swift School Reconstruction	33,768,919	13,900,000	18,328,315	1,540,604
Roadway and Drainage Improvements	1,730,000	1,700,000	--	30,000
Communications System Upgrade Road, Bridge, and Drainage Improvements	1,881,000	1,460,000	300,000	121,000
Fire Truck Aerial Ladder	4,000,000	4,000,000	--	--
	1,000,000	1,000,000	--	--
	<u>\$ 126,912,919</u>	<u>\$ 59,660,000</u>	<u>\$ 57,311,389</u>	<u>\$ 9,941,530</u>

LEGAL DEBT LIMIT

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

Category	Debt Limitation	Net Indebtedness *	Balance
General purpose	\$ 114,022	\$ 12,278	\$ 126,300
Schools	228,045	48,261	276,306
Sewers	190,037	3,840	193,877
Urban renewal	164,699	--	164,699
Pension deficit	152,030	--	152,030

* The indebtedness includes Watertown Fire District underlying debt of approximately \$274 thousand.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LEGAL DEBT LIMIT (CONTINUED)

The total of the Town's net statutory indebtedness of \$64.4 million does not exceed the legal debt limitation of \$354.7 million (seven times the base for debt limitation computation).

The indebtedness reflected above includes bonds outstanding in addition to the amount of bonds authorized and unissued against which debt is issued and outstanding. School building grants receivable for bond principal of \$1.9 million are reflected in the computation of net indebtedness.

NOTE 9 – FUND EQUITY

The components of fund balance for the governmental funds at June 30, 2015 are as follows:

	General Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Total
Nonspendable				
Inventory	\$ --	\$ --	\$ 21,431	\$ 21,431
Trust	--	--	160,887	160,887
Restricted for				
Bonds	--	4,743,041	--	4,743,041
Grants	--	--	363,804	363,804
Committed to				
General government	--	--	1,409,190	1,409,190
Public safety	--	--	6,620	6,620
Public works	--	--	581,268	581,268
Parks and recreation	--	--	253,889	253,889
Health and welfare	--	--	40,348	40,348
Education	--	--	147,592	147,592
Assigned to				
Education - encumbrances	96,462	--	--	96,462
General government - encumbrances	24,541	--	--	24,541
Public safety - encumbrances	23,503	--	--	23,503
Public works - encumbrances	321,848	--	--	321,848
Parks and recreation - encumbrances	22,486	--	--	22,486
Unassigned	<u>7,370,555</u>	<u>--</u>	<u>6,846</u>	<u>7,377,401</u>
Total Fund Balances	<u>\$ 7,859,395</u>	<u>\$ 4,743,041</u>	<u>\$ 2,991,875</u>	<u>\$ 15,594,311</u>

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 9 – FUND EQUITY (CONTINUED)

Significant encumbrances at June 30, 2015 are contained in the above table in the assigned category of the General Fund.

The Town has adopted a fund balance policy to maintain a minimum (total fund balance) of 7% of the fiscal years operating revenue with a target maximum of 12%.

NOTE 10 – RISK MANAGEMENT

The Town is exposed to various risks of loss including torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. Generally, the Town obtains commercial insurance for these risks, but has chosen to retain the risks for workers' compensation (Workers' Compensation Fund) and employee health, dental and medical claims (Health Benefits Fund). These funds are reported as Internal Service Funds. Various Town funds contribute to these funds based on estimates made using historical data. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The Town has contracted with outside organizations to pay claims and provide administrative services for the Workers' Compensation Fund and the Health Benefits Fund. Additionally, stop loss insurance coverage has been purchased to limit the Town's liability for health and medical claims and workers' compensation claims. A workers' compensation claims liability of \$2,599,325 (Workers' Compensation Fund) reported at June 30, 2015 is based on a summary report of outstanding liabilities on incurred claims as well as claims incurred but not reported. The health, dental and medical claims liability of \$487,000 (Health and Dental Benefits Fund) reported at June 30, 2015 is based on estimated claims incurred but not reported. The changes in the claims liability were as follows:

	Liability July 1,	Current Year Claim and Changes in Estimates	Claim Payment	Liability June 30,
Workers' Compensation Fund				
2014-2015	\$ 2,471,770	\$ 839,854	\$ (712,299)	\$ 2,599,325
2013-2014, as restated	2,746,770	48,136	(323,136)	2,471,770
Health and Dental Benefits Fund				
2014-2015	\$ 650,000	\$ 9,789,160	\$ (9,952,160)	\$ 487,000
2013-2014	739,000	9,489,344	(9,578,344)	650,000

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 11 – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

PLAN DESCRIPTION

The Town, in accordance with collective bargaining agreements, is committed to providing medical benefits to eligible retirees and their spouses. The retiree welfare plan (RWP) covers Town and Board of Education retired employees. The plan provides for a self-insured plan administered by Blue Cross including options such as BC65 High Option, Century Preferred, Century Preferred HAS, Lumenos HAS, Hospital Plans and more. Also, the Town offers Group Term Life Insurance in varying amounts based on contract and retirement date. All retired program members receiving benefits are required to contribute up to 13% of premiums for medical (teachers & BOE administrators pay 100% of premiums). Life insurance is 100% employer paid. The percentage contribution of the employees and retirees for these benefits vary and are detailed in the Town's various bargaining agreements.

The RWP is a single-employer defined-benefit plan. The plan is considered to be part of the Town's financial reporting entity and is included in the Town's financial report as the Other Post Employment Benefits (OPEB) Trust Fund. The plan does not issue stand-alone financial statements.

At July 1, 2014, plan membership consisted of the following:

	Retiree Welfare Plan
Retired participants and spouses	261
Active plan members	408
	<u>669</u>

FUNDING POLICY

The contribution requirements of plan members and the Town are established and may be amended through Town ordinances. The Town expects to contribute \$0 beyond the pay-as-you-go in the future. The goal is to absorb, within the budgetary process, the actual cost of benefits in the determination of the costs of providing services to taxpayers. For the 2015 fiscal year, the Town premiums plus implicit costs for the retiree medical program are \$1,199,068.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 11 – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (CONTINUED)

FUNDING POLICY (CONTINUED)

The Town's funding strategy for postemployment obligations are based upon characteristics of benefits on several distinct groups of employees established within their respective collective bargaining units and/or contracts. Full-time employees of the Town or Board of Education who retire from the Town are eligible if they meet the following criteria:

- Completion of 25 years of service (police only)
- Attainment of age 55 as an active member and completion of 10 years of service

ANNUAL OPEB COST AND NET OPEB OBLIGATIONS

The Town of Watertown's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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:

	<u>Retiree Welfare Plan</u>
Annual required contribution (ARC)	\$ 2,917,842
Interest on net OPEB obligation	491,416
Adjustment to annual required contribution	(683,144)
Amortization of actuarial losses	<u>729,792</u>
Annual OPEB cost	3,455,906
Contributions made	<u>1,199,068</u>
Increase in net OPEB obligation	2,256,838
Net OPEB obligation - beginning of year	<u>12,285,470</u>
Net OPEB obligation - end of year	<u><u>\$ 14,542,308</u></u>

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 11 – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (CONTINUED)

ANNUAL OPEB COST AND NET OPEB OBLIGATIONS (CONTINUED)

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation is presented below.

Fiscal Year Ending	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2013	\$ 3,424,645	\$ 1,338,660	39.09%	\$ 10,162,101
6/30/2014	3,561,560	1,438,191	40.38%	12,285,470
6/30/2015	3,455,906	1,199,068	34.70%	14,542,308

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. The schedule of funding progress, presented below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	(Unfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2011	\$ 312,000	\$ 35,743,333	\$ (35,431,333)	0.87%	\$ 26,545,547	-133.47%
7/1/2012	600,613	38,325,972	(37,725,359)	1.57%	26,415,121	-142.82%
7/1/2013	624,638	40,413,326	(39,788,688)	1.55%	27,207,575	-146.24%
7/1/2014	1,404	40,730,369	(40,728,965)	0.00%	27,349,936	-148.92%

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 11 – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (CONTINUED)

ANNUAL OPEB COST AND NET OPEB OBLIGATIONS (CONTINUED)

Schedule of Employer Contributions			
Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
6/30/2009	\$ 2,968,986	\$ 787,965	26.54%
6/30/2010	2,899,351	837,045	28.87%
6/30/2011	2,953,318	1,155,270	39.12%
6/30/2012	2,950,503	1,227,816	41.61%
6/30/2013	3,061,982	1,338,660	43.72%
6/30/2014	3,115,459	1,438,191	46.16%
6/30/2015	2,917,842	1,199,068	41.09%

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, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0% investment rate of return, which is the rate of the expected long-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date. Healthcare trend rates range were set at 5% for fiscal year 2015. The actuarial value of assets was determined using the market value method. The general inflation assumption is 2.5% per annum. Annual compensation increases are estimated to be 3.0%. The UAAL is being amortized on a level-dollar basis with a 30-year closed amortization period at July 1, 2009. The remaining amortization period was 24 years as of July 1, 2014.

In the event that healthcare trend rates were 1% higher than forecast and employee contributions were to increase at the forecast rates, the Actuarial Accrued Liability would increase to \$53,452,769 or by 31.2% and the corresponding Normal Cost would increase to \$1,855,297 or by 57.6%. If such healthcare trend rates were 1% less than forecast and employee contributions were to increase at the forecast rate, the Actuarial Accrued Liability would decrease to \$34,390,351 or by 15.6% and the corresponding Normal Cost would decrease to \$910,326 or by 22.7%.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

TOWN ADMINISTERED PLANS

PLAN DESCRIPTION

The Town of Watertown is the administrator of two single employer, contributory, defined benefit plans:

Town of Watertown Retirement System - General Town Employees
Police Benefit Fund - Police Employees

The pension plans are included in the financial statements as Pension Trust Funds. Individual stand-alone statements are not issued. Prudential Financial is the trustee of the plans' assets.

Management of the pension plans rest with the Town Manager.

The Town of Watertown Retirement System covers all full-time employees other than police officers, supervisors, certified Board of Education teachers and Water and Sewer Authority employees hired prior to February 1986.

All employees working at least 30 hours per week and 40 weeks per year are eligible under the plan. All eligible employees are 100% vested after 10 years of continuous service. The retirement benefit is 2% of final earnings per year of credited service, subject to a maximum percentage offset of the social security benefit defined by division group. Final earnings are defined as the average earnings during the highest three full earnings computation periods prior to normal retirement. Normal retirement date is the first month coinciding with or next following the employee's 65th birthday, except for the Highway Division. The normal retirement date for the Highway Division is the first month coinciding with or next following the earlier of the employee's age of 55 and 25 years of service or age 65. For early retirement, the normal accrued benefit is actuarially reduced for the number of months the annuity commencement date precedes the normal retirement date. Disabled employees are entitled to receive normal pension benefits based on service and final pay at the time of disability.

The Police Benefit Fund is open to all police employees represented by the union for collective bargaining purposes.

All policemen who work more than 20 hours per week and 5 months per calendar year are eligible to participate in the plan. All employees are 100% vested after 10 years of continuous service. The retirement benefit is 2.5% of final earnings per year of credited service, less 35% of social security. Final earnings are defined as the average earnings received in the last three full calendar years before retirement date. A temporary retirement

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

annuity equal to 35% of the social security benefit shall be paid from normal retirement date to age 65. The normal retirement age is 55 or 25 years of service. An employee may accumulate up to 30 years of service. For early retirement, age 50 with 10 years of service, the normal benefit accrued is actuarially reduced for the number of months the annuity commencement date precedes the normal retirement date.

Pension provisions include disability and death benefits to all eligible employees. Disabled employees are entitled to 75% of their salary at disability, less workman's compensation and long-term disability payments. Pre-payment death benefits include: 1) nonservice connected death benefits which include a lump-sum payment based on employee contributions with interest. Spouse's benefits include the greater of \$120 or 35% of the ultimate yearly amount of retirement income that the participant would have received had his date of death been his normal retirement date assuming his earnings remain the same, 2) service connected benefits which include 50% of the annual basic rate of pay at death to spouse or dependent children, and 3) postretirement death benefits that include a refund of employee contributions with interest less benefits paid.

Cost of living adjustments to benefits subsequent to retirement are not provided by the Town Retirement System and Police Benefit Fund retirement plans. Benefits of the retirement plans may be amended by Town Council.

At January 1, 2015, plan memberships consisted of:

	Town Retirement System	Police
Inactive plan members or beneficiaries currently receiving benefits	93	28
Inactive plan members entitled to but not yet receiving benefits	19	--
Active plan members	<u>133</u>	<u>38</u>
	<u>245</u>	<u>66</u>

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, PLAN ASSET MATTERS AND PLAN CHANGES

BASIS OF ACCOUNTING

The Town's Pension Trust Funds' financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefit payments and refunds are payable when due and payable in accordance with the terms of the plan.

METHOD USED TO VALUE INVESTMENTS

All funds are invested through various portfolio management plans of Prudential Financial and are reported at fair value.

PLAN CHANGES

There were no plan changes to either plan.

PLAN EXPENSES

Expenses of administering the plan are paid for by the Town's annual contribution to the plan.

FUNDING POLICY

The contribution requirements of plan members are established and may be amended by the Town Council, subject to union contract negotiation. Plan members of the Town of Watertown Retirement System are required to contribute 3% of their salary up to \$7,800 plus 4 1/2% of their salary in excess of \$7,800, except for the Highway Division employees who are required to contribute 7.1% of their salary up to \$7,800 plus 8.6% of the salary in excess of \$7,800. Plan members of the Police Benefit Fund are required to contribute 6% of their earnings. The Town is required to contribute the remaining amounts necessary to finance administrative costs and benefits for its employees. The Town's contributions are actuarially determined by the Prudential Retirement on an annual basis. The current rate for the Town's contribution is 5.7% for the Town Retirement System and 26.7% for the Police Benefit Fund.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

INVESTMENTS

INVESTMENT POLICY

The Town's pension plans' policy in regard to the allocation of invested assets is established and may be amended by the Town Manager at any time. It is the policy of the Town Manager 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 plans' 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 asset allocation policies Pension plans, respectively, as of June 30, 2015:

Asset Class	Target Allocations	
	Town Retirement System	Police Pension Plan
Large Cap Equity	31.00%	26.00%
Mid-Cap Equity	4.00%	7.00%
Small Cap Equity	8.00%	7.00%
International Equity	12.00%	10.00%
Fixed Income	24.00%	27.00%
Real Estate	5.00%	5.00%
Stable Value	<u>16.00%</u>	<u>18.00%</u>
Total Portfolio	<u>100.00%</u>	<u>100.00%</u>

RATE OF RETURN

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.4% for the Town Retirement System and 4.5% for the Police Pension plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

NET PENSION LIABILITY OF THE TOWN PLANS

In accordance with GASB No. 68, the net pension liability of the Town at the measurement date of June 30, 2015 was as follows:

Town Retirement System

Total pension liability	\$ 21,837,832
Plan fiduciary net position	<u>20,144,142</u>
Net pension liability	<u>\$ 1,693,690</u>
Plan fiduciary net position as a percentage of the total pension liability	92.24%

Police Pension

Total pension liability	\$ 23,571,702
Plan fiduciary net position	<u>18,927,040</u>
Net pension liability	<u>\$ 4,644,662</u>
Plan fiduciary net position as a percentage of the total pension liability	80.30%

The above net pension liabilities, along with the Town's net pension liability (\$628,487) for all employees participating in the State of Connecticut's Municipal Employees Retirement Fund (MERF), are recorded within long-term liabilities in government-wide statement of net position.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

CHANGES IN THE NET PENSION LIABILITY OF THE TOWN PLANS

	Town of Watertown Retirement System	Police Plan
Change in Total Pension Liability		
Total pension liability - beginning of year	\$ 20,382,466	\$ 22,703,939
Service cost	505,034	343,549
Interest cost	1,489,691	1,646,496
Differences between expected and actual experience including assumption changes	531,097	7,870
Benefits paid including refunds of employee contributions	<u>(1,070,456)</u>	<u>(1,130,152)</u>
Total pension liability - end of year	<u>21,837,832</u>	<u>23,571,702</u>
Change in Plan Net Position		
Plan net position - beginning of year	19,726,466	18,262,691
Net investment income	866,764	826,329
Employer contributions	372,789	780,140
Plan participants' contributions	301,598	218,034
Benefits paid including refunds of employee contributions	(1,070,456)	(1,130,152)
Expenses paid	<u>(53,019)</u>	<u>(30,002)</u>
Plan net position - end of year	<u>20,144,142</u>	<u>18,927,040</u>
Net Pension Liability	<u>\$ 1,693,690</u>	<u>\$ 4,644,662</u>
Plan Net Position as a percentage of Total Pension Liability	92.24%	80.30%

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

ACTUARIAL ASSUMPTIONS

The net pension liabilities were determined by an actuarial valuation as of January 1, 2014 using the following actuarial assumptions:

Town Retirement System Pension

Inflation	2.50%
Salary increases	3.50%
Investment rate of return, net of investment and contract fees	7.25%

Police Pension

Inflation	2.50%
Salary increases	4.00%
Investment rate of return, net of investment and contract fees	7.25%

Mortality rates were based on the RP-2000 Mortality Table Projected to 2010 with Scale AA for males or females, as appropriate.

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of an actuarial experience study for the period of January 1, 2013 to December 31, 2014.

The long-term expected rate of return on the Town Pension plan assets has been determined by applying the most recent capital market assumptions, as developed by Prudential Retirement, to the asset allocation strategy of the Town of Watertown Retirement Income Plan using a building block approach.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

ACTUARIAL ASSUMPTIONS (CONTINUED)

Best estimates of arithmetic real rates of return for each major asset class included in the Town Retirement System's target asset allocation as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighting
Large Cap Equity	31.00%	8.25%	2.56%
Mid-Cap Equity	4.00%	8.75%	0.35%
Small Cap Equity	8.00%	9.00%	0.72%
International Equity	12.00%	8.00%	0.96%
Fixed Income	24.00%	5.00%	1.20%
Real Estate	5.00%	7.00%	0.35%
Stable Value	<u>16.00%</u>	4.50%	<u>0.72%</u>
Total Portfolio	100.00%		6.86%
Long-Term Inflation Expectation			<u>2.50%</u>
Long-Term Expected Nominal Return			<u>9.36%</u>

The long-term expected rate of return on the Police Pension plan assets has been determined by applying the most recent capital market assumptions, as developed by Prudential Retirement, to the asset allocation strategy of the Town of Watertown Retirement System using a building block approach.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

ACTUARIAL ASSUMPTIONS (CONTINUED)

Best estimates of arithmetic real rates of return for each major asset class included in the Police pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighting
Large Cap Equity	26.00%	8.25%	2.15%
Mid-Cap Equity	7.00%	8.75%	0.61%
Small Cap Equity	7.00%	9.00%	0.63%
International Equity	10.00%	8.00%	0.80%
Fixed Income	27.00%	5.00%	1.35%
Real Estate	5.00%	7.00%	0.35%
Stable Value	18.00%	4.50%	0.81%
 Total Portfolio	 100.00%		 6.70%
 Long-Term Inflation Expectation			 2.50%
 Long-Term Expected Nominal Return			 9.20%

The discount rate used to measure the total pension liability was 7.25% (previously 7.5%) for both plans. 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 the 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 Town and Police pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

ACTUARIAL ASSUMPTIONS (CONTINUED)

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 7.5% 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 (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Town Pension			
Net pension liability (asset)			
as of June 30, 2015	<u>\$ 3,920,546</u>	<u>\$ 656,000</u>	<u>\$ (484,866)</u>
Police Pension			
Net pension liability (asset)			
as of June 30, 2015	<u>\$ 7,083,264</u>	<u>\$ 4,441,248</u>	<u>\$ 2,391,492</u>

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

	Town of Watertown Retirement System	Police Benefit Fund
Actuarial Valuation Date	January 1, 2014	January 1, 2014
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Cost	Level Cost
Remaining amortization period (Frozen Actuarial Accrued Liability)	15 years, open	20 years, open
Asset Valuation Method	Smoothed Market	Smoothed Market
Actuarial Assumptions		
Investment Rate of Return	7.25% per annum	7.25% per annum
Projected Salary Increase *	6.0% per annum	6.5% per annum

* Inflation rate included 2.5%

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

PENSION TRUST FUNDS

The Town maintains two pension trust funds (Town Retirement System and Police Benefit Fund) to account for its fiduciary responsibility. The following schedules present the net position held in trust for pension benefits at June 30, 2015 and the changes in net position for the year then ended.

	Combining Schedule of Plan Net Position		
	Employee Retirement Funds		
	Town	Police	Totals
Assets			
Investments	\$ 20,144,142	\$ 18,927,040	\$ 39,071,182
Net Position			
Held in Trust for Pension Benefits	\$ 20,144,142	\$ 18,927,040	\$ 39,071,182

	Combining Schedule of Changes in Plan Net Position		
	Employee Retirement Funds		
	Town	Police	Totals
Additions			
Contributions			
Employer	\$ 372,789	\$ 780,140	\$ 1,152,929
Plan members	301,598	218,034	519,632
Total contributions	674,387	998,174	1,672,561
Investment income			
Net appreciation in fair value of investments	496,026	471,706	967,732
Interest and dividends	443,076	420,223	863,299
	939,102	891,929	1,831,031
Investment expense	(72,338)	(65,601)	(137,939)
Net investment income	866,764	826,328	1,693,092
Total additions	1,541,151	1,824,502	3,365,653

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

TOWN ADMINISTERED PLANS (CONTINUED)

PENSION TRUST FUNDS (CONTINUED)

	Combining Schedule of Changes in Plan Net Position Employee Retirement Funds		
	Town	Police	Totals
Deductions			
Benefits	\$ 1,070,456	\$ 1,130,152	\$ 2,200,608
Administration	53,019	30,001	83,020
Total deductions	1,123,475	1,160,153	2,283,628
Net increase	417,676	664,349	1,082,025
Net position restricted for			
pension benefits - beginning of year,	19,726,466	18,262,691	37,989,157
Net position restricted for			
pension benefits - end of year	\$ 20,144,142	\$ 18,927,040	\$ 39,071,182

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT FUND

All water and sewer authority employees hired prior to 1986 and a majority of department heads of the Town participate in the Municipal Employees' Retirement Fund (MERF), a cost-sharing multiple-employer public employee retirement system (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to the employees and beneficiaries of participating municipalities. At June 30, 2014, the Town had 28 participants (16 active, 12 receiving benefits, 0 non-vested). Chapter 113 Part II of the General Statutes of Connecticut, which can be amended by legislative action, establishes PERS benefits, member contribution rates, and other plan provisions. MERF is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106 or by calling 860-702-3480.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT FUND (CONTINUED)

FUNDING POLICY

Plan members are required by State Statute to contribute 2-1/4% of earnings upon which Social Security tax is paid plus 5% of earnings on which no Social Security tax is paid. Each participating municipality is required to contribute at an actuarially determined rate. The current rate is 11.9% of annual covered payroll. The contribution requirements of the Town are established and may be amended by the State Retirement Commission. The Town's contributions to MERF for the years ended June 30, 2015, 2014 and 2013 were \$153,818, \$165,978 and \$160,951, respectively, equal to the required contributions for each year.

BENEFIT PROVISIONS

The plan provides retirement, disability and death benefits. General Employees -Employees are eligible to retire at age 55 with 5 years of continuous service, or 15 years of active aggregate service, or 25 years of aggregate service; Policemen and Firemen -Compulsory retirement age for police and fire members is age 65; Normal Retirement - For members not covered by social security, the benefit is 2% of average final compensation times years of service; for members covered by social security, the benefit is 1% of the average final compensation not in excess of the year's breakpoint plus 2% of average final compensation in excess of the year's breakpoint, times years of service.

The maximum benefit is 100% of average final compensation and the minimum benefit is \$1,000 annually. Both the minimum and the maximum include workers' compensation and social security benefits. If any member covered by social security retires before age 62, the benefit until age 62 is reached or a social security disability award is received, is computed as if the member is not under social security.

Early Retirement: Employees are eligible after 5 years of continuous or 15 years of active aggregate service. The benefit is calculated on the basis of average final compensation and service to date of termination. Deferred to normal retirement age, or an actuarially reduced allowance may begin at the time of separation.

Disability Retirement: Employees are eligible for service-related disability benefits from being permanently or totally disabled from engaging in the service of the municipality provided such disability has arisen out of and in the course of employment with the municipality. Disability due to hypertension or heart disease, in the case of firemen and policemen, is presumed to have been suffered in the line of duty. Disability benefits are calculated based on compensation and service to the date of the disability with a minimum benefit (including workers' compensation benefits) of 50% of compensation at the time of disability.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT FUND (CONTINUED)

BENEFIT PROVISIONS (CONTINUED)

Employees are eligible for non-service-related disability benefits with 10 years of service and being permanently or totally disabled from engaging in gainful employment in the service of the municipality. Disability benefits are calculated based on compensation and service to the date of the disability.

Pre-Retirement Death Benefit: The plan also offers a lump sum return of contributions with interest or surviving spouse benefit depending on length of service.

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2014, the Town did not report a liability for its proportionate share of the net pension liability. Due to the implementation GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the Town must now report its proportionate share of net pension liability, effective for fiscal year 2015, which is as of the June 30, 2014 measurement date. The Town's proportionate share of net pension liability as of June 30, 2013, \$878,983, has been recorded as an adjustment to opening net position. GASB No. 68 requires the Town to recognize a net pension liability for the difference between the present value of projected benefits for past services, known as the Total Pension Liability (TPL), and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position (FNP). For purposes of measuring the net position liability, deferred outflows or resources, deferred inflows of resources, and pension expense, information about the FNP of SERS and additions to and deductions from SERS FNP have been determined on the same basis as reported by SERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit term. Investments are recorded at fair value.

At June 30, 2014, the Town reported a liability of \$628,487 for its proportionate share of the net pension liability. The net pension liability at June 30, 2015 was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating component units, actuarially determined. At June 30, 2015, the Town's proportion was 0.610965% based on payroll of \$1,355,765.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT FUND (CONTINUED)

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

For the year ended June 30, 2015, the Town recognized pension expense of \$113,501, which is included in benefits and payroll taxes on the accompanying Statement of Revenues, Expenses and Changes in Net Position. At June 30, 2015, the Town reported deferred outflows of resources of \$153,818 for its contributions subsequent to the June 30, 2014 measurement date through June 30, 2015, and deferred inflows of resources \$201,234 for the difference between projected and actual earnings on investments. The deferred outflows will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred inflows are amortizable over a four year closed period beginning in the year in which the differences occurred and will be recognized annually in expense at \$50,308 per year, June 30, 2016 through 2019.

ACTUARIAL ASSUMPTIONS

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

Valuation date	7/1/2014
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market with 20% recognition of investment gains and losses
Investment rate return*	8.00%, net of investment related expense
Projected salary increases*	4.25 - 11.00%
Social Security Wage Base	3.50%
* includes inflation at 3.25%	

Mortality

The RP2000 Mortality Table for Annuitants and Non-Annuitants (set forward one year for males and set back one year for females). For disabled retirees, the same table is used, adjusted with the male table set forward five years and the female table set forward one year

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT FUND (CONTINUED)

DISCOUNT RATE

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at 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.

LONG-TERM RATE OF RETURN

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

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT FUND (CONTINUED)

LONG-TERM RATE OF RETURN (CONTINUED)

Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large cap U.S. equities	16.0%	5.8%
Developed non-U.S. equities	14.0%	6.6%
Emerging markets (non-U.S.)	7.0%	8.3%
Core fixed income	8.0%	1.3%
Inflation linked bond fund	5.0%	1.0%
Emerging market bond	8.0%	3.7%
High yield bonds	14.0%	3.9%
Real estate	7.0%	5.1%
Private equity	10.0%	7.6%
Alternative investments	8.0%	4.1%
Liquidity fund	3.0%	0.4%
Total	100.0%	

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the net pension liability, calculated using the discount rate of 8.00% as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Town's proportionate share of the net pension liability	\$ 1,276,268	\$ 628,487	\$ 80,086

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

STATE OF CONNECTICUT TEACHERS' RETIREMENT SYSTEM

All Town of Watertown teachers participate in the State of Connecticut Teachers' Retirement System, a cost-sharing multiple-employer public employee retirement system (PERS), established under Section 10.183 of the General Statutes of the State of Connecticut. This is a multiple employer PERS. A teacher is eligible to receive a normal retirement benefit if he or she has: 1) attained age 60 and has accumulated 25 years of credited service in the public schools of Connecticut, or 2) attained any age and has accumulated 35 years of credited service, at least 25 years of which is service in the public schools of Connecticut.

The Board of Education withholds 7.25% of all teachers' annual salaries and transmits the funds to the State Teachers' Retirement Board. Teacher payroll subject to retirement amounted to approximately \$16,670,000. The teachers' contributions totaled approximately \$1,209,000 for the year ended June 30, 2015.

The State of Connecticut Teacher Retirement System is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106.

The State's share of the Plan's net pension liability as of the June 30, 2014 measurement date associated with the Town, was \$44,796,041, based upon 2014 Board of Education payroll of \$4,189,817 which represented 0.441712% of the Plan's total payroll used in computing and allocating the net pension liability.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

STATE OF CONNECTICUT TEACHERS' RETIREMENT SYSTEM (CONTINUED)

BENEFIT PROVISIONS

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

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

In addition, amounts derived from the accumulation of 1% contributions made prior to July 1, 1989 and voluntary contributions are payable.

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service. Benefit amounts are reduced by 6% per year for the first 5 years preceding normal retirement age and 4% per year for the next 5 years preceding normal retirement age. Effective July 1, 1999, the reduction for individuals with 30 or more years of service is 3% per year by which retirement precedes normal retirement date.

Minimum Benefit: Effective January 1, 1999, Public Act 98-251 provides a minimum monthly benefit of \$1,200 to teachers who retire under the normal retirement provisions and who have completed at least 25 years of full time Connecticut service at retirement.

Disability Retirement: Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary. In addition, disability benefits under this plan (without regard to cost of-living adjustments) plus any initial award of social security benefits and workers' compensation cannot exceed 75% of average annual salary.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

STATE OF CONNECTICUT TEACHERS' RETIREMENT SYSTEM (CONTINUED)

BENEFIT PROVISIONS (CONTINUED)

A plan member who leaves service and has attained 10 years of service will be entitled to 100% of the accrued benefit as of the date of termination of covered employment. Benefits are payable at age 60 and early retirement reductions are based on the number of years of service the member would have had if they had continued work until age 60.

Pre-Retirement Death Benefit: The plan also offers a lump-sum return of contribution with interest or surviving spouse benefit depending on length of service.

ACTUARIAL ASSUMPTIONS

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

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

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

Future Cost-of-Living increases for members who retire on or after September 1, 1992 are assumed to receive an annual cost-of-living adjustment of 2%. For teachers who were members of the Teachers' Retirement System before July 1, 2007, and retire on or after September 1, 1992, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 6% per annum. If the return on assets in the previous year was less than 8.5%, the maximum increase is 1.5%. For teachers who were members of the Teachers' Retirement System after July 1, 2007, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 5% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3%, and if the return on the assets in the previous year was less than 8.5%, the maximum increase is 1.0%.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

STATE OF CONNECTICUT TEACHERS' RETIREMENT SYSTEM (CONTINUED)

DISCOUNT RATE

The discount rate used to measure the total pension liability was 8.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer 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.

LONG-TERM RATE OF RETURN

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of June 30, 2014 are summarized in the following table.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large cap U.S. equities	21.0%	5.8%
Developed non-U.S. equities	18.0%	6.6%
Emerging markets (non-U.S.)	9.0%	8.3%
Core fixed income	7.0%	1.3%
Inflation linked bond fund	3.0%	1.0%
Emerging market bond	5.0%	3.7%
High yield bonds	5.0%	3.9%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Liquidity fund	6.0%	0.4%
Total	<u>100.0%</u>	

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

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

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

The State makes all contributions to the System on behalf of employees of the participating municipalities and school districts. Therefore, participating employers are considered to be in a special funding situation as defined by GASB No. 68 and the State is treated as a non-employer contributing entity in the System. Since the municipalities and school districts do not contribute directly to the System, there is no net pension liability or deferred inflows or outflows to report in the financial statements of the Town. The portion of the net pension liability that was associated with the Town was \$44,796,041 and 100% of the collective net pension liability is allocated to the State.

The Town recognized the total pension expense associated with the Town as well as revenue in an amount equal to the non-employer contributing entities' total proportionate share of the collective pension expense associated with the Town. For the fiscal year ended June 30, 2015, the Town recognized \$4,206,000 (on-behalf revenues and expenditures) as the amount expended by the State on behalf of the Town to meet the State's funding requirements.

OTHER INFORMATION

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

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 13 – SUMMARY OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS

The following table summarized the components of deferred inflows and outflows at June 30, 2015:

	Government Activities				Business-Type Activities			Total		
	Town Retirement System	Police Pension	MERS System	Total	Town Retirement System	Police Pension	MERS System	Town Retirement System	Police Pension	MERS System
Deferred Inflows										
Difference between expected and actual experience	\$ 48,439	\$ 717,468	\$ --	\$ 765,907	\$ 4,791	\$ --	\$ 4,791	\$ 53,230	\$ 717,468	\$ --
Change in assumptions	(366,495)	(983,570)	--	(1,350,065)	(36,247)	--	(36,247)	(402,742)	(983,570)	--
Difference between projected and actual earnings	<u>1,072,504</u>	<u>875,573</u>	<u>87,384</u>	<u>2,035,461</u>	<u>106,072</u>	<u>63,542</u>	<u>169,614</u>	<u>1,178,576</u>	<u>875,573</u>	<u>150,926</u>
Total	<u>\$ 754,448</u>	<u>\$ 609,471</u>	<u>\$ 87,384</u>	<u>\$ 1,451,303</u>	<u>\$ 74,616</u>	<u>\$ 63,542</u>	<u>\$ 138,158</u>	<u>\$ 829,064</u>	<u>\$ 609,471</u>	<u>\$ 150,926</u>
Deferred Outflows										
Difference between projected and actual earnings	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 127,669</u>	<u>\$ 127,669</u>	<u>\$ --</u>	<u>\$ 26,149</u>	<u>\$ 26,149</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 153,818</u>

NOTE 14 – LITIGATION

The Town is a defendant in a number of lawsuits. It is the opinion of management that such pending litigation will not be finally determined so as to result in a judgment or judgments against the Town that would materially affect its financial position.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Town received funding from Federal, State and local sources, much of which is based on expenditures incurred for specific programs. All such programs are subject to audit by those sources. Management believes that expenditures incurred are chargeable to such programs, and any disallowances by those funders would be immaterial to the Town's financial position.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 16 – RECENTLY ISSUED GASB STATEMENTS

The GASB has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements.

- GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68*, completes the suite of pension standards. Statement No. 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements Nos. 67 and 68). The requirements in Statement No. 73 for reporting pensions generally are the same as in Statement No. 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments. Statement No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement No. 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 16 – RECENTLY ISSUED GASB STATEMENTS (CONTINUED)

- GASB Statement No. 75, *Accounting for Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide:
 - Governments that are responsible for only OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability – the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.
 - Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan.
 - Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

Statement No. 75 carries forward from Statement No. 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify in the context of the current governmental financial reporting environment the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 16 – RECENTLY ISSUED GASB STATEMENTS (CONTINUED)

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

- GASB Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information that they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:
 - Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement receipts.
 - The gross dollar amount of taxes abated during the period.
 - Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated.

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 16 – RECENTLY ISSUED GASB STATEMENTS (CONTINUED)

For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

NOTE 17 – PRIOR PERIOD ADJUSTMENTS

The implementation of GASB Statements Nos. 68 and 71, along with other items as explained below require that opening net position and fund balances be restated as follows:

	Governmental Activities	Business-Type Activities	Non-major Governmental Funds
Net position as reported in 2014 financial statements	\$137,529,391	\$ 18,883,202	\$ 1,708,203
Prior periods - adjustment to reflect net pension liability for GASB 68 and GASB 71 for all plans	(4,743,845)	(266,377)	
Prior period adjustment - recognition of worker's compensation liability for incurred but not reported claims at June 30, 2014 (internal service fund)	(1,988,770)		
Prior period adjustment - adjustment to eliminate unavailable revenue - loans receivable at June 30, 2014	--	--	899,319
Net position, beginning of year, as restated	<u>130,796,776</u>	<u>18,616,825</u>	<u>2,607,522</u>

	Business-Type Activities				Internal Service Fund
	Sewer Fund	Water Fund	Golf Course	Total	
Net position as reported in 2014 financial statements	\$ 9,421,585	\$ 8,536,415	\$ 925,202	\$ 18,883,202	\$ (139,512)
Prior period adjustment - adjustment to reflect net pension liability for GASB 68 and GASB 71	(147,708)	(147,708)	29,039	(266,377)	
Prior period adjustment - recognition of worker's compensation liability for incurred but not reported claims at June 30, 2014 (internal service fund)	--	--	--	--	(1,988,770)
Net position, beginning of year, as restated	<u>\$ 9,273,877</u>	<u>\$ 8,388,707</u>	<u>\$ 954,241</u>	<u>\$ 18,616,825</u>	<u>\$ (2,128,282)</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF WATERTOWN, CONNECTICUT

RSI-1

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Property taxes				
Current year	\$ 49,388,334	\$ 49,388,334	\$ 49,743,104	\$ 354,770
Prior year	475,000	475,000	688,966	213,966
Interest and lien fees	<u>295,000</u>	<u>295,000</u>	<u>424,084</u>	<u>129,084</u>
Total property taxes	<u>50,158,334</u>	<u>50,158,334</u>	<u>50,856,154</u>	<u>697,820</u>
Intergovernmental				
State of Connecticut - Education				
School construction	551,527	551,527	548,926	(2,601)
Interest subsidy	115,567	115,567	129,054	13,487
Public transportation	144,151	144,151	183,207	39,056
Nonpublic health and social services	28,254	28,254	57,718	29,464
Equalization (ECS)	11,949,987	11,949,987	11,840,373	(109,614)
Adult education	<u>4,736</u>	<u>4,736</u>	<u>--</u>	<u>(4,736)</u>
Total State of Connecticut - Education	<u>12,794,222</u>	<u>12,794,222</u>	<u>12,759,278</u>	<u>(34,944)</u>
Federal and State of Connecticut - Other				
PILOT state property	29,387	29,387	35,613	6,226
Elderly tax relief	197,925	197,925	197,554	(371)
PILOT - Mashantucket Pequot	83,299	83,299	85,337	2,038
Tax relief - Veterans	29,538	29,538	33,057	3,519
Mini Bus	--	--	--	--
Video grant	34,926	34,926	--	(34,926)
Skilton Road bridge	--	--	27,931	27,931
Municipal aid adjustment	604,064	604,064	604,064	--
School security grant	<u>--</u>	<u>--</u>	<u>168,305</u>	<u>168,305</u>
Total Federal and State of Connecticut - Other	<u>979,139</u>	<u>979,139</u>	<u>1,151,861</u>	<u>172,722</u>
Total intergovernmental	<u>13,773,361</u>	<u>13,773,361</u>	<u>13,911,139</u>	<u>137,778</u>

TOWN OF WATERTOWN, CONNECTICUT

RSI-1

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – GENERAL FUND (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Departmental				
Local revenues				
Communication tower rental	\$ 235,300	\$ 235,300	\$ 200,659	\$ (34,641)
Equipment and scrap sales	23,500	23,500	13,720	(9,780)
Town Clerk fees	35,000	35,000	39,095	4,095
Town Clerk recording	170,000	170,000	164,586	(5,414)
Town Clerk dog licenses	13,112	13,112	12,291	(821)
Town Clerk marriage licenses	1,100	1,100	1,444	344
Transfer station fees	70,910	70,910	81,247	10,337
Landfill fees	61,200	61,200	48,822	(12,378)
Damage claims	1,800	1,800	3,626	1,826
Recreation mini-bus	1,000	1,000	862	(138)
Fishing and hunting licenses	15,000	15,000	12,818	(2,182)
Conveyance tax	155,000	155,000	155,259	259
Assessor - photocopying	750	750	674	(76)
Town vehicle use	12,500	12,500	11,799	(701)
Housing Authority	20,967	20,967	--	(20,967)
3-LOCIP preservation	11,500	11,500	8,058	(3,442)
Miscellaneous	78,700	78,700	315,417	236,717
Total local revenues	907,339	907,339	1,070,377	163,038
Permits and fees				
Zoning Board of Appeals	2,500	2,500	3,820	1,320
Planning and Zoning	15,500	15,500	19,441	3,941
Zoning compliance fees	25,500	25,500	30,210	4,710
Subdivision inspection fees	2,000	2,000	--	(2,000)
Soil/water State fee	19,000	19,000	22,920	3,920
Inland - wetlands	5,500	5,500	6,490	990
Building permits	358,000	358,000	276,423	(81,577)
Building inspection	4,500	4,500	3,051	(1,449)
Blasting permits	240	240	240	--
Street opening permits	2,000	2,000	4,384	2,384
Pool fees	8,300	8,300	9,553	1,253
Miscellaneous	1,000	1,000	735	(265)
Total permits and fees	444,040	444,040	377,267	(66,773)

TOWN OF WATERTOWN, CONNECTICUT

RSI-1

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – GENERAL FUND (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Police				
Parking tickets	\$ 3,500	\$ 3,500	\$ 5,818	\$ 2,318
Pistol permits	47,229	47,229	21,930	(25,299)
Police reports	1,650	1,650	2,021	371
Solicitor permits	1,200	1,200	593	(607)
Bingo and raffle	100	100	35	(65)
Alarm charges	10,000	10,000	7,348	(2,652)
Police service	689,500	689,500	706,997	17,497
Animal control fees	4,700	4,700	4,882	182
Miscellaneous	55,500	55,500	52,880	(2,620)
Total police	813,379	813,379	802,504	(10,875)
Board of Education				
Latchkey program	5,400	5,400	7,268	1,868
Tuition	--	--	--	--
Miscellaneous	3,400	3,400	3,334	(66)
Total Board of Education	8,800	8,800	10,602	1,802
Total departmental	2,173,558	2,173,558	2,260,750	87,192
Investment income	20,853	20,853	24,543	3,690
Other				
Taft contributions	140,000	140,000	160,000	20,000
Telephone access	52,000	52,000	49,918	(2,082)
Scholarship fund	1,600	1,600	1,102	(498)
Heritage bond reimbursement	79,130	79,130	79,130	--
Fusion Centers	60,000	60,000	60,000	--
Other miscellaneous revenue	84,194	84,194	108,763	24,569
Cancellation of prior years' encumbrances	--	--	29,810	29,810
Total other	416,924	416,924	488,723	71,799
Total Revenues	66,543,030	66,543,030	67,541,309	998,279

TOWN OF WATERTOWN, CONNECTICUT

RSI-1

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – GENERAL FUND
(CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Other Financing Sources				
Transfers in				
Water and Sewer Authority	\$ --	\$ --	\$ 42,166	\$ 42,166
Crestbrook Golf Operations	46,615	46,615	--	(46,615)
Board of Education				
community services	<u>500</u>	<u>500</u>	<u>1,413</u>	<u>913</u>
Total other financing sources	<u>47,115</u>	<u>47,115</u>	<u>43,579</u>	<u>(3,536)</u>
Total	<u>\$ 66,590,145</u>	<u>\$ 66,590,145</u>	67,584,888	<u>\$ 994,743</u>

Budgetary revenues are different than GAAP revenues because:

State of Connecticut on-behalf contributions to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted. 4,206,000

Underliquidation of prior year encumbrances is recorded as miscellaneous revenue for budgetary reported. This amount is excluded for GAAP financing reporting purposes. (29,810)

Capital lease issuances are not budgeted. 418,681

Issuance of refunding bonds 6,265,000

Bond premium on refunding bonds 472,694

The Board of Education does not budget for intergovernmental grants that are credited against education expenditures for budgetary reporting. These amounts are recorded as revenues and expenditures for GAAP financial reporting purposes. 1,005,553

Total Revenues and Other Financing Sources as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV \$ 79,923,006

TOWN OF WATERTOWN, CONNECTICUT

RSI-2

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
General government				
Town Council	\$ 1,600	\$ 2,001	\$ 2,001	\$ --
Town Manager	248,813	329,081	328,390	(691)
Finance Department				
Administration	485,849	535,410	531,012	(4,398)
Treasurer	55,538	55,538	55,536	(2)
Tax Collector	184,769	192,769	191,479	(1,290)
Assessor	176,011	175,514	169,994	(5,520)
Board of Tax Review	1,500	1,500	1,500	--
Town Clerk	199,095	199,593	199,388	(205)
Elections	93,599	80,994	77,423	(3,571)
Planning and Zoning	223,304	225,218	220,798	(4,420)
Board of Appeals	13,976	13,402	12,400	(1,002)
Conservation Commission	14,476	13,137	12,798	(339)
Public building	554,560	579,346	578,758	(588)
Building inspections	176,495	176,495	173,853	(2,642)
Economic development	46,630	36,830	31,707	(5,123)
Total general government	<u>2,476,215</u>	<u>2,616,828</u>	<u>2,587,037</u>	<u>(29,791)</u>
Public safety				
Fire Department				
Administration	240,724	223,691	222,166	(1,525)
Suppression and rescue	417,675	376,580	366,296	(10,284)
Maintenance and support	207,890	209,590	202,949	(6,641)
Police Department				
Administration	432,681	435,650	427,386	(8,264)
Patrol and detectives	3,068,724	3,334,436	3,328,951	(5,485)
Maintenance and support	121,435	122,537	122,117	(420)
Traffic	3,500	4,525	4,411	(114)
Animal control	100,766	74,647	73,806	(841)
Communications	604,234	575,979	575,308	(671)
Total public safety	<u>5,197,629</u>	<u>5,357,635</u>	<u>5,323,390</u>	<u>(34,245)</u>

TOWN OF WATERTOWN, CONNECTICUT

RSI-2

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – GENERAL FUND (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Public works				
Engineering and administration	\$ 559,694	\$ 559,134	\$ 546,228	\$ (12,906)
Highway	2,232,142	2,215,678	2,184,984	(30,694)
Snow removal	419,050	610,744	558,804	(51,940)
Solid waste disposal	272,551	225,082	206,185	(18,897)
Street lighting	173,000	173,000	169,945	(3,055)
Tree removal	31,500	31,500	30,001	(1,499)
Total public works	<u>3,687,937</u>	<u>3,815,138</u>	<u>3,696,147</u>	<u>(118,991)</u>
Parks and recreation				
Parks administration	387,911	379,133	369,305	(9,828)
Recreation administration	321,516	324,546	321,423	(3,123)
Senior Center	106,365	112,396	108,395	(4,001)
Total parks and recreation	<u>815,792</u>	<u>816,075</u>	<u>799,123</u>	<u>(16,952)</u>
Health and welfare				
Social services	20,000	17,389	17,387	(2)
Health services	125,717	125,718	125,717	(1)
Total health and welfare	<u>145,717</u>	<u>143,107</u>	<u>143,104</u>	<u>(3)</u>
Board of Education	<u>39,224,427</u>	<u>39,224,427</u>	<u>39,220,975</u>	<u>(3,452)</u>
Miscellaneous				
Legal	154,639	138,760	137,912	(848)
Employee benefits	5,216,376	5,123,971	5,123,531	(440)
Centralized services	814,788	823,325	817,725	(5,600)
Non-town agencies	1,696,833	1,840,589	1,839,213	(1,376)
Reserved for contingency	35,000	8,390	8,294	(96)
Reserved for wages and benefits	180,464	251,377	251,376	(1)
Historic district	575	573	316	(257)
Total miscellaneous	<u>8,098,675</u>	<u>8,186,985</u>	<u>8,178,367</u>	<u>(8,618)</u>
Debt service	<u>6,656,336</u>	<u>6,656,336</u>	<u>6,446,223</u>	<u>(210,113)</u>
Total expenditures	<u>66,302,728</u>	<u>66,816,531</u>	<u>66,394,366</u>	<u>(422,165)</u>

TOWN OF WATERTOWN, CONNECTICUT

RSI-2

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – GENERAL FUND (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Other financing uses				
Transfers out				
Vehicle Replacement Fund	\$ 132,000	\$ 513,215	\$ 513,214	\$ (1)
Public Works Equipment Replacement Fund	70,000	70,000	70,000	--
Water Authority	85,417	85,417	85,417	--
Total other financing uses	287,417	668,632	668,631	(1)
Total	\$ 66,590,145	\$ 67,485,163	67,062,997	\$ (422,166)

Budgetary expenditures are different than GAAP expenditures because:

State of Connecticut on-behalf contributions to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted.	4,206,000
Payments on capital leases are not budgeted.	418,681
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 GAAP financial reporting purposes.	(488,840)
The Town and Board of Education do not budget for accrued payroll services earned at year end. These amounts are recorded as a current year expenditure for GAAP financial statements purposes. This amount is the difference between beginning and ending accruals.	34,807
Encumbrances for purchases and commitments ordered in the previous year that were received and liquidated in the current year are reported for GAAP financial statement reporting purposes.	563,130
Payment to refunded bond escrow agent	6,607,647
Bond issuance and other debt costs included in debt service expenses	170,047
The Board of Education does not budget for intergovernmental grants that are credited against education expenditures for budgetary reporting. These amounts are recorded as revenues and expenditures for GAAP financial reporting purposes.	1,005,553
Total Revenues and Other Financing Uses as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV	\$ 79,580,022

TOWN OF WATERTOWN, CONNECTICUT

RSI-3

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOWN'S RETIREMENT SYSTEM
NET PENSION LIABILITY AND RELATED RATIOS**

LAST TWO FISCAL YEARS – TOWN RETIREMENT SYSTEM PENSION

	2015	2014
Total pension liability		
Service cost	\$ 505,034	\$ 493,898
Interest	1,489,691	1,421,610
Differences between expected and actual experience	531,097	(225,659)
Benefit payments, including refunds of member contributions	(1,070,456)	(958,346)
Net change in total pension liability	1,455,366	731,503
Total pension liability - beginning	20,382,466	19,650,963
Total pension liability - ending	21,837,832	20,382,466
Plan fiduciary net position		
Contributions - employer	372,789	364,691
Contributions - member	301,598	319,890
Net investment income	866,764	2,802,274
Benefit payments, including refunds of member contributions	(1,070,456)	(958,346)
Administrative expense	(53,019)	(52,566)
Net change in plan fiduciary net position	417,676	2,475,943
Plan fiduciary net position - beginning	19,726,466	17,250,523
Plan fiduciary net position - ending	20,144,142	19,726,466
Net Pension Liability - Ending	\$ 1,693,690	\$ 656,000
Plan fiduciary net position as a percentage of the total pension liability	92.24%	96.78%
Covered-employee payroll	\$ 6,505,288	\$ 6,409,573
Net pension liability as a percentage of covered-employee payroll	26.04%	10.23%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10 year trend is compiled, information is presented for those years available.

TOWN OF WATERTOWN, CONNECTICUT

RSI-4

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF TOWN CONTRIBUTIONS – TOWN RETIREMENT SYSTEM PENSION

LAST TEN FISCAL YEARS

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 364,691	\$ 364,691	\$ 367,373	\$ 360,695	\$ 316,948	\$ 299,018	\$ 198,970	\$ 161,247	\$ 215,530	\$ 257,541
Contributions in relation to the Actuarially determined contribution	<u>364,691</u>	<u>364,691</u>	<u>367,373</u>	<u>360,695</u>	<u>316,948</u>	<u>299,018</u>	<u>198,970</u>	<u>161,247</u>	<u>215,530</u>	<u>257,541</u>
Contribution Deficiency (Excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Covered-employee payroll	\$ 6,409,573	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	5.69%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule

Valuation date January 1, 2014
 Measurement date June 30, 2015

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 normal
 Amortization method Level cost, open
 Remaining amortization period 15 years, open
 Asset valuation method 5-year smoothed market
 Inflation 2.5%
 Salary increases 3.5%
 Investment rate of return 7.25%

Retirement age - Highway division Earlier of either (1) Age 55 with 25 years of service or (2) Age 65
 Retirement age - All other divisions Age 65 Participants at or beyond this age are assumed to retire immediately

Mortality - Male The RP2000 Mortality Table Projected to 2010 with Scale AA (male)
 Mortality - Female The RP2000 Mortality Table Projected to 2010 with Scale AA (female)

TOWN OF WATERTOWN, CONNECTICUT

RSI-5

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS – TOWN RETIREMENT SYSTEM
PENSION**

LAST TWO FISCAL YEARS

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	4.40%	16.40%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10 year trend is compiled, information is presented for those years available.

TOWN OF WATERTOWN, CONNECTICUT

RSI-6

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

LAST TWO FISCAL YEARS – POLICE PENSION

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 343,549	\$ 329,808
Interest	1,646,496	1,600,613
Differences between expected and actual experience	7,870	317,189
Benefit payments, including refunds of member contributions	<u>(1,130,152)</u>	<u>(1,115,817)</u>
Net change in total pension liability	867,763	1,131,793
Total pension liability - beginning	<u>22,703,939</u>	<u>21,572,146</u>
Total pension liability - ending	<u>23,571,702</u>	<u>22,703,939</u>
Plan fiduciary net position		
Contributions - employer	780,140	770,262
Contributions - member	218,034	186,890
Net investment income	826,329	2,422,469
Benefit payments, including refunds of member contributions	(1,130,152)	(1,115,817)
Administrative expense	<u>(30,002)</u>	<u>(25,288)</u>
Net change in plan fiduciary net position	664,349	2,238,516
Plan fiduciary net position - beginning	<u>18,262,691</u>	<u>16,024,175</u>
Plan fiduciary net position - ending	<u>18,927,040</u>	<u>18,262,691</u>
Net pension liability - ending	<u>\$ 4,644,662</u>	<u>\$ 4,441,248</u>
Plan fiduciary net position as a percentage of the total pension liability	80.30%	80.44%
Covered-employee payroll	\$ 2,909,407	\$ 3,059,132
Net pension liability as a percentage of covered-employee payroll	159.64%	145.18%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10 year trend is compiled, information is presented for those years available.

TOWN OF WATERTOWN, CONNECTICUT

RSI-7

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOWN CONTRIBUTIONS**

LAST TEN FISCAL YEARS – POLICE PENSION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 770,262	\$ 770,262	\$ 736,930	\$ 689,641	\$ 665,677	\$ 625,539	\$ 457,440	\$ 425,017	\$ 419,198	\$ 401,147
Contributions in relation to the Actuarially determined contribution	<u>770,262</u>	<u>770,262</u>	<u>736,930</u>	<u>689,641</u>	<u>665,677</u>	<u>625,539</u>	<u>457,440</u>	<u>425,017</u>	<u>419,198</u>	<u>401,147</u>
Contribution Deficiency (Excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Covered-employee payroll	\$ 2,909,407	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	26.47%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule

Valuation date January 1, 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 normal
Amortization method	Level cost, open
Remaining amortization period	20 years, open
Asset valuation method	5-year smoothed market
Inflation	2.5%
Salary increases	4.0%
Investment rate of return	7.25%

Retirement age Age 55 or the completion of 25 years of service, if later. Participants at or beyond this age are assumed to retire immediately.

Mortality - Male The RP2000 Mortality Table Projected to 2010 with Scale AA (male)
Mortality - Female The RP2000 Mortality Table Projected to 2010 with Scale AA (female)

TOWN OF WATERTOWN, CONNECTICUT

RSI-8

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS – POLICE PENSION**

LAST TWO FISCAL YEARS

	2015	2014
Annual money-weighted rate of return, net of investment expense	4.50%	15.20%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10 year trend is compiled, information is presented for those years available.

TOWN OF WATERTOWN, CONNECTICUT

RSI-9

REQUIRED SUPPLEMENTARY INFORMATION STATE TEACHERS' RETIREMENT SYSTEM SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED JUNE 30, 2015

Town's proportion of the net pension liability	0.00%
Town's proportionate share of the net pension liability	\$ --
State's proportionate share of the net pension liability associated with the Town	<u>44,796,041</u>
Total	<u>\$ 44,796,041</u>
Town's covered-employee payroll	<u>\$ 16,670,000</u>
Town's proportionate share of the net pension liability as a percentage of its covered payroll	<u>0.00%</u>
Plan's fiduciary net position as a percentage of the total pension liability	<u>61.51%</u>

NOTES TO SCHEDULE

CHANGES IN ASSUMPTIONS

In 2011, rates of withdrawal, retirement and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five year period ended June 30, 2010.

METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contributions in the schedule of employer contributions are calculated as of June 30 each biennium for the fiscal years ending two and three years after the valuation date. The following actuarial methods and assumptions were used to determine the most recent contributions reported in that schedule:

Note to Schedule	
Actuarial cost method	Entry age
Amortization method	Level percent of pay, closed
Single equivalent amortization period	22.4 years
Asset valuation method	4-year smoothed market

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10 year trend is compiled, information is presented for those years available.

TOWN OF WATERTOWN, CONNECTICUT

RSI-10

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS – STATE MUNICIPAL EMPLOYEES’
RETIREMENT SYSTEM**

LAST TWO FISCAL YEARS

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 153,818	\$ 165,978
Contributions in relation to the actuarially determined contribution	<u>153,818</u>	<u>165,978</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>
Covered-employee payroll	<u>\$ 1,283,958</u>	<u>\$ 1,385,459</u>
Contributions as a percentage of covered-employee payroll	<u>11.98%</u>	<u>11.98%</u>

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10 year trend is compiled, information is presented for those years available.

TOWN OF WATERTOWN, CONNECTICUT

RSI-11

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY – STATE MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM**

FOR THE YEAR ENDED JUNE 30, 2015

Town's proportion of the net pension liability	<u>0.611%</u>
Town's proportionate share of the net pension liability	\$ 628,487
Town's covered-employee payroll	<u>\$ 1,355,765</u>
Town's proportionate share of the net pension liability as a percentage of its covered payroll	<u>46.36%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>90.48%</u>

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10 year trend is compiled, information is presented for those years available.