

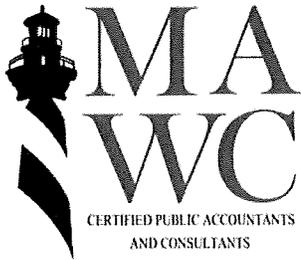
**CITY OF DERBY, CONNECTICUT**  
**AUDITED FINANCIAL STATEMENTS**  
**AND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2017**



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**CITY OF DERBY, CONNECTICUT  
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Ansonia  
158 Main Street, Suite 301  
Ansonia, Connecticut 06401  
P: 203-732-2311

Killingworth  
166 Route 81  
Killingworth, Connecticut 06419  
P: 860-663-0110

New Haven  
900 Chapel Street, Suite 620  
New Haven, Connecticut 06510  
P: 203-773-0384

Stratford  
2296 Main Street  
Stratford, Connecticut 06615  
P: 203-377-8473

#### Principals

John A. Accavallo CPA  
Darin L. Offerdahl MBA CPA  
Francis H. Michaud Jr. CPA\*  
Sandra M. Woodbridge CPA\*  
Dominic L. Cusano MBA CPA

\*indicates retired

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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor,  
Members of the Board of Aldermen and  
Members of the Board of Apportionment and Taxation  
City of Derby, Connecticut

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### 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 City of Derby, Connecticut, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City'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.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers 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 City of Derby, Connecticut, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the

general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages and schedules of employer contributions, changes in the net pension liability and related ratios, City's Municipal Employers' Retirement System Contributions and City's Proportionate Share of Net Pension Liability-Teachers Retirement System on pages 6-11 and 64-67 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Derby, Connecticut's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated on our consideration of the City of Derby, 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 City of Derby, Connecticut's internal control over financial reporting and compliance.

*Michaud Accavallo Woodbridge & Cusano, LLC*

Ansonia, Connecticut

March 26, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Derby, Connecticut (City), we offer readers of the City's financial statements this narrative overview and analysis of the financing activities of the City for the fiscal year ended June 30, 2017. All amounts, unless otherwise indicated, are expressed in thousands of dollars (\$000).

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$35,009 (*net position*).
- The government's total net position decreased by \$3,372.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund deficit of \$3,082, a decrease in the deficiency of \$1,477 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,210 or 2.35 % of total general fund expenditures.
- The City's governmental funds total debt increased by \$2,391 (5.52%) during the current fiscal year.
- The City's business-type activities total debt decreased by \$225 (31.47%) during the current fiscal year.

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### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

*Government-wide Financial Statements* — The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, education, public safety, public works, and human services. The business-type activity of the City includes the Water Pollution Control Authority and the Parking Authority.

The government-wide financial statements can be found on pages 14-15 of this report.

*Fund Financial Statements* — A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal

requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds — *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains fifteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the Library Endowment, the Middle School Building Project, School Roof 2014 and the Sewer 2015 funds, all of which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary Funds — The City maintains two proprietary funds. These *enterprise funds* are used to report the business-type activities in the government-wide financial statements. The City uses the enterprise funds to account for its Water Pollution Control Authority and its Parking Authority.

The proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Water Pollution Control Authority, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Fiduciary Funds — Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 23-24 of this report.

Notes to the Financial Statements — The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-62 of this report.

*Required Supplementary Information* — In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information can be found on page 64-67 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining fund statements and schedules can be found on pages 68-71 of this report followed by other schedules.

### Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of City, assets exceeded liabilities by \$35,009 (Net position) at the close of the fiscal year ended June 30, 2017.

By far the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### City's Net position (\$000)

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	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 9,189	\$ 9,422	\$ 3,299	\$ 2,977	\$ 12,488	\$ 12,399
Capital assets	73,123	72,588	5,514	5,696	78,637	78,284
Total assets	82,312	82,010	8,813	8,673	91,125	90,683
Deferred outflows of resources	1,944	994	-	-	1,944	994
Long-term liabilities outstanding	\$ 45,739	29,263	457	712	46,196	29,975
Other liabilities	11,378	16,020	488	449	11,866	16,469
Total liabilities	57,117	45,283	945	1,161	58,062	46,444
Net assets:						
Invested in capital assets, net of related debt	49,713	51,285	5,057	4,984	54,770	56,269
Restricted	9	11	-	-	9	11
Unrestricted	(22,582)	(13,575)	2,812	2,529	(19,770)	(11,046)
Total net position	\$ 27,140	\$ 37,721	7,869	\$ 7,513	\$ 35,009	\$ 45,234

At the close of the fiscal year ended June 30, 2017, the City is able to report positive balances in all categories of net position as a whole for its separate governmental and business-type activities. All categories in the prior year were able to report positive net asset numbers.

The government total net position decreased by \$3,372 in the current fiscal year. The majority of this decrease was due to expenses outstripping revenues with the majority of the decrease in revenues due to the City receiving less in capital grants and property tax revenues.

Governmental Activities — Governmental activities decreased the City's net position by \$3,728, thereby accounting for the decrease in the net position of City. Key elements of this increase are as follows:

**CITY'S CHANGES IN NET POSITION (\$000)**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 1,523	\$ 1,528	\$ 2,661	\$ 2,898	\$ 4,184	\$ 4,426
Operating grants and contributions	18,204	14,228	-	-	18,204	14,228
Capital Grants and contributions	535	993	-	-	535	993
General revenues:						
Property Taxes	28,633	26,952	-	-	28,633	26,952
Grants and contributions not restricted to specific programs	3,829	3,159	-	-	3,829	3,159
Unrestricted investment earnings	147	(77)	-	-	147	(77)
<b>TOTAL REVENUES</b>	<b>52,871</b>	<b>46,783</b>	<b>2,661</b>	<b>2,898</b>	<b>55,532</b>	<b>49,681</b>
<b>EXPENSES</b>						
General government	15,594	14,909	-	-	15,594	14,909
Public works	4,052	4,106	2,305	2,339	6,357	6,445
Public safety	5,648	5,658	-	-	5,648	5,658
Culture and recreation	1,466	1,407	-	-	1,466	1,407
Health and welfare	1,135	1,116	-	-	1,135	1,116
Education	27,288	24,896	-	-	27,288	24,896
Capital outlay	651	1,091	-	-	651	1,091
Debt service	765	454	-	-	765	454
<b>TOTAL EXPENSES</b>	<b>56,599</b>	<b>53,637</b>	<b>2,305</b>	<b>2,339</b>	<b>58,904</b>	<b>55,976</b>
<b>INCREASE(DECREASE) IN NET ASSETS</b>	<b>(3,728)</b>	<b>(6,854)</b>	<b>356</b>	<b>559</b>	<b>(3,372)</b>	<b>(6,295)</b>
Net position at beginning of year	30,868	37,722	7,513	6,954	38,381	44,676
<b>NET POSITION, ending</b>	<b>\$ 27,140</b>	<b>\$ 30,868</b>	<b>\$ 7,869</b>	<b>\$ 7,513</b>	<b>\$ 35,009</b>	<b>\$ 38,381</b>

Business-type Activities — Business-type activities increased the City's net position by \$356. The key element of this decrease is as follows.

- The Water Pollution Control Authority revenues were significantly higher than expenses by \$356, due to steady revenues and reduced expenses compared to the previous year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FUNDS FINANCIAL ANALYSIS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** — The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance-deficit of \$3,082, a decrease in the deficiency of \$1,477 in comparison with the prior year. This deficit is primarily caused by the Sewer 2015(\$1,572) Roads 2015(\$230) Projects which will be eliminated with a future bond issue.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the unassigned fund was \$1,210. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total general fund expenditures of \$51,584. Unreserved and total fund balance represents 2.35% of total general fund expenditures.

The general fund balance increased by \$172, during the current fiscal year. Key factors in this incline are as follows:

- An increase in Property taxes of \$1,553
- An increase in Intergovernmental revenues of \$3,664
- An increase in General Government expenditures of \$447.
- An increase in Public Works of \$299.
- An increase in Board of Education expenditures of \$1,947.
- An increase in Board of Education grant expenditures of \$911 which are offset against grant revenues.
- An increase in Debt Service of \$868.
- An decrease in Capital Outlay of \$518.
- An decrease in Public Works of \$123.

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**Proprietary Funds** — The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net position of the Water Pollution Control Authority at the end of the year amounted to \$7,101 of which \$4,437 represents an investment in capital assets net of related debt. Net position of the Parking Authority at the end of the year amounted to \$767 of which \$619 represents an investment in capital assets net of related debt. The total increase in net position for the Business-Type Activities- Enterprise Fund was \$356. Other factors concerning the finances of the fund have already been addressed in the discussion of the City's business-type activities.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget (\$4,957 increase in appropriations) can be briefly summarized as follows:

- \$541 in increases in General Government which was primarily due to City purchasing various properties.
- \$362 in increases in Public Safety primarily due to overtime-extra duty wages.
- \$463 in increases in Public Works primarily downtown revitalization project.
- \$3,478 in increases in Board of Education-Grants due to increased grant funding.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets* — The City's investment in capital assets for its governmental and business type activities as of June 30, 2017, amounts to \$78,637 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, machinery and equipment, and infrastructure. The total decrease in the City's governmental activities investment in capital assets for the current fiscal year was \$535 increase(1%) for governmental activities and \$285 decrease (5%) for business-type activities.

**City's Capital Assets (\$000)  
(Net of depreciation)**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 6,552	\$ 595	\$ 7,147
Buildings and system	41,697	3,744	45,441
Machinery and equipment	2,324	1,175	3,499
Infrastructure	22,550	-	22,550
	<u>\$ 73,123</u>	<u>\$ 5,514</u>	<u>\$ 78,637</u>

Additional information on the City's capital assets can be found in Note 7 of this report.

**LONG TERM DEBT**

*Long-Term Debt* — At the end of the current fiscal year, the City and WPCA had total bonded debt and notes payable outstanding of \$13,506 and \$488 (including a capital lease of \$126), respectively. This amount is backed by the full faith and credit of the government.

*Net Pension Liability* — At the end of the current fiscal year, the City had total net pension liability of \$8,908. This obligation increased \$503 during the fiscal year.

*Other Post-Employment Benefits* — At the end of the current fiscal year, the City had total other post-employment benefit obligation of \$17,538. This obligation increased \$2,188 during the fiscal year.

**City's Outstanding Debt (\$000)  
General Obligation Bonds**

	<u>Principal</u>	<u>Interest</u>
Governmental Activities		
Due in one year	\$ 1,325	\$ 437
Due in 2 to 6 years	5,120	1,599
Due in 7 to 11 years	3,640	792
Due in 12 to 16 years	2,145	400
Due in 17 to 20 years	1,275	67
	<u>\$ 13,505</u>	<u>\$ 3,295</u>
Business-type Activities		
Due in one year	\$ 167	\$ 7
Due in the next 2 to 6 years	195	4
	<u>\$ 362</u>	<u>\$ 11</u>

The City's governmental activities total debt increased by \$2,391 (5.52%) and business type activities decreased by \$225 (31.47%) during the current fiscal year.

The City maintains an "AA-" rating from Standard & Poor's for general obligation debt.

The current debt limitation for the City is \$198,386, which is significantly in excess of the City's outstanding general obligation debt. Additional information on the City's long-term debt can be found in Note 9 of this report.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

- The unemployment rate for the County for the fiscal year decreased to 6.2% vs. 6.8% in the prior year, consistent with the Connecticut unemployment rate.
- The Connecticut state government has been reporting an anticipated deficit for 2017-2018, which will translate into decreased State aid to the City.
- Inflationary trends in the region are comparable to the national indices.

All of these factors were considered in preparing the City's budget for the 2017-2018 fiscal year.

During the current fiscal year, undesignated and unreserved fund balance in the general fund increased to \$1,210. The City has not appropriated any amounts of fund balance for spending in the 2017-2018 fiscal year budget.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 1 Elizabeth Street, Derby, Connecticut, 06418.

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**BASIC FINANCIAL STATEMENTS**

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**CITY OF DERBY, CONNECTICUT  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,646,861	\$ 2,729,516	\$ 9,376,377
Investments	1,144,425	-	1,144,425
Receivables:			
Property taxes, net of allowance for collection losses of \$220,000	928,228	-	928,228
Special assessments, net of allowance for collection losses of \$72,917	-	590,226	590,226
Intergovernmental	152,412	-	152,412
Other	92,581	55,327	147,908
Notes receivable	44,953	-	44,953
Inventories	9,098	-	9,098
Due from other funds	170,135	(75,285)	94,850
Capital assets (net of accumulated depreciation)			
Land	6,551,792	594,858	7,146,650
Buildings	41,697,180	3,743,766	45,440,946
Machinery and equipment	2,323,645	1,175,325	3,498,970
Construction in progress	-	-	-
Infrastructure	<u>22,549,993</u>	<u>-</u>	<u>22,549,993</u>
<b>TOTAL ASSETS</b>	<b>82,311,303</b>	<b>8,813,733</b>	<b>91,125,036</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pension	<u>1,944,476</u>	<u>-</u>	<u>1,944,476</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 84,255,779</u></b>	<b><u>\$ 8,813,733</u></b>	<b><u>\$ 93,069,512</u></b>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 3,182,445	\$ 488,094	\$ 3,670,539
Deferred revenue - grants	344,386	-	344,386
Bonds anticipation notes	7,850,000	-	7,850,000
Notes Payable:			
Due within one year	-	227,330	227,330
Due in more than one year	<u>45,739,211</u>	<u>229,420</u>	<u>45,968,631</u>
<b>TOTAL LIABILITIES</b>	<b>57,116,042</b>	<b>944,844</b>	<b>58,060,886</b>
<b>NET POSITION</b>			
Investment in capital assets, net of related debt	49,712,938	5,057,199	54,770,137
Restricted for:			
Inventories	9,098	-	9,098
Permenant Funds	-	-	-
Unrestricted:			
Net position	<u>(22,582,299)</u>	<u>2,811,690</u>	<u>(19,770,609)</u>
<b>TOTAL NET POSITION</b>	<b><u>27,139,737</u></b>	<b><u>7,868,889</u></b>	<b><u>35,008,626</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 84,255,779</u></b>	<b><u>\$ 8,813,733</u></b>	<b><u>\$ 93,069,512</u></b>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>PRIMARY GOVERNMENT</b>							
Governmental activities:							
General government	\$ (15,594,077)	\$ 713,636	\$ 858,063	\$ 247,465	\$ (13,774,913)		\$ (13,774,913)
Public works	(4,052,189)	1,100	-	265,253	(3,785,836)		(3,785,836)
Public safety	(5,647,876)	587,724	-	-	(5,060,152)		(5,060,152)
Culture and recreation	(1,466,479)	397	19,410	-	(1,446,672)		(1,446,672)
Health and welfare	(1,135,098)	220,309	691,123	-	(223,666)		(223,666)
Education	(27,287,839)	-	16,635,779	-	(10,652,060)		(10,652,060)
Capital outlay	(650,658)	-	-	22,324	(628,334)		(628,334)
Debt service	(765,131)	-	-	-	(765,131)		(765,131)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>(56,599,347)</b>	<b>1,523,166</b>	<b>18,204,375</b>	<b>535,042</b>	<b>(36,336,764)</b>		<b>(36,336,764)</b>
<b>TOTAL BUSINESS-TYPE ACTIVITIES- SEWER AND PARKING AUTHORITY</b>	<b>(2,304,908)</b>	<b>2,660,874</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 355,966</b>	<b>355,966</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ (58,904,255)</b>	<b>\$ 4,184,040</b>	<b>\$ 18,204,375</b>	<b>\$ 535,042</b>	<b>(36,336,764)</b>	<b>355,966</b>	<b>(35,980,798)</b>
<b>GENERAL REVENUES</b>							
Property taxes					28,633,277	-	28,633,277
Grants and contributions not restricted to specific programs					3,828,552	-	3,828,552
Unrestricted investment earnings(loss)					146,666	322	146,988
<b>TOTAL GENERAL REVENUES</b>					<b>32,608,495</b>	<b>322</b>	<b>32,608,817</b>
<b>CHANGE IN NET POSITION</b>					<b>(3,728,269)</b>	<b>356,288</b>	<b>(3,371,981)</b>
<b>NET POSITION AT JULY 1, 2016</b>					<b>30,868,006</b>	<b>7,512,601</b>	<b>38,380,607</b>
<b>NET POSITION AT JUNE 30, 2017</b>					<b>\$ 27,139,737</b>	<b>\$ 7,868,889</b>	<b>\$ 35,008,626</b>

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See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	<u>General</u>	<u>Library Endowment Fund</u>	<u>Middle School Building Project</u>	<u>School Roof 2014</u>	<u>Sewer 2015</u>	<u>Roads 2015</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u>
<b>ASSETS</b>								
Cash and cash equivalents	\$ 3,489,505	\$ 21,126	\$ 212,932	\$ 303,136	\$ 1,200,093	\$ 971,748	\$ 448,318	\$ 6,646,858
Investments	-	1,144,425	-	-	-	-	-	1,144,425
Receivables:								
Property taxes, net of allowance of \$220,000	928,228		-	-	-	-	-	928,228
Intergovernmental	26,623		-	-	-	-	125,789	152,412
Other	92,581		-	-	-	-	44,953	137,534
Inventories	-		-	-	-	-	9,098	9,098
Due from other funds	591,532	-	21,325	-	-	500,000	148,824	1,261,681
<b>TOTAL ASSETS</b>	<u>\$ 5,128,469</u>	<u>\$ 1,165,551</u>	<u>\$ 234,257</u>	<u>\$ 303,136</u>	<u>\$ 1,200,093</u>	<u>\$ 1,471,748</u>	<u>\$ 776,982</u>	<u>\$ 10,280,236</u>
<b>LIABILITIES</b>								
Accounts payable and accrued liabilities	\$ 2,318,499	\$ -	\$ -	\$ -	755,553	\$ -	\$ 108,392	\$ 3,182,444
Bond anticipation notes payable	-	-	450,000	1,840,000	2,500,000	3,060,000	-	7,850,000
Due to other funds	500,000	-	-	394,685	-	-	196,861	1,091,546
<b>TOTAL LIABILITIES</b>	<u>2,818,499</u>	<u>-</u>	<u>450,000</u>	<u>2,234,685</u>	<u>3,255,553</u>	<u>3,060,000</u>	<u>305,253</u>	<u>12,123,990</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Deferred revenue-taxes	894,200	-	-	-	-	-	-	894,200
Deferred revenue-grants	205,470	-	-	-	-	-	138,916	344,386
	1,099,670	-	-	-	-	-	138,916	1,238,586
<b>FUND BALANCES(DEFICITS)</b>								
Nonspendable	-	-	-	-	-	-	9,098	9,098
Restricted	-	-	-	-	-	-	171,535	171,535
Assigned	-	1,165,551	-	-	-	-	227,650	1,393,201
Unassigned	1,210,300	-	(215,743)	(1,931,549)	(2,055,460)	(1,588,253)	(75,470)	(4,656,175)
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<u>1,210,300</u>	<u>1,165,551</u>	<u>(215,743)</u>	<u>(1,931,549)</u>	<u>(2,055,460)</u>	<u>(1,588,253)</u>	<u>332,813</u>	<u>(3,082,341)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 5,128,469</u>	<u>\$ 1,165,551</u>	<u>\$ 234,257</u>	<u>\$ 303,136</u>	<u>\$ 1,200,093</u>	<u>\$ 1,471,747</u>	<u>\$ 776,982</u>	
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.								73,122,610
Long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.								894,204
Deferred outflows and inflows of resources related to pensions and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, are not reported in the funds.								1,944,476
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.								(45,739,211)
Net position of governmental activities								<u>\$ 27,139,738</u>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2017**

Middle

	General	Library			School		School Roof		Roads 2015		Other		Total
		Fund	Building	Project	2014	Sewer 2015	Funds	Governmental	Funds				
<b>REVENUES</b>													
Property taxes	\$ 28,363,970	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,363,970
Interest and lien fees	243,710	-	-	-	-	-	-	-	-	-	-	-	243,710
Intergovernmental	19,206,507	-	-	-	-	-	-	-	-	704,877	-	-	19,911,384
City departments	3,934,576	-	-	-	-	-	-	-	-	220,309	-	-	4,154,885
Net increase(decrease) in fair market value of investments	-	139,161	-	-	-	-	-	-	-	-	-	-	139,161
Other	-	4,539	22,092	-	-	-	-	-	-	-	-	-	26,631
Investment income	7,485	20	-	-	-	-	-	-	-	229	-	-	7,734
<b>TOTAL REVENUES</b>	<b>51,756,248</b>	<b>143,720</b>	<b>22,092</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>925,415</b>	<b>-</b>	<b>-</b>	<b>52,847,475</b>
<b>EXPENDITURES</b>													
Current:													
General government	13,048,814	-	-	-	-	-	-	-	-	-	32	-	13,048,846
Public safety	4,536,787	-	-	-	-	-	-	-	-	-	-	-	4,536,787
Public works	3,586,737	-	-	-	-	-	-	-	-	-	-	-	3,586,737
Culture and recreation	982,455	39,893	-	-	-	-	-	-	-	-	-	-	1,022,348
Health and welfare	267,395	-	-	-	-	-	-	-	-	755,809	-	-	1,023,204
Board of education-operations	21,173,424	-	-	-	-	-	-	-	-	-	-	-	21,173,424
Board of education-grants	5,295,904	-	-	-	-	-	-	-	-	-	-	-	5,295,904
Capital outlay	571,050	-	-	5,300	1,572,155	230,015	-	-	-	137,314	-	-	2,515,834
Debt service:													
Principal retirement	1,339,900	-	-	-	-	-	-	-	-	-	-	-	1,339,900
Interest	781,836	-	-	-	-	-	-	-	-	-	-	-	781,836
<b>TOTAL EXPENDITURES</b>	<b>51,584,302</b>	<b>39,893</b>	<b>-</b>	<b>5,300</b>	<b>1,572,155</b>	<b>230,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>893,155</b>	<b>-</b>	<b>-</b>	<b>54,324,820</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>171,946</b>	<b>103,827</b>	<b>22,092</b>	<b>(5,300)</b>	<b>(1,572,155)</b>	<b>(230,015)</b>	<b>-</b>	<b>(230,015)</b>	<b>-</b>	<b>32,260</b>	<b>-</b>	<b>-</b>	<b>(1,477,345)</b>
<b>OTHER FINANCING SOURCES (USES)</b>													
Operating transfers in	-	-	-	60,000	-	-	-	-	-	-	-	-	60,000
Operating transfers out	-	-	(60,000)	-	-	-	-	-	-	-	-	-	(60,000)
<b>TOTAL OTHER FINANCING (USES) SOURCES</b>	<b>-</b>	<b>-</b>	<b>(60,000)</b>	<b>60,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>171,946</b>	<b>103,827</b>	<b>(37,908)</b>	<b>54,700</b>	<b>(1,572,155)</b>	<b>(230,015)</b>	<b>-</b>	<b>(230,015)</b>	<b>-</b>	<b>32,260</b>	<b>-</b>	<b>-</b>	<b>(1,477,345)</b>
Fund balance(deficit) at July 1, 2016	1,038,354	1,061,724	(177,835)	(1,986,249)	(483,305)	(1,358,238)	-	(1,358,238)	-	300,553	-	-	(1,604,996)
<b>FUND BALANCES (DEFICIT) AT JUNE 30, 2017</b>	<b>\$ 1,210,300</b>	<b>\$ 1,165,551</b>	<b>\$ (215,743)</b>	<b>\$ (1,931,549)</b>	<b>\$ (2,055,460)</b>	<b>\$ (1,588,253)</b>	<b>\$ -</b>	<b>\$ (1,588,253)</b>	<b>\$ -</b>	<b>\$ 332,813</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (3,082,341)</b>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

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

Net change in fund balances - total governmental funds \$ (1,477,345)

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

858,751

Revenues that are reported as in the year revenues provide current financial resources to governmental funds.

25,598

City pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the City's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

(1,247,197)

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, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

(1,888,075)

Change in Net Position \$ (3,728,268)

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL –  
GENERAL FUND  
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original Budget</u>	<u>Final Budget</u>		<u>Final Budget- Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 27,987,889	\$ 28,042,034	\$ 28,363,970	\$ 321,936
Interest and lien fees	50,000	50,000	243,710	193,710
Intergovernmental	10,634,207	14,608,800	15,781,698	1,172,898
Investment income	10,000	10,000	7,485	(2,515)
City departments	<u>2,338,809</u>	<u>3,267,411</u>	<u>3,934,576</u>	<u>667,165</u>
TOTAL REVENUES	41,020,905	45,978,245	48,331,439	2,353,194
<b>EXPENDITURES</b>				
Current				
General government	12,123,800	12,664,842	13,048,814	(383,972)
Public safety	4,217,005	4,579,483	4,536,787	42,696
Public works	3,330,078	3,793,465	3,586,737	206,728
Culture and recreation	949,766	998,358	982,455	15,903
Health and welfare	285,709	302,274	267,395	34,879
Board of Education-operations	16,666,130	16,666,130	17,748,615	(1,082,485)
Board of Education-grants	1,095,817	4,573,993	5,295,904	(721,911)
Capital outlay	602,950	650,050	571,050	79,000
Debt service				
Principal retirements	1,602,165	1,602,165	1,339,900	262,265
Interest	<u>147,485</u>	<u>147,485</u>	<u>781,836</u>	<u>(634,351)</u>
TOTAL EXPENDITURES	<u>41,020,905</u>	<u>45,978,245</u>	<u>48,159,493</u>	<u>(2,181,248)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	171,946	<u>\$ 171,946</u>
Fund balance at July 1, 2016			<u>1,038,354</u>	
FUND BALANCE AT JUNE 30, 2017			<u>\$ 1,210,300</u>	

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See notes to financial statements.

**CITY OF DERBY, CONNECTICUT**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2017**

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	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water Pollution Control Authority</u>	<u>Parking Authority</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 2,557,060	\$ 172,456	\$ 2,729,516
Sewer assessments receivable (net of allowance for uncollectible of \$3232)	590,226	-	590,226
Grant receivable	-	-	-
Accounts receivable	-	55,327	55,327
<b>TOTAL CURRENT ASSETS</b>	<b>3,147,286</b>	<b>227,783</b>	<b>3,375,069</b>
<b>CAPITAL ASSETS (net of accumulated depreciation)</b>			
Land	212,500	382,358	594,858
Buildings	3,512,735	231,032	3,743,767
Machinery and equipment	1,168,818	6,507	1,175,325
	<u>4,894,053</u>	<u>619,897</u>	<u>5,513,950</u>
<b>TOTAL ASSETS</b>	<b>\$ 8,041,339</b>	<b>\$ 847,680</b>	<b>\$ 8,889,019</b>
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 482,928	\$ 5,167	\$ 488,095
Due to other funds	-	75,285	75,285
Capital lease-current portion	60,758	-	60,758
Bonds and loan payable-current portion	166,572	-	166,572
<b>TOTAL CURRENT LIABILITIES</b>	<b>710,258</b>	<b>80,452</b>	<b>790,710</b>
<b>NONCURRENT LIABILITIES</b>			
Capital lease	62,848	-	62,848
Bonds and loan payable	166,572	-	166,572
<b>TOTAL LIABILITIES</b>	<b>939,678</b>	<b>80,452</b>	<b>1,020,130</b>
<b>NET POSITION</b>			
Investment in capital assets, net of related debt	4,437,303	619,897	5,057,200
Unrestricted	2,664,358	147,331	2,811,689
<b>TOTAL NET POSITION</b>	<b>7,101,661</b>	<b>767,228</b>	<b>7,868,889</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 8,041,339</b>	<b>\$ 847,680</b>	<b>\$ 8,889,019</b>

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2017**

	<u>Business Type Activities- Enterprise Funds</u>		
	<u>Water Pollution Control Authority</u>	<u>Parking Authority</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Sewer usage fees	\$ 2,387,543	\$ -	\$ 2,387,543
Rental and fees	-	154,301	154,301
Other revenues	31,169	-	31,169
Interest and lien fees	<u>87,861</u>	<u>-</u>	<u>87,861</u>
Total operating revenues	2,506,573	154,301	2,660,874
<b>OPERATING EXPENSES</b>			
	<u>2,166,896</u>	<u>127,097</u>	<u>2,293,993</u>
OPERATING INCOME (LOSS)	339,677	27,204	366,881
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Grant income	-	-	-
Interest income	322	-	322
Interest expense	<u>(10,915)</u>	<u>-</u>	<u>(10,915)</u>
Total nonoperating income (expense)	<u>(10,593)</u>	<u>-</u>	<u>(10,593)</u>
CHANGE IN NET POSITION	329,084	27,204	356,288
Net position at July 1, 2016	<u>6,772,577</u>	<u>740,024</u>	<u>7,512,601</u>
NET POSITION AT JUNE 30, 2017	<u>\$ 7,101,661</u>	<u>\$ 767,228</u>	<u>\$ 7,868,889</u>

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See notes to financial statements.

**CITY OF DERBY, CONNECTICUT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2017**

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	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water Pollution Control Authority</u>	<u>Parking Authority</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 2,616,097	\$ 134,793	\$ 2,750,890
Cash payments to suppliers	(1,179,987)	(131,903)	(1,311,890)
Due to general fund	-	72,691	72,691
Cash payments to employees	(619,027)	-	(619,027)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>817,083</u>	<u>75,581</u>	<u>892,664</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental revenues	-	-	-
<b>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES</b>			
Purchase of capital assets	(142,167)	-	(142,167)
Payment of principal and interest	(266,173)	-	(266,173)
NET CASH USED IN CAPITAL AND FINANCING ACTIVITIES	<u>(408,340)</u>	<u>-</u>	<u>(408,340)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	<u>322</u>	<u>-</u>	<u>322</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	409,065	75,581	484,646
Cash and cash equivalents at July 1, 2016	<u>2,147,995</u>	<u>96,875</u>	<u>2,244,870</u>
Cash and cash equivalents at June 30, 2017	<u>\$ 2,557,060</u>	<u>\$ 172,456</u>	<u>\$ 2,729,516</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss) from operations	\$ 339,677	\$ 27,204	\$ 366,881
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	307,795	15,989	323,784
Changes in assets and liabilities:			
Accounts receivable	109,523	(19,506)	90,017
Accounts payable	60,088	(20,797)	39,291
Deferred revenue	-	-	-
Due to other funds	-	72,691	72,691
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 817,083</u>	<u>\$ 75,581</u>	<u>\$ 892,664</u>
<b>Supplemental cash flow information</b>			
Cash paid during the year for interest	<u>\$ 10,915</u>		

See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2017**

	<b>Pension Trust Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 413,714
Investments, at fair value	14,252,370
Other receivables	10,057
<b>TOTAL ASSETS</b>	<b>\$ 14,676,141</b>
 <b>LIABILITIES - other</b>	
	-
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES</b>	
	<b>\$ 14,676,141</b>

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See notes to financial statements.

**CITY OF DERBY, CONNECTICUT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2017**

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	<b>Pension Trust Fund</b>
<b>ADDITIONS</b>	
Contributions	
City of Derby	\$ 572,000
Plan members	101,178
Total contributions	673,178
Investment income	
Net realized/unrealized gain (loss) on investments	2,014,283
Interest and dividends	166
	2,014,449
Less investment management fees	(54,376)
Net investment income(loss)	1,960,073
TOTAL ADDITIONS	2,633,251
DEDUCTIONS - benefits and other deductions	988,834
CHANGE IN NET POSITION	1,644,417
Net position held in trust for pension benefits at July 1, 2016	13,031,724
NET POSITION HELD IN TRUST FOR BENEFITS AT JUNE 30, 2017	\$ 14,676,141

See notes to financial statements.

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**NOTE 1 — REPORTING ENTITY, DESCRIPTION OF FUNDS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The City of Derby, Connecticut, operates under a Mayor/Board of Alderman and Board of Apportionment and Taxation form of Government and provides services as authorized by its Charter including police and fire protection, education services, recreation and parks, health and welfare services and general administrative services.

The accounting policies of the City of Derby conform to generally accepted accounting principles as applicable to governmental units. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. A summary of the more significant policies are stated herein.

The City provides a full range of services including public safety, roads, sanitation, health, social services, culture and recreation, education, planning, zoning, and general administrative services to its residents. The accompanying financial statements confirm to accounting principles generally accepted in the United States of America as applicable to governments.

The reporting entity of the City of Derby, Connecticut includes all funds, account groups, agencies, boards, commissions and authorities over which the City presides. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Derby (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational and/or financial relationship with the City as blended component units.

The Water Pollution Control Authority (WPCA) of the City of Derby is an entity legally separate from the City, and is governed by a ten member board (Board of Apportionment and Taxation). For financial reporting purposes, the WPCA is reported as if it were part of the City's operation because its purpose is to provide sewer usage to the citizens of the City of Derby.

The Parking Authority of the City of Derby is an entity legally separate from the City, and is governed by the Office of the Mayor. For financial reporting purposes, the Parking Authority is reported as if it were part of the City's operations because its purpose is to provide parking to the citizens of the City of Derby.

The City of Derby Pension Plan is an entity legally separate from the City of Derby, and is governed by an eight member board appointed by the City's Mayor and Pension Charter. For financial reporting purposes, the City of Derby Pension Plan is reported as if it were part of the City's operations because its purpose is to provide retirement benefits to employees of the City of Derby.

Complete financial statements for the individual component units may be obtained at the entity's administrative offices as follows:

Derby Water Pollution Control Authority  
1 Elizabeth Street  
Derby, Connecticut 06418

City of Derby Pension Plan  
1 Elizabeth Street  
Derby, Connecticut 06418

The Parking Authority of Derby does not issue separate financial statements.

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**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, deferred outflows of resources, liabilities and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**Implementation of New Accounting Standards**

For the year ended June 30, 2015, the County implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, and GASB Statement No. 69, Government Combinations and Disposals of Governmental Operations. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension (assets and) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. 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 segments 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 are reported as separate columns in the fund financial statements.

**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 fund and fiduciary fund financial statements. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days

**CITY OF DERBY, CONNECTICUT**  
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after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated for payments to be made early in the following year. Certain indirect costs are included in the program expense.

Those revenues susceptible to accrual are property taxes, special assessments and interest revenue. Fines, permits and charges for services are not susceptible to accrual because generally they are not measurable until received in cash.

The government reports the following major governmental funds:

- (i) *General Fund* — The General Fund is the general operating fund of the City government. All unrestricted resources except those required to be accounted for in another fund are accounted for in this fund. From this fund are paid general operating expenditures, fixed charges, principal and interest on long-term debt, and capital improvement costs of the City, which are not paid through a special fund.
- (ii) *Library Endowment Fund* — The Library Endowment Fund is a permanent fund used to account for donations used for the betterment of the City's library. Monies are restricted for the intended purpose of the donor.
- (iii) *Middle School Building Project* — The Middle School Building Project is a capital project fund used to account for funds which are principally used for construction of a new middle school.
- (iv) *School Roof Project 2014* — is a capital project fund used to account for the improvements to the school buildings.
- (v) *Sewer 2015* — is a capital project fund used to account for the improvements to the City Sewer's system.
- (vi) *Roads 2015* — is a capital project fund used to account for the improvements to the City Road Improvements.

The government reports the following major proprietary funds:

- (i) *Water Pollution Control Authority* — The Water Pollution Control Authority accounts for the operations of the City's wastewater treatment plant. It is independent in terms of its relationship to other City functions. Its operations are financed from special assessments and direct charges to the users of the service.

Additionally, the government reports the following fund types:

- (i) *Pension Trust Funds* — account for the activities of the City's Public Employee Retirement System defined benefit pension plans, which accumulate resources for pension, benefit payments to qualified employees.
- (ii) *Agency Funds* — account for monies held as a custodian for outside groups and agencies.
- (iii) *Permanent Funds* — account for monies that are legally restricted to the extent that only earnings and not principal may be used that support programs that benefit the government or its citizens.

Interfund activity has been eliminated from the government-wide financial statements except for charges between the government's sewer function and various other functions of the government. 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.

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*Property Taxes* — Property taxes are assessed as of October 1 and are levied on the following July 1. Real estate and personal property taxes are due in two installments on July 1 and the following January 1. Motor vehicle taxes are payable on July 1 and supplemental motor vehicle taxes are payable on January 1. Liens are filed on delinquent real estate taxes within one year.

Property tax revenues are recognized when they become available. Available means due or past due and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property taxes receivable, not expected to be collected within sixty days of year-end are reflected as deferred revenue.

*Proprietary Funds* – All proprietary funds are accounted using the accrual basis of accounting. These funds account for operations that are primarily financed through user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operation. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

*Cash Equivalents* — The City considers all highly liquid investments and those with original maturities of three months or less to be cash equivalents.

*Investments* — Investments are stated at fair value. Fair value is determined based on quoted market prices.

*Inventories* — Inventories are stated at the lower of cost or market using the consumption method on the first-in, first-out basis for the Board of Education School Lunch Program.

*Interfund Transactions* — Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditure/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

The three types of interfund transactions and the related accounting policies are as follows:

1. Transactions to reimburse the fund for expenditures made by it for the benefit of another fund. These transactions are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund.
2. Transactions to shift revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them. These transactions are recorded as transfers in to and out of the respective funds.
3. Transactions to record equity contributions between funds. The receiving fund records such transactions as a transfer in and an addition to fund balance. The disbursement fund records the transaction as a transfer out

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and a reduction of fund balance.

Capital Assets— Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business type activities columns in government-wide financial statements.

**Governmental Activities**

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the net asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Building and building improvements	25 – 50 years
Infrastructure	10 – 65 years
Machinery and equipment	5 – 20 years
Licensed vehicles	8 years

Proprietary Fund Types — Property, plant and equipment owned by the Proprietary Funds are recorded based on cost at acquisition or if contributed property, at fair market value at the time of contribution.

Assets capitalized have an original cost of \$1,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20 – 50 years
Sewer System	30 – 50 years

*Deferred Revenue* — Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenue also arises when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

*Deferred Outflows/Inflows of Resources* —In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2017, \$1,944,476 were required to be reported as deferred outflows of resources related to the pension.

*Long-Term Obligations* — In the government-wide financial statements, and proprietary fund types in 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. Bonds payable are reported net of the applicable bond premium or discount.

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*Net Position* — Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position on the Statement of Net Position includes, net investment in capital assets, restricted for debt service and special revenue funds. The balance is classified as unrestricted.

*Fund Balance* — Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Under this standard, the fund balance classifications are as follows:

*Nonspendable fund balance* — amounts that cannot be spent because they are either not in spendable form (inventories, prepaid amounts, long-term receivables) or they are legally or contractually required to be maintained intact (the corpus of a permanent fund).

*Restricted fund balance* — when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation. This fund balance classification will be used to report funds that are restricted for capital projects and debt service obligations and for other items contained in the Connecticut statutes.

*Committed fund balance* — amounts that can only be used for specific purposes pursuant to formal action of the City's highest level of decision making authority. The Board of Apportionment and Taxation and the Board of Selectmen are the highest level of decision making authority for the City that can, by the adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, these funds may only be used for the purpose specified unless the Board of Finance and Board of Representatives removes or changes the purpose by taking the same action that was used to establish the commitment. This classification includes certain amounts established and approved by the Board of Apportionment and Taxation and the Board of Selectmen.

*Assigned fund balance* — in the General Fund, will represent amounts constrained by Board of Apportionment and Taxation and the Board of Selectmen for amounts assigned for balancing the subsequent year's budget or the Comptroller for amounts assigned for encumbrances. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. Assigned fund balance in all other governmental funds represents any positive remaining amount after classifying nonspendable, restricted or committed fund balance amounts.

*Unassigned fund balance* — in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities and deferred inflows of resources, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets and deferred outflows of resources.

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, the City considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

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**NOTE 2 — GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Beginning net position for governmental activities was determined as follows:

Fund balances of general, special revenue, capital project funds and permanent fund as of July 1, 2015	\$ (1,604,996)
general fixed assets and infrastructure as of July 1, 2016	113,353,172
Add: tax revenue receivable as of July 1, 2016	868,602
Add: deferred outflows as of July 1, 2016	2,688,647
Deduct: accumulated depreciation as of July 1, 2016 on above governmental capital assets	(41,089,313)
Deduct: general obligation bonds payable as of July 1, 2016	(14,845,700)
Deduct: bond premium as of July 1, 2016	(682,584)
Deduct: capital lease payable as of July 1, 2016	(73,551)
Deduct: net pension liability as of July 1, 2016	(8,404,568)
Deduct: OPEB obligation as of July 1, 2016	(15,350,528)
Deduct: compensation absences payable and other long-term liabilities as of July 1, 2016	<u>(3,991,175)</u>
NET POSITION AS OF JULY 1, 2016	<u>\$ 30,868,006</u>

**NOTE 3 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net position

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities are reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$45,739,211 difference are as follows:

Bonds payable	\$ 13,505,800
Bonds premium	665,879
Compensated absences	3,733,780
Net pension liability	8,907,598
Other post-employment obligations	17,538,161
Capital leases	1,063,135
Post-closure landfill	<u>324,858</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 45,739,211</u>

Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between the net changes in fund balances – total governmental funds and the changes in net position of governmental

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activities as reported in the government-wide statement of activities. One element of that reconciliation explains that Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$858,751 difference are as follows:

Capital outlay	\$ 3,279,575
Depreciation expense	<u>(2,420,824)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds, to arrive at changes in net position of governmental activities	<u>\$ 858,751</u>

Another element of that reconciliation states that “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, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$2,391,105 difference are as follows:

Principal repayments/(increase in long-term liabilities):	
Bond principal payments	\$ 1,339,900
Bond premium	16,705
Other miscellaneous long-term liabilities	16,348
Capital leases	(989,584)
Net pension liability	(503,030)
Compensated absences	(83,811)
Other post-employment obligations	<u>(2,187,633)</u>
Net adjustment to decrease net position in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (2,391,105)</u>

**NOTE 4 — BUDGETS AND BUDGETARY ACCOUNTING**

**General Fund**

The City establishes its budget in accordance with provisions of the Connecticut General Statutes and its Charter. The Charter requires that the Board of Apportionment and Taxation shall lay such taxes as may be required upon the Grand List of the City, which shall have been made according to law, next before the laying of such tax. Each board of the City government and each officer of the City under whose control money is expended shall, on or before the first day of April of each year, submit to said Board an estimate of the amount of money required by such board or such officer for the next ensuing year, giving details as far as practicable. The Board of Apportionment and Taxation, at a meeting thereof to be held in May of each year, shall prepare an estimate of the amounts required by each department of the City government for the ensuing year, giving particulars as far as possible and recommending appropriations for all these expenses for said year and shall cause such estimates forthwith to be published in a newspaper published in New Haven County and having a circulation in said City. The Board of Apportionment and Taxation shall hold a meeting in May in each year, and may adjourn the same from time to time to a day not later than the last business day of May and at said meeting, or any adjournment

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thereof, it shall hear all parties who may desire to be heard relative to any alterations in such estimates and appropriations, and may make any alterations in such estimates and appropriations, and may make such additional appropriations as it shall deem proper. The Board of Apportionment and Taxation, having made such alterations as it may determine, shall prepare a statement of appropriations and tax rates which it proposes to make and levy, and cause the same to be published in a newspaper published in New Haven County and having a circulation in said City, not later than three days after the last business day in May in said year. The Board of Apportionment and Taxation is authorized to make appropriations and lay taxes for all City purposes and for all other purposes required by law and may fix the time when any tax laid by it shall become due and payable. The Board of Apportionment and Taxation shall have no authority to make appropriations in excess of the revenues of the City for any year, and in no case shall the expenses of the City exceed its revenue for any year, except in cases and for purposes for which the City is authorized by special act of general assembly to issue bonds and when bonds are in fact issued. The budget for the current year was adopted by the Board of Apportionment and Taxation and transfers and supplemental appropriations were approved during the year in accordance with provisions of the Connecticut General Statutes and the Charter of the City of Derby.

Annual budgets are prepared and employed for management control for the General Fund. Appropriations typically lapse at year end, except appropriations for capital projects which continue until completion of the project. Supplemental appropriations in the amount of \$4,957,340 were approved by the Board of Apportionment and Taxation during the fiscal year. The budget for the General Fund is presented on a basis consistent with generally accepted accounting principles.

The level of control for the General Fund is the legally adopted budget at the department/major activity level which is authorized by Charter. The level of control for Capital Projects Funds is the appropriations at the project level. Total expenditures cannot exceed total appropriations at the department/major activity level or the project authorization, over the length of the project. The level of control for Special Revenue Funds is at the project or program level in accordance with agreement provisions and various budgetary periods.

The City's formal budgeting system is employed as a management control device only for the General Fund and requires accounting for certain transactions to be on a basis other than generally accepted accounting principles (GAAP) basis. The General Fund budget is prepared on the modified accrual basis of accounting. There are two major differences between the budget and GAAP basis. The first is the requirement of the City to report on-behalf contributions made by the State of Connecticut to the Connecticut Teacher's Retirement System, whereas on a budgetary basis these on-behalf payments are not reflected as expenditures. The second is the recording of revenue for items which should be reduction of expenses. A reconciliation between the accounting treatment for these items (the combined statements of revenues, expenditures and changes in fund balance), and the budgetary basis (the statement of revenues, expenditures and changes in fund balance-budget and actual-general fund) is as follows:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance</u>
Balance, budgetary basis at June 30, 2017	\$ 48,331,439	\$ 48,159,493	\$ 1,210,300
State Teachers' Retirement on-behalf payments, not recognized for budgetary purposes	3,424,809	3,424,809	-
Balance, GAAP basis at June 30, 2017	<u>\$ 51,756,248</u>	<u>\$ 51,584,302</u>	<u>\$ 1,210,300</u>

**Encumbrances**

Encumbrances, which are purchase orders, contracts and other legal commitments, are recorded in order to reserve the unexpended portion of the applicable appropriation. In the General Fund, encumbrances outstanding at

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year end are reported as reservations of fund balance since they do not constitute expenditures or liabilities and provide the authority for the carryover of appropriations to the subsequent year in order to complete these transactions. As of June 30, 2017, there were no encumbrances outstanding.

**Special Revenue Funds**

The City does not have legally adopted annual budgets for the Special Revenue Funds. Budgets for the various special revenue funds which are utilized to account for specific grant programs are established in accordance with the requirements of the grantor agencies. Such budgets will carryover until completion of the grants.

**Capital Projects Funds**

Legal authorization for expenditures of the Capital Projects Funds is provided by the related bond ordinances and/or intergovernmental grant agreements. Capital appropriations do not lapse until completion of the applicable projects.

**NOTE 5 — DEPOSITS AND INVESTMENTS**

Deposits and Investment Balances

Following is a reconciliation of the City’s deposit and investment balances as of June 30, 2017:

	<b>Carrying and Fair Values</b>
Deposits	\$ 15,543,306
Money market accounts	206,527
Certificates of Deposit	519,499
	\$ 16,269,332
Govt	\$ 6,646,861
Business	2,729,516
Fiduciary	6,892,957
	\$ 16,269,334

At June 30, 2017, the carrying amount of the City’s deposits was \$16,269,334. The bank balances of funds on deposit totaled \$16,508,387. Of the bank balances, \$984,588 was covered by federal depository insurance, \$1,627,380 was protected under provisions of the Connecticut General Statutes, which provide for protection against loss in excess of depository insurance through assessment against segregated collateral required to be maintained by public depositories, but not held in the City’s name, and \$13,873,633 was uninsured and uncollateralized.

The level of the City’s deposits varies significantly throughout the year as a result of higher cash flows during certain periods. As a result, uninsured and/or uncollateralized amounts at those times were substantially higher than at year-end.

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**Investments**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the City Treasurer. Investing is performed in accordance with investment policies adopted by the Board of Aldermen complying with State Statutes and the City Charter.

The City's investments are categorized as either (1) insured or registered, or securities held by the City or its agency in the City's name, (2) uninsured and unregistered, with securities held by the counterpart's trust department or agent in the City's name or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

The State statutes authorize the City to invest in obligations of the United States, including its agencies, in obligations of any state or of any political subdivision, authority or agency thereof, provided that at the time of investment such obligations are rated within one of the top two rating categories of any recognized rating service; or in obligations of the State of Connecticut or of any political subdivision thereof, provided such obligations are rated within one of the top three rating categories of any recognized rating service.

The pension and other trust funds may also invest in certain real estate mortgages, in certain savings banks or savings and loan associations, in stocks or bonds, or in other securities selected by the trustee with the care of a prudent investor.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City generally invests in certificates of deposit that mature in less than one year and mutual funds. The City follows the State Statutes as its investment policy.

The City's investments at June 30, 2017 are shown below:

	<u>Cost</u>	<u>Carrying and Fair Values</u>	<u>Average Credit Quality Ratings</u>	<u>Weighted Average Maturity (Years)</u>
Library Endowment Fund:				
Mutual funds-Equity	\$ 1,144,425	\$ 1,144,425	N/A	N/A
School Scholarship Fund:				
Mutual funds-Equity	36,822	36,822	N/A	N/A
Pension Trust Fund:				
Investment at Beirne Wealth				
Stock	3,278,092	3,911,808	N/A	N/A
Ishares Russell 2000 ETF	753,765	935,201	N/A	N/A
Aqr Small Cap Multi Style Fund C1 I	669,145	791,273	N/A	N/A
Aqr International Multi Style Fund I	616,826	749,018	N/A	N/A
Other Mutual funds-Equity	3,278,652	3,459,722	N/A	N/A
Fidelity Government Cash Reserves	659,311	659,311	N/A	N/A
Bonds	1,315,047	1,315,403	Aaa	6.075
Other Holdings	57,766	64,404	N/A	N/A
Investment at Golden Tree	265,809	265,809	N/A	N/A
Investment at Boyd Watterson-GSA Fund	1,935,451	2,100,421	N/A	N/A
TOTAL	<u>\$ 14,011,111</u>	<u>\$ 15,433,617</u>		

\* represents investments that were greater than 5% of the total investments.

The City's investments are classified under category 1. Category 1 investments are investments that are insured or registered, or securities held by the City or its agent in the City's name.

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**NOTE 6 — INTERFUND ACCOUNTS**

As of June 30, 2017, interfund receivables and payables that resulted from various interfund transactions were as follows:

<u>Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major:		
General	\$ 591,532	\$ 500,000
Enterprise	-	75,285
Middle School Project	21,325	-
School Roof Project 2015	-	394,685
	<u>612,857</u>	<u>969,970</u>
Nonmajor funds:		
Library construction	103,282	6,296
Road construction 2015	500,000	-
School	22,254	-
Other capital projects	23,288	163,048
Land acquisition	-	27,517
	<u>648,824</u>	<u>196,861</u>
Trust and Agency Funds		
Student Activity Funds	-	94,850
Total	<u>\$ 1,261,681</u>	<u>\$ 1,261,681</u>

The General Fund interfund payable is due to various Capital Projects Funds for advances of bond monies received by the General Fund yet to be remitted to their respective Capital Project Funds. These amounts are expected to be repaid within one year. Capital Projects Funds interfund receivable and payable represent amounts due from/to the other capital projects for operations, and are being repaid as funds become available. The interfund transfers for the year ended June 30, 2017 is as follows:

<u>Funds</u>	<u>Transfers from Other Funds</u>	<u>Transfers to Other Funds</u>
Major:		
Middle School Project	\$ -	\$ 60,000
School Roof Project 2015	60,000	-
	<u>\$ 60,000</u>	<u>\$ 60,000</u>

The purpose of the transfers from general fund to Middle School is for the repayments of bond anticipation notes.

**CITY OF DERBY, CONNECTICUT**  
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**NOTE 7 — CAPITAL ASSETS**

Governmental activities - capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Disposal/ Transfers</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 6,551,792	\$ -	\$ -	\$ 6,551,792
Construction in progress	-	-	-	-
Total Capital Assets, not being depreciated	6,551,792	-	-	6,551,792
Capital assets, being depreciated:				
Buildings	60,575,693	-	-	60,575,693
Property under capital lease	3,083,073	1,294,471	-	4,377,544
Rolling equipment	4,523,649	105,056	-	4,628,705
Machinery, vehicles and equipment	3,579,017	14,868	-	3,593,885
Infrastructure	35,039,948	1,865,180	-	36,905,128
	106,801,380	3,279,575	-	110,080,955
Less accumulated depreciation for:				
Buildings	17,627,370	1,251,143	-	18,878,513
Property under capital lease	2,425,426	229,120	-	2,654,546
Rolling equipment	4,184,204	64,692	-	4,248,896
Machinery, vehicles and equipment	3,320,458	52,589	-	3,373,047
Infrastructure	13,531,855	823,280	-	14,355,135
	41,089,313	2,420,824	-	43,510,137
Total capital assets, being depreciated, net	65,712,067	858,751	-	66,570,818
Governmental activities capital assets, net	<u>\$ 72,263,859</u>	<u>\$ 858,751</u>	<u>\$ -</u>	<u>\$ 73,122,610</u>

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Depreciation expense by function for the year ended June 30, 2017 is as follows:

Education	\$ 767,860
General	836,388
Public safety	263,952
Public works	300,144
Culture and recreation	<u>252,480</u>
	<u>\$ 2,420,824</u>

Business-type activities - capital asset activity for the year ended June 30, 2017 was as follows:

	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Disposal</b>	<b>Balance June 30, 2017</b>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 594,858	\$ -	\$ -	\$ 594,858
Capital assets, being depreciated:				
Buildings	12,423,932	-	-	12,423,932
Machinery, vehicles and equipment	<u>2,376,422</u>	<u>142,165</u>	-	<u>2,518,587</u>
	14,800,354	142,165	-	14,942,519
Less accumulated depreciation for:				
Buildings	8,500,312	179,854	-	8,680,166
Machinery, vehicles and equipment	<u>1,199,331</u>	<u>143,932</u>	-	<u>1,343,263</u>
	9,699,643	323,786	-	10,023,429
Total capital assets, being depreciated, net	<u>5,100,711</u>	<u>(181,621)</u>	-	<u>4,919,090</u>
Business-type activities capital assets, net	<u>\$ 5,695,569</u>	<u>\$ (181,621)</u>	<u>\$ -</u>	<u>\$ 5,513,948</u>

**NOTE 8 – BOND ANTICIPATION NOTES**

Bond anticipation note transactions for the year ended June 30, 2017 were as follows:

Outstanding, July 1, 2016	\$ 6,550,000
New Borrowings	7,850,000
Repayments	<u>6,550,000</u>
Outstanding, June 30, 2017	<u>\$ 7,850,000</u>

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The outstanding balance at June 30, 2017 consists of one bond anticipation note due August 2017 at an interest rate of .93% per annum. The bond anticipation notes were subsequently refinanced with a bond anticipation note \$11,920,000 at an interest rate of 2% due May 2018.

**NOTE 9 — LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Due within</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Refunding-2009	\$ 465,700	\$ -	\$ 234,900	\$ 230,800	\$ 230,800
General-2013	2,125,000	-	335,000	1,790,000	330,000
General-2015	3,675,000	-	340,000	3,335,000	335,000
General-2015	8,580,000	-	430,000	8,150,000	430,000
Total	14,845,700	-	1,339,900	13,505,800	1,325,800
Bond premium	682,584	-	16,705	665,879	16,705
Capital leases	73,551	1,294,471	304,887	1,063,135	319,590
Net pension liability	8,404,568	1,038,253	535,223	8,907,598	8,907,598
OPEB obligation	15,350,528	2,187,633	-	17,538,161	-
Compensated absences	3,649,969	83,811	-	3,733,780	100,000
Landfill postclosure care costs	341,206	-	16,348	324,858	20,000
Total governmental activities long-term liabilities	<u>\$ 43,348,106</u>	<u>\$ 4,604,168</u>	<u>\$ 2,213,063</u>	<u>\$ 45,739,211</u>	<u>\$10,689,693</u>
<b>Business-type activities:</b>					
Refunding-2009	\$ 99,300	\$ -	\$ 50,100	\$ 49,200	\$ 49,200
Loan payable	430,364	-	117,372	312,992	117,372
Total	529,664	-	167,472	362,192	166,572
Capital lease	182,344	-	56,603	125,741	58,738
Total Business-type activities long-term liabilities	<u>\$ 712,008</u>	<u>\$ -</u>	<u>\$ 224,075</u>	<u>\$ 487,933</u>	<u>\$ 225,310</u>

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	<u>Outstanding Amount</u>
Governmental Activities:	
\$2,097,700 serial bond; issue of 2009; due April 2018; effective interest ranging from 3.0%-4.0%	\$ 230,800
\$2,980,000 serial bond; issue of 2013; due September 2023; effective interest 2.20%	1,790,000
\$3,880,000 Series A bond; issue of 2015; due September 2026; effective interest ranging from 2.0%-5.0%	3,335,000
\$8,580,000 serial B bond; issue of 2015; due September 2035; effective interest ranging from 2.0%-5.0%	8,150,000
	13,505,800
Less current portion	1,325,800
Long term portion	\$ 12,180,000

The governmental activities outstanding debt is funded through the general fund operations.

	<u>Outstanding Amount</u>
Business-type activities:	
\$2,097,700 serial bond; issue of 2009; due April 2018; effective interest ranging from 3.0%-4.0%	\$ 49,200
\$2,347,440 note payable in monthly payments of \$9,781 plus interest at 2%, issued February 2001; and due February 2020	312,992
	362,192
Less current portion	166,572
Long term portion	\$ 195,620

The business-type activities outstanding debt is funded through the sewer use collections.

**CITY OF DERBY, CONNECTICUT**  
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The annual requirements to amortize all bonded debt outstanding as of June 30, 2017, are as follows:

Governmental Activities:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,325,800	\$ 436,871	\$ 1,762,671
2019	1,090,000	393,559	1,483,559
2020	1,085,000	357,490	1,442,490
2021	1,075,000	321,488	1,396,488
2022	935,000	283,371	1,218,371
2023	935,000	243,004	1,178,004
2024	930,000	202,693	1,132,693
2025	765,000	174,781	939,781
2026	760,000	157,150	917,150
2027	755,000	137,409	892,409
2028	430,000	120,244	550,244
2029	430,000	107,344	537,344
2030	430,000	94,175	524,175
2031	430,000	80,469	510,469
2032	430,000	66,225	496,225
2033	425,000	51,531	476,531
2034	425,000	36,922	461,922
2035	425,000	22,313	447,313
2036	425,000	7,438	432,438
	<u>\$ 13,505,800</u>	<u>\$ 3,294,476</u>	<u>\$ 16,800,276</u>

Business-type activities:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 166,572	\$ 7,151	\$ 173,723
2019	117,372	2,837	120,209
2020	78,248	587	78,835
	<u>\$ 362,192</u>	<u>\$ 10,575</u>	<u>\$ 372,767</u>

The Refunding-2009 bond issue includes an additional \$447,000 which is included in the Derby Water Pollution Control Authority's (Enterprise Fund) financial statements. That portion of the bond issue is also supported by the full faith and credit of the City of Derby, Connecticut. Additionally, upon completion of major improvements to the water pollution control facilities, the Agency issued a note payable to the State of Connecticut, with interest at 3%, due February 29, 2020.

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**CITY OF DERBY, CONNECTICUT  
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**Capital Lease Obligations**

The City is obligated, as a lessee, under various capital leases for the acquisition of a fire trucks, other heavy equipment and computer. The following is a schedule of future minimum lease obligations and the net present value of these minimum payments:

<u>Year Ended</u>	<u>Governmental Activities Payment</u>	<u>Business-Type Activities Payment</u>
June 30, 2018	\$ 349,824	\$ 65,009
June 30, 2019	251,316	65,009
June 30, 2020	222,529	-
June 30, 2021	222,529	-
June 30, 2022	91,759	-
	<u>1,137,957</u>	<u>130,018</u>
Less amount representing interest	<u>74,822</u>	<u>6,412</u>
Net present value of lease payments	<u>\$ 1,063,135</u>	<u>\$ 123,606</u>

**Governmental Activities**

Property and equipment carried at a cost of \$4,377,544 with accumulated amortization of \$2,654,546 has been acquired under capital lease arrangements. The monthly payments under these leases were \$29,152 at an interest rate ranging from 5.2% to 6.3%. The capital lease obligations are financed by the general fund.

**Business-Type Activities**

Property and equipment carried at a cost of \$347,098 with accumulated amortization of \$150,409 has been acquired under capital lease arrangement. The annual required payments under these leases were \$65,009 at an interest rate of 3.39%. The capital lease obligation is financed by the Water Pollution Control Authority.

**Compensated Absences**

There is no accrual for compensated absences that are dependent on the performance of future service by employees, or when payments are dependent on future events that are outside the control of the employer and employee. The liability for compensated absences earned but not yet paid is included in the general long-term debt account group. City employees accumulate a limited amount of sick leave until termination of their employment. These amounts are based on length of employment and/or labor contracts. Sick leave is recognized in a governmental fund in the current year to the extent it is paid or the vested amount is expected to be paid with current available resources.

**CITY OF DERBY, CONNECTICUT  
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**Debt Limitation**

The Connecticut General Statutes provide that the City's total outstanding and authorized debt shall not exceed seven times the total tax collections (including interest and lien fees) and revenues received for tax relief of the elderly for the year ended June 30, 2017 (\$198,543,317), nor shall the total authorized particular purpose debt exceed the individual debt limitations reflected in the table below:

Total tax collections (including interest and lien fees) for the year ended June 30, 2017,	\$ 28,254,824
Reimbursement for revenue loss:	
Tax Relief for Elderly	<u>85,980</u>
	Base <u>\$ 28,340,804</u>

	<b>General Purpose</b>	<b>Schools</b>	<b>Sewers</b>	<b>Urban Renewal</b>	<b>Unfunded Pension</b>
Debt Limitation:					
2 ¼ times base	\$ 63,766,809				
4 ½ times base		\$ 127,533,618			
3 ¾ times base			\$ 106,278,015		
3 ¼ times base				\$ 92,107,613	
3 times base	-	-	-	-	\$ 85,022,412
Total debt limitation	63,766,809	127,533,618	106,278,015	92,107,613	85,022,412
Indebtedness:					
Bonds payable	4,429,275	9,076,525	362,192	-	-
Bonds authorized and unissued	3,700,000	18,923,475	30,837,808	-	-
	8,129,275	28,000,000	31,200,000	-	-
Debt Limitation in excess of outstanding and authorized debt	\$ 55,637,534	\$ 99,533,618	\$ 75,078,015	\$ 92,107,613	\$ 85,022,412

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**CITY OF DERBY, CONNECTICUT  
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**NOTE 10 – SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City’s two Enterprise Funds account for the rental of parking spaces of the Parking Authority and operation of the Water Pollution Control Authority (WPCA) which are all supported by user charges. Segment information for the year ended June 30, 2017 is as follows:

	<u>Water Pollution Control Authority</u>	<u>Parking Authority</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$ 2,506,573	\$ 154,301	\$ 2,660,874
Operating Expenses	<u>2,166,896</u>	<u>127,097</u>	<u>2,293,993</u>
Operating Income(Loss)	339,677	27,204	366,881
Non-Operating(Expenses) Revenues	<u>(10,593)</u>	<u>-</u>	<u>(10,593)</u>
Change in Net Position	329,084	27,204	356,288
Beginning Net Position	<u>6,772,577</u>	<u>740,024</u>	<u>7,512,601</u>
Ending Net Position	7,101,661	767,228	7,868,889
Net Cash Provided By (Used In):			
Operating Activities	817,083	75,581	892,664
Capital and Financing Activities	-	-	-
Noncapital Financing Activities	(408,340)	-	(408,340)
Investing Activities	322	-	322
Beginning Cash and Equivalents	<u>2,147,995</u>	<u>96,875</u>	<u>2,244,870</u>
Ending Cash and Equivalents	<u>\$ 2,557,060</u>	<u>\$ 172,456</u>	<u>\$ 2,729,516</u>

**NOTE 11 – FUND DEFICITS AND EXPENDITURES IN EXCESS OF BUDGETED AMOUNTS**

The following funds had a fund deficit as of June 30, 2017:

Major Funds:	
Middle School Project	<u>\$ 215,743</u>
School Roof 2015	<u>\$ 1,931,549</u>
Sewer 2015	<u>\$ 2,055,460</u>
Roads 2015	<u>\$ 1,588,253</u>
Other Funds:	
-Other Capital Projects	<u>\$ 103,723</u>

These deficits for Other Capital Project Funds will be reduced or eliminated through permanent financing or the receipt of grant funds. The Middle School, School 2014, Sewer 2015, Roads 2015 deficits will be eliminated with bond proceeds.

**CITY OF DERBY, CONNECTICUT  
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The following expenditure categories within the General Fund exceeded their respective budgets by the amounts indicated:

General government	<u>\$ 383,972</u>
Board of Education-operations	<u>\$ 1,082,485</u>
Board of Education-grants	<u>\$ 721,911</u>
Interest on bonds	<u>\$ 634,351</u>

**NOTE 12- EMPLOYEE RETIREMENT PLANS**

**CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT PLAN**

**Organization**

Connecticut's Municipal Employees Retirement System (CMERS) is the public pension plan offered by the State of Connecticut for municipal employees in participating municipalities. The plan was established in 1947 and is governed by Connecticut Statute Title 7, Chapter 113. CMERS is a multiemployer pension plan administered by the Connecticut State Retirement Commission. The State Retirement Commission is responsible for the administration of the Connecticut Municipal Employees Retirement System (CMERS). The State Treasurer is responsible for investing CMERS funds for the exclusive benefit of CMERS members. The City has three different participating groups of employees with in this plan, the Ansonia Clerical Employees, the Ansonia Town Employees and the Ansonia Police Employees.

**Plan description**

Municipalities may designate which departments (including elective officers if so specified) are to be covered under the Municipal Employees Retirement System. This designation may be the result of collective bargaining. Only employees covered under the State Teachers Retirement System may not be included. There is no minimum age or service requirements. Membership is mandatory for all regular full-time employees of participating departments except Police and Fire hired after age 60.

The plan has 4 sub plans as follows:

- General employees with social security
- General employees without social security
- Policemen and firemen with social security
- Policemen and firemen without social security

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**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.

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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.

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.

### **Contributions**

Employer:

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

Employees:

For employees not covered by social security, each person is required to contribute 5% of compensation. For employees covered by social security, each person is required to contribute 2% of compensation up to the social security taxable wage base plus 5% of compensation, if any, in excess of such base.

### **Allocation methodology for Pension Liability, Pension Expense and Deferred outflows/inflows of resources**

The schedules of employer allocations were calculated based upon the 2016 actuarial (expected) payroll amounts reported by participating employers. Expected payroll adjusts actual payroll for known changes in the status of employees, annualized salaries for partial year employees and anticipated salary increases. The employer allocations were then applied to the net pension liability, pension expense, deferred inflows, sensitivity analysis and the deferred inflow amounts to be recognized in fiscal years subsequent to the reporting date to determine the amount applicable to each employer. The schedules of employer allocations reflect actuarial employer payroll for the fiscal year ended June 30, 2016. Based upon the employer's payroll as compared to the total, an employer allocation percentage is calculated to six decimal places and is used to allocate the elements noted above.

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**Pension Liability**

At June 30, 2016, the City reported a liability of \$3,456,814 for its proportionate share of the CMERS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2016. Net Pension Liability of the City: The components of the net pension liability of the City at June 30, 2017 was as follows:

	Derby Police MERS
Total pension liability	\$ 47,491,178
Plan fiduciary net assets	44,034,364
Net Pension Liability	\$ 3,456,814
Plan fiduciary net position as a percentage of the total pension liability	92.72%
Percentage of the total	7.904511%

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**Pension expense and deferred outflows/inflows of resources**

For the year ended June 30, 2017, the City recognized pension expense for their portion of the CMERS of \$727,164. At June 30, 2017, the County reported deferred outflows of resources related to pensions from the following sources:

	Derby Police MERS
	Deferred Outflows of Resources
Differences between expected and actual experience	\$ -
Changes in assumptions	-
Net difference between projected and actual earnings on investments	912,231
Total	\$ 912,231
Percentage of total	7.394109%
Pension Expense	\$ 727,164

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Deferred outflows of resources related to CMERS pensions will be recognized in pension expense as follows:

Year Ending June 30,	Derby Police MERS
2018	\$ 198,793
2019	198,793
2020	326,635
2021	188,010
Total	\$ 912,231

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**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary	4.25-11.00%, including inflation
Investment rate of return	8% net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010.

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

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**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, 2016 are summarized in the following table:

Asset Class	MERS - Target Allocation	MERS- Term Expected Real Rate of Return
Large Cap Equity	16.0%	5.8%
Developed non-US equities	14.0%	6.6%
Emerging Markets(non-US)	7.0%	8.3%
Core fixed income	8.0%	1.3%
Inflation linked bond fund	5.0%	1.0%
Emerging bond fund	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	<u>3.0%</u>	0.4%
	<u>100%</u>	

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**Sensitivity**

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:

<u>Net Pension Liability (Asset)</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increased to 9%</u>
Derby Police-MERS	<u>\$ 5,543,350</u>	<u>\$ 3,456,814</u>	<u>\$ 1,718,769</u>

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Connecticut State Teachers' Retirement Fund**

**Organization**

The Connecticut Teachers' Retirement System (TRS) is the public pension plan offered by the State of Connecticut to provide retirement, disability, survivorship and health insurance benefits for Connecticut public school teachers and their beneficiaries. The plan is governed by Connecticut Statute Title 10, Chapter 167a of the Connecticut General Statutes. TRS is a multiemployer pension plan administered by the Connecticut State Teachers' Retirement Board. The State Teachers' Retirement Board (TRB) is responsible for the administration of the Connecticut Teachers' Retirement System. The State Treasurer is responsible for investing TRS funds for the exclusive benefit of TRS members.

**Plan description**

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

**Benefit provisions**

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

Normal Retirement: Retirement benefits for 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.

**CITY OF DERBY, CONNECTICUT  
NOTES TO THE FINANCIAL STATEMENTS  
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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.

**Contributions-State of Connecticut**

Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut is amended and certified by the State Teachers' Retirement Board and appropriated by the General Assembly. The contributions are actuarially determined as an amount that, when combined with employee contributions and investment earning, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

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**Employer (School Districts)**

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

**Employees:**

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

In addition, the City has recognized revenues and expenditures for on-behalf payments for pension contributions paid directly to the Connecticut State Teachers' Retirement System by the State of Connecticut. Such on-behalf payments were \$3,424,809 for the year ended June 30, 2017.

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

At **June 30, 2017**, the City reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows, due to the statutory requirement that the State pay 100% of the required contribution. The amount recognized by the Town as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the Town were as follows:

City's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the City	<u>\$31,404,825</u>
Total	<u>\$31,404,825</u>

**CITY OF DERBY, CONNECTICUT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

**ACTUARIAL ASSUMPTIONS**

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

Inflation	2.75%
Salary increase	3.25-6.50%, including inflation
Investment rate of return	8.0%, net of pension plan investment expense, including inflation

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap U.S. equities	21%	5.80%
Developed non-U.S. equities	18%	6.60%
Emerging markets (non-U.S.)	9%	8.30%
Real estate	7%	5.10%
Private equity	11%	7.60%
Alternative investments	8%	4.10%
Core fixed income	7%	1.30%
High yield bonds	5%	3.90%
Emerging market bond	5%	3.70%
Inflation linked bond fund	3%	1.00%
Cash	<u>6%</u>	0.40%
Total	<u>100%</u>	

**DISCOUNT RATE**

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

**CITY OF DERBY, CONNECTICUT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

**Other Information**

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

A copy of the plan's comprehensive annual financial report can be obtained from the State of Connecticut Teachers Retirement Board.

**CITY EMPLOYEES' RETIREMENT PLAN**

**Plan Description**

City Public Employee Retirement System – The City of Derby Pension Plan covers substantially all full-time employees of the City of Derby and its related agencies, except teachers, who are covered by the State Teacher's Retirement Fund and police employees who are covered by the State Municipal Employees Retirement Fund. The Public Employee Retirement System is the administrator of a single-employer pension plan that was established by the City in accordance with the City charter and state statutes.

As of July 1, 2015, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	71	
Active plan participants:		
Vested	86	
Nonvested	<u>29</u>	
Total Active Participants	<u>115</u>	
	TOTAL	<u>186</u>

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The pension plan provides pension benefits, cost of living allowances, and death and disability benefits. A member may retire after reaching the age of 63 and completing 25 years of service, or after 5 years of service having attained age 65. Also, a member may retire early after reaching age 55 and completing 10 years of service. Employees who retire at or after age 55 with 25 or more years of service are entitled to pension payments equal to 2% of average annual pay during five consecutive highest paid years, times the number of years and completed months of service for which they were employed by the City. For employees who retire early, the normal retirement formula applies except that benefits are reduced one-half percent (.5%) for each month before the normal retirement date that the pension begins.

Employees of the City are required to pay 3.5% of their gross earnings to the pension plan. The payments are deducted from the employee's wages or salary and remitted by the City to the Public Employee Retirement System on a monthly basis. If an employee leaves the employment of the City before 25 years of service, the accumulated contributions plus earned interest are refunded to the employee or the employee's designated beneficiary.

**CITY OF DERBY, CONNECTICUT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

For the year ended June 30, 2017, the City's total payroll for all employees amounted to \$18,289,571 and the City's total covered payroll amounted to \$5,165,262. Covered payroll refers to all compensation paid by the City to active employees covered by the Derby Public Employee Retirement System on which contributions to the pension plan are based.

**CITY OF DERBY, CONNECTICUT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

	<u>Pension Trust Fund</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 413,714
Investments, at fair value	14,252,370
Other receivables	<u>10,057</u>
TOTAL ASSETS	<u>\$ 14,676,141</u>
<b>LIABILITIES AND NET POSITION</b>	
<b>CURRENT LIABILITIES</b>	
Other liabilities	\$ -
Due to general fund	<u>-</u>
TOTAL CURRENT LIABILITIES	-
<b>NET POSITION</b>	
Reserved for employee retirement system	<u>14,676,141</u>
TOTAL NET POSITION	<u>14,676,141</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 14,676,141</u>

**CITY OF DERBY, CONNECTICUT  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2017**

<b>ADDITIONS</b>		2018 APR 3 AM 9:53
<b>Contributions</b>		
Employer contributions from general fund	\$ 572,000	
Employee contributions	<u>101,178</u>	
Total contributions	<u>673,178</u>	
<b>Investment income</b>		
Net appreciation in fair value of investments	2,014,283	
Interest and dividends	<u>166</u>	
	2,014,449	
Less investment expenses - investment management fees	<u>54,376</u>	
Net investment income	<u>1,960,073</u>	
Total additions	2,633,251	
<b>DEDUCTIONS</b>		
Benefits and other deductions	<u>988,834</u>	
Net change in net assets	1,644,417	
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES, Beginning of year</b>		<u>13,031,724</u>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES, End of year</b>		<u>\$ 14,676,141</u>

**CITY OF DERBY, CONNECTICUT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

Investments and Rate of Return:

Investment Policy: The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the Pension Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following was the adopted allocation policy as of June 30, 2015.

Asset Class	City Employees' Retirement		
	Target Allocation	Long-Term Expected Real Rate of Return*	Weighting
Large Cap Equity	30.00%	4.48%	1.34%
Mid/Small Cap Equity	10.00%	5.09%	0.51%
International Equity	20.00%	5.63%	1.13%
High Quality Fixed Income	35.00%	1.24%	0.43%
High Yield Fixed Income	<u>5.00%</u>	3.05%	<u>0.15%</u>
	<u>100%</u>		<u>3.56%</u>
Long-term inflation expectation			<u>2.75%</u>
Long-term expected nominal return			<u>6.31%</u>

\*Long Term Returns are provided by Beirne Wealth Consulting.

Rate of Return: The returns are geometric means. The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return are developed. Best estimates of the real rates of return for each major asset class are included in the pension plan’s target asset allocation. The information above is based on geometric means and does not reflect additional returns through investment selection, asset allocation and rebalancing. The investment return assumption used assumed a change in the long term asset allocation shown above. The plan sponsor will be reviewing the plan’s investment and corresponding assumptions in the coming year. Based on the results of this analysis, we expect that there will be changes in the asset allocation and/or investment return assumption. An expected rate of return of 7.00% was used.

**CITY OF DERBY, CONNECTICUT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

Net Pension Liability of the City: The components of the net pension liability of the City at June 30, 2017 were as follows:

	<u>City Employees' Retirement</u>
Total pension liability	\$ 20,116,882
Plan fiduciary net assets	14,666,098
	<u>5,450,784</u>
Net Pension Liability	\$ <u>5,450,784</u>
Plan fiduciary net position as a percentage of the total pension liability	72.90%
Covered-employee payroll	\$ <u>5,165,262</u>
Net pension liability as a % of covered payroll	<u>105.53%</u>

The City's net pension liability is recorded on the governmental-wide statement of net position at June 30, 2017.

Actuarial Assumptions (GASB 67): The total pension liability was determined by an actuarial valuation as of July 1, 2015, calculated based on the discount rate and actuarial assumptions below, and then was projected forward to the measurement date July 1, 2015. There have been no significant changes between the valuation date and the fiscal year end except as indicated below.

	<u>City's Retirement Plan</u>
Valuation date	July 1, 2015
Actuarial cost method	Aggregate Actuarial cost method
Actuarial accrued liability	N/A
Remaining amortization period	N/A
Asset valuation method	Expected value
Investment rate of return	7.00%
Inflation	2.75%
Retirement age	63
Mortality	RP-2014

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**Concentrations**

Investments that represent 5% or more of net position available for benefits are listed in Note 5.

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

*Discount Rate:* The discount rate used to measure the total pension liability was 7.0%. 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 City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Therefore, the long-term expected rates of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate:* The following presents the net pension liability (asset) of the City, calculated using the discount rate of 7.00%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the rate utilized:

<u>Net Pension Liability (Asset)</u>	<u>1% Decrease to 6.00%</u>	<u>Current Discount Rate 7.00%</u>	<u>1% Increased to 8.00%</u>
City Employees' Retirement	\$ 7,785,952	\$ 5,450,784	\$ 3,474,261

*Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions:* For the year ended June 30, 2017, the City recognized pension expense of \$1,510,406 for the City Pension Plan. The City reported deferred outflows of resources related to pensions from the following sources:

	<u>City Pension Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 162,878
Changes in assumptions	704,139
Net difference between projected and actual earnings on investments	<u>165,227</u>
Total	<u>\$ 1,032,244</u>

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Actual investment earnings below (or above) projected earnings are amortized over 5 years. Change of assumption and experience losses (gains) are amortized over the average remaining service period of actives and inactive, which was also 5 years. Amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	City Pension
2018	\$ 372,208
2019	372,209
2020	260,394
2021	(13,852)
2022	41,285
Total	\$ 1,032,244

**NOTE 13 - POST-RETIREMENT BENEFITS**

The City provides post-retirement benefits for certain employees for current and future health and life insurance benefit expenses through a single-employer defined benefit plan. An annual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. The latest actuarial valuation was made July, 1, 2014. The post-retirement plan does not issue standalone financial reports. From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2009, the City recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

The contribution requirements of plan members and the City are established and may be amended by the City. The City determines the required contribution using the Projected Unit Credit Method.

Membership in the plan consisted of the following at July 1, 2014, the date of the last actuarial valuation.

Retirees and beneficiaries receiving benefits	110
Active plan members	<u>310</u>
Total	<u>410</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation was as follows:

Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Contributed	Net OPEB Obligation
June 30, 2017	\$ 3,103,859	\$ 916,225	29.5%	17,538,161
June 30, 2016	\$ 3,060,650	\$ 1,218,120	39.8%	15,350,528
June 30, 2015	2,754,018	642,507	23.3%	13,507,997

**CITY OF DERBY, CONNECTICUT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

The calculation of the Net Other Post-Employment Benefits (OPEB) is detailed as follows and is recorded in Governmental Activities:

Annual required contribution		\$	3,343,593
Interest on net pension asset			614,022
Adjustment to ARC			(853,756)
Annual OPEB cost			3,103,859
Contributions made			916,225
Increase in net OPEB liability			2,187,634
Net OPEB obligation, beginning of year			15,350,527
Net OPEB obligation, end of year		\$	17,538,161

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAL) (b)-(a)	Funded Ratio (a/b)	Covered payroll (c)	Unfunded UAL as a % of covered payroll ((b-a)/c)
7/1/2014	\$ -	\$ 25,953,329	\$25,953,329	0%	\$15,478,100	168%
7/1/2012	\$ -	\$ 27,332,100	\$27,332,100	0%	\$14,583,700	187%
7/1/2010	\$ -	\$ 24,088,600	\$24,088,600	0%	\$15,002,000	161%

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 actual results are compared with past expectations and new estimates are made about the future. Projections of 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 of 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. The information presented was determined as part of the actuarial valuation. Additional information as of the last actuarial valuations follows:

Valuation date	July 01, 2014
Actuarial cost method	Projected Unit Credit
Amortization method	Actuarial accrued liability
Remaining amortization period	30 Year Level Dollar, Open
Asset valuation method	30 Year
Actuarial assumptions	Market Value
Investment rate of return	4.00%
Inflation rate	2.75%

**CITY OF DERBY, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Health cost trend rates -Start at 7.75 % in 2016, decrease by .5% per year down to 4.75% in 2022 and beyond.

Dental cost trend rates-4.75% per year.

**NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES**

The City of Derby, Connecticut is contingently liable in a number of lawsuits involving personal injury claims, heart and hypertension, tax appeals, negligence, zoning, personnel, and other miscellaneous suits and unasserted claims.

The City has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. The audits of these programs by the grantor agencies could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the grant. Based upon prior experience, City management believes such disallowances, if any, will not be material.

**Construction Commitments**

The fund balances in the Capital Project Funds will be used for future construction and renovation.

**NOTE 15 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and medical claims and natural disasters. The City carries commercial insurance for these risks. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the three prior years.

**NOTE 16 – CLOSURE AND POSTCLOSURE CARE COSTS**

State and federal laws and regulations require that the City of Derby place a final cover on its landfill when it was closed, and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The recognition of these landfill closure and postclosure care costs is based on the amount of landfill used during the year. The estimated remaining cost of the postclosure care is \$324,858, which is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, maintain the landfill and construct a transfer station were completed as of June 30, 2017. The actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The landfill closure costs of \$1,100,000 was financed by general obligation bonds of \$300,000 issued during fiscal year ended June 30, 1995, and by State grants estimated at \$800,000. These landfill grants and postclosure costs have been included in Other Governmental Funds.

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**NOTE 17 – SELF INSURANCE**

The City is self-insured for liabilities for most health benefits, third-party claims, and workers' compensation which is accounted for in the general fund. The Risk Management office actively manages risk on behalf of the City, through a combination of loss prevention and control, risk retention and risk transfer. The City continually evaluates its risk management program, including its self-insured retention levels, claims frequency and loss trends. Currently, there is a stop loss limit on claim exceeding \$100,000. A reconciliation of changes in the

**CITY OF DERBY, CONNECTICUT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

aggregate liabilities for claims (including IBNR claims) for the current fiscal year and the prior fiscal year is as follows:

	Year ended	
	June 30, 2017	June 30, 2016
Amount of claims liabilities at the beginning of the fiscal year	\$ 308,520	\$ 213,508
Incurred claims	5,815,010	5,136,794
Payments on claims	5,656,430	5,041,782
Amount of claims liabilities at the end of the fiscal year	\$ 467,100	\$ 308,520

**NOTE 18 – SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 26, 2018, the date of the financial statements were available to be issued.

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**CITY OF DERBY, CONNECTICUT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 CITY EMPLOYEE RETIREMENT SYSTEM  
 PENSION CONTRIBUTIONS  
 JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 969,392	\$ 849,200	\$ 849,200
Contributions in relation to the contractually required contribution	<u>572,000</u>	<u>572,000</u>	<u>572,000</u>
Contribution deficiency(excess)	<u>\$ 397,392</u>	<u>\$ 277,200</u>	<u>\$ 277,200</u>
City's Covered payroll	<u>\$ 5,165,262</u>	<u>\$ 4,990,591</u>	<u>\$ 4,776,920</u>
Contributions as a percentage of covered payroll	<u>18.77%</u>	<u>17.02%</u>	<u>17.78%</u>

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	City's Retirement Plan	
Valuation date	July 1, 2015	
Actuarial cost method	Aggregate Actuarial cost method	
Actuarial accrued liability	N/A	
Remaining amortization period	N/A	
Asset valuation method	Expected value	
Investment rate of return	7.00%	
Inflation	2.75%	
Retirement age	63	
Mortality	RP-2014	

**CITY OF DERBY, CONNECTICUT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY  
AND RELATED RATIOS**

	Year ending June 30, 2017 City Retirement Plan	Year ending June 30, 2016 City Retirement Plan	Year ending June 30, 2015 City Retirement Plan
<b>Total Pension Liability</b>			
Service cost	\$ 750,603	\$ 664,870	\$ 614,710
Interest on total pension liability	1,348,949	1,267,010	1,194,069
Effect of economic/demographic gains or (losses)	-	240,440	-
Change in assumptions	-	1,039,443	-
Benefit payments	<u>(988,834)</u>	<u>(852,970)</u>	<u>(918,621)</u>
Net change in total pension liability	1,110,718	2,358,793	890,158
 Total Pension Liability, beginning	 <u>19,006,164</u>	 <u>16,647,371</u>	 <u>15,757,213</u>
 Total pension liability, ending (a)	 20,116,882	 19,006,164	 16,647,371
 <b>Fiduciary Net Position</b>			
Employer contributions	\$ 572,000	\$ 572,000	\$ 572,000
Member contributions	101,178	149,599	214,256
Investment income net of investment expenses	2,000,627	(360,774)	431,291
Benefit payments	(988,834)	(852,970)	(918,621)
Administrative expenses	<u>(39,030)</u>	<u>(48,745)</u>	<u>(15,281)</u>
Net change in plan fiduciary net position	1,645,941	(540,890)	283,645
 Fiduciary Net Position, beginning	 13,020,157	 13,561,047	 13,277,402
 Fiduciary net position, ending (b)	 <u>14,666,098</u>	 <u>13,020,157</u>	 <u>13,561,047</u>
 Net pension liability, ending (a)-(b)	 <u>\$ 5,450,784</u>	 <u>\$ 5,986,007</u>	 <u>\$ 3,086,324</u>
 Fiduciary net position as a % of total pension liability	 <u>72.90%</u>	 <u>68.50%</u>	 <u>81.46%</u>
 Covered payroll	 <u>\$ 5,165,262</u>	 <u>\$ 4,990,591</u>	 <u>\$ 4,776,920</u>
 Net pension liability as a % of covered payroll	 <u>105.53%</u>	 <u>119.95%</u>	 <u>64.61%</u>

Note: See notes to the financial statements for actuarial methods and assumptions.

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CITY OF DERBY, CONNECTICUT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 DERBY POLICE MUNICIPAL EMPLOYEES RETIREMENT SYSTEM  
 PENSION CONTRIBUTIONS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 650,374	\$ 610,891	\$ 690,314
Contributions in relation to the contractually required contribution	<u>650,374</u>	<u>610,891</u>	<u>690,314</u>
Contribution deficiency(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered payroll	<u>\$ 3,424,096</u>	<u>\$ 3,166,730</u>	<u>\$ 3,166,730</u>
Contributions as a percentage of covered payroll	<u>18.99%</u>	<u>19.29%</u>	<u>21.80%</u>

Note: See notes to the financial statements for actuarial methods and assumptions.

CITY OF DERBY, CONNECTICUT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
 TEACHERS RETIREMENT PLAN

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the City	<u>\$ 31,404,825</u>	<u>\$ 25,021,409</u>	<u>\$ 23,127,278</u>
Total	<u>\$ 31,404,825</u>	<u>\$ 25,021,409</u>	<u>\$ 23,127,278</u>
City's covered-employee payroll	\$ 12,604,855	\$ 12,237,723	\$ 11,943,560
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%	0%	0%
Plan fiduciary net position as a percentage of the total pension liability	59.50%	59.50%	61.51%

Note: See notes to the financial statements for actuarial methods and assumptions.

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**SUPPLEMENTAL INFORMATION**  
**NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF DERBY, CONNECTICUT  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2017**

**SPECIAL REVENUE FUNDS**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

*School Lunch* — is used to account for a school lunch program and the federal and state grants that are included within that program.

*Community Development* — is used to account for community development block grants/small cities program funds which are principally used for developing viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income

*Other Special Revenue Funds* — are used to account for the smaller special revenue programs not classified anywhere else.

**CAPITAL PROJECTS FUNDS**

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

*Library Construction* — is used to account for library improvements.

*Land Acquisition* — is used to account for acquisition of land designated by the City for conservation

*Phase III Roadways* — is used to account for pavement reconstruction and storm drainage improvements to repairs to certain City streets.

*System-wide School Capital Improvements* — is used to account for the improvements to the City's School improvements.

*Other Capital Project Funds* — are used to account for the smaller capital programs not classified anywhere else.

**PERMANENT FUNDS**

*Permanent Funds* — are used to account restricted funds where only the income of those funds is restricted by a donor for a particular purpose.

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**CITY OF DERBY, CONNECTICUT**  
**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

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	Special Revenue		
	School Lunch	Community Development	Other Special Revenue Funds
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 191,549	\$ 61,880	\$ 50,787
Receivables - intergovernmental	100,789	25,000	-
Receivables - other	-	44,953	-
Inventory	9,098	-	-
Due from other funds	-	-	-
TOTAL ASSETS	\$ 301,436	\$ 131,833	\$ 50,787
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 81,869	\$ 26,523	\$ -
Deferred revenue	-	88,852	50,064
Bond anticipation note payable	-	-	-
Due to other funds	-	-	-
TOTAL LIABILITIES	81,869	115,375	50,064
<b>FUND BALANCES (DEFICIT)</b>			
Nonspendable	9,098	-	-
Restricted	-	-	-
Assigned	210,469	16,458	723
Unassigned	-	-	-
Total fund balances (deficits)	219,567	16,458	723
TOTAL LIABILITIES AND FUND BALANCES	\$ 301,436	\$ 131,833	\$ 50,787

**CITY OF DERBY, CONNECTICUT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES (DEFICITS) - NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2017**

<b>REVENUES</b>			
Federal and State government	\$ 617,999	\$ 73,213	\$ 13,665
Charges for services	220,309	-	-
Other	-	-	-
Interest on investments	-	-	-
TOTAL REVENUES	838,308	73,213	13,665
<b>EXPENDITURES</b>			
General government	-	-	32
Culture and recreation	-	-	-
Health and welfare	737,841	-	13,665
Capital outlay	-	135,757	-
TOTAL EXPENDITURES	737,841	135,757	13,697
<b>EXCESS OF REVENUES</b>			
OVER (UNDER) EXPENDITURES	100,467	(62,544)	(32)
<b>OTHER FINANCING SOURCES - Operating transfers out</b>			
	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND</b>			
<b>OTHER FINANCING SOURCES OVER EXPENDITURES</b>			
<b>AND OTHER FINANCING SOURCES (USES)</b>			
	100,467	(62,544)	(32)
Fund balance(deficit) at July 1, 2016	119,100	79,002	755
FUND BALANCES (DEFICIT)			
AT JUNE 30, 2017	\$ 219,567	\$ 16,458	\$ 723

**Capital Projects**

<u>Library Construction</u>	<u>Land Acquisitions</u>	<u>Phase III Roadways</u>	<u>System-wide School Capital Improvements</u>	<u>Other Capital Project Funds</u>	<u>Permanent Funds</u>	<u>Total</u>
\$ 9,011	\$ 69,007	\$ 24,048	\$ 5,999	\$ 36,037	\$ -	\$ 448,318
-	-	-	-	-	-	125,789
-	-	-	-	-	-	44,953
-	-	-	-	-	-	9,098
<u>103,282</u>	<u>-</u>	<u>-</u>	<u>22,254</u>	<u>23,288</u>	<u>-</u>	<u>148,824</u>
<u>\$ 112,293</u>	<u>\$ 69,007</u>	<u>\$ 24,048</u>	<u>\$ 28,253</u>	<u>\$ 59,325</u>	<u>\$ -</u>	<u>\$ 776,982</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,392
-	-	-	-	-	-	138,916
-	-	-	-	-	-	-
<u>6,296</u>	<u>27,517</u>	<u>-</u>	<u>-</u>	<u>163,048</u>	<u>-</u>	<u>196,861</u>
<u>6,296</u>	<u>27,517</u>	<u>-</u>	<u>-</u>	<u>163,048</u>	<u>-</u>	<u>444,169</u>
-	-	-	-	-	-	9,098
105,997	41,490	24,048	-	-	-	171,535
-	-	-	-	-	-	227,650
-	-	-	<u>28,253</u>	<u>(103,723)</u>	<u>-</u>	<u>(75,470)</u>
<u>105,997</u>	<u>41,490</u>	<u>24,048</u>	<u>28,253</u>	<u>(103,723)</u>	<u>-</u>	<u>332,813</u>
<u>\$ 112,293</u>	<u>\$ 69,007</u>	<u>\$ 24,048</u>	<u>\$ 28,253</u>	<u>\$ 59,325</u>	<u>\$ -</u>	<u>\$ 776,982</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 704,877
-	-	-	-	-	-	220,309
-	-	-	-	-	-	-
<u>-</u>	<u>140</u>	<u>-</u>	<u>30</u>	<u>59</u>	<u>-</u>	<u>229</u>
<u>-</u>	<u>140</u>	<u>-</u>	<u>30</u>	<u>59</u>	<u>-</u>	<u>925,415</u>
-	-	-	-	-	-	32
-	-	-	-	-	-	-
-	-	-	-	-	4,303	755,809
<u>-</u>	<u>-</u>	<u>24</u>	<u>-</u>	<u>1,533</u>	<u>-</u>	<u>137,314</u>
<u>-</u>	<u>-</u>	<u>24</u>	<u>-</u>	<u>1,533</u>	<u>4,303</u>	<u>893,155</u>
-	140	(24)	30	(1,474)	(4,303)	32,260
-	-	-	-	-	-	-
-	140	(24)	30	(1,474)	(4,303)	32,260
<u>105,997</u>	<u>41,350</u>	<u>24,072</u>	<u>\$ 28,223</u>	<u>(102,249)</u>	<u>4,303</u>	<u>300,553</u>
<u>\$ 105,997</u>	<u>\$ 41,490</u>	<u>\$ 24,048</u>	<u>\$ 28,253</u>	<u>\$ (103,723)</u>	<u>\$ -</u>	<u>\$ 332,813</u>

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**SUPPLEMENTAL INFORMATION**  
**FIDUCIARY FUNDS**

## **FIDUCIARY FUNDS**

Fiduciary Funds are used to account for assets held in a trustee capacity for others, and include Pension Trusts, Expendable Trusts, Non-Expendable Trusts and Agency Funds.

*Agency Funds* — utilize the modified accrual basis of accounting. Agency funds are custodial in nature (assets equal liabilities) and are used to account for student activities and school scholarship funds. The City's Agency Funds are listed below:

- Student Scholarship Fund
- Student Activity
- Performance Bonds

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**CITY OF DERBY, CONNECTICUT  
COMBINING SCHEDULE OF CHANGES IN ASSETS  
AND LIABILITIES – AGENCY FUNDS  
YEAR ENDED JUNE 30, 2017**

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
<b>STUDENT ACTIVITY FUNDS</b>				
<b>ASSETS</b>				
Cash	\$ 777,870	\$ 5,378,522	\$ 801,773	\$ 5,354,619
<b>LIABILITIES</b>				
Due to student groups	\$ 285,047	\$ 5,378,522	\$ 403,800	\$ 5,259,769
Due to General Fund	492,823	-	397,973	94,850
Total Liabilities	<u>\$ 777,870</u>	<u>\$ 5,378,522</u>	<u>\$ 801,773</u>	<u>\$ 5,354,619</u>
<b>STUDENT SCHOLARSHIP FUNDS</b>				
<b>ASSETS</b>				
Cash	\$ 19,501	\$ 56,590	\$ 48,515	\$ 27,576
Investments	33,122	3,700	-	36,822
Total Assets	<u>\$ 52,623</u>	<u>\$ 60,290</u>	<u>\$ 48,515</u>	<u>\$ 64,398</u>
<b>LIABILITIES</b>				
Due to student groups	<u>\$ 52,623</u>	<u>\$ 60,290</u>	<u>\$ 48,515</u>	<u>\$ 64,398</u>
<b>PERFORMANCE BONDS</b>				
<b>ASSETS</b>				
Cash	\$ 1,107,048	\$ -	\$ 10,000	\$ 1,097,048
<b>LIABILITIES</b>				
Due to developers	<u>\$ 1,107,048</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 1,097,048</u>
<b>TOTAL ALL AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash	\$ 1,904,419	\$ 5,435,112	\$ 860,288	\$ 6,479,243
Investments	33,122	3,700	-	36,822
Total Assets	<u>\$ 1,937,541</u>	<u>\$ 5,438,812</u>	<u>\$ 860,288</u>	<u>\$ 6,516,065</u>
<b>LIABILITIES</b>				
Due to student groups	\$ 337,670	\$ 5,438,812	\$ 452,315	\$ 5,324,167
Due to developers	1,107,048	-	10,000	1,097,048
Due to General Fund	492,823	-	397,973	94,850
Total Liabilities	<u>\$ 1,937,541</u>	<u>\$ 5,438,812</u>	<u>\$ 860,288</u>	<u>\$ 6,516,065</u>

**OTHER SCHEDULES**

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**CITY OF DERBY, CONNECTICUT  
SCHEDULE OF PROPERTY TAXES LEVIED,  
COLLECTED AND OUTSTANDING – GENERAL FUND  
YEAR ENDED JUNE 30, 2017**

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Grand List Year	Uncollected Taxes July 01, 2016 and Current List	Additions/ (Deductions)	Balance to be Collected
1999	\$ 668	\$ (668)	\$ -
2000	773	(773)	-
2001	820	(820)	-
2002	820	(820)	-
2003	3,235	(1,238)	1,997
2004	3,398	(1,319)	2,079
2005	4,901	(1,402)	3,499
2006	6,744	(1,505)	5,239
2007	10,978	(1,467)	9,511
2008	35,209	(1,941)	33,268
2009	47,569	(9,409)	38,160
2010	71,773	(15,598.00)	56,175
2011	72,284	(13,637.00)	58,647
2012	125,341	(38,419.00)	86,922
2013	202,219	(34,428)	167,791
2014	550,435	(27,359)	523,076
	1,137,167	(150,803)	986,364
2015	28,318,359	(127,064)	28,191,295
	<u>\$ 29,455,526</u>	<u>\$ (277,867)</u>	<u>\$ 29,177,659</u>

**CITY OF DERBY, CONNECTICUT  
SCHEDULE OF SPECIAL ASSESSMENTS  
YEAR ENDED JUNE 30, 2017**

Assessment of:	Uncollected Special Assessments June 30, 2017
1974	
Academy Hill	\$ 1,407
Donna Avenue	1,407
Kindle Lane	3,926
Krakow Street	47,924
Marshall Lane	5,483
Paugassette Road	1,689
Pine Street	3,274
Roosevelt Drive	16,852
Sodom Lane	4,492
	<u>86,454</u>
1976	
David Humphrey's Road	1,626
John Street	3,252
	<u>4,878</u>
1976	
Harrison Avenue	2,700
Water bills	1,716
	<u>4,416</u>
TOTAL	<u>\$ 95,748</u>

Collections				Taxes
Taxes	Interest	Lien Fees	Total	Receivable June 30, 2017
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	1,997
-	-	-	-	2,079
-	-	-	-	3,499
-	-	-	-	5,239
203	296	24	523	9,308
5,088	6,853	48	11,989	28,180
6,305	7,487	48	13,840	31,855
6,250	6,497	48	12,795	49,925
8,502	6,938	92	15,532	50,145
24,072	8,514	150	32,736	62,850
73,033	25,255	1,421	99,709	94,758
316,312	61,195	3,790	381,297	206,764
439,765	123,035	5,621	568,421	546,599
27,589,666	94,860	1,877	27,686,403	601,629
<u>\$ 28,029,431</u>	<u>\$ 217,895</u>	<u>\$ 7,498</u>	<u>\$ 28,254,824</u>	<u>\$ 1,148,228</u>

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**CITY OF DERBY, CONNECTICUT  
SCHEDULE OF NATIONALLY RECOGNIZED MUNICIPAL  
SECURITIES INFORMATION REPOSITORY  
YEAR ENDED JUNE 30, 2017**

Gross Grand List-October 1, 2015	\$ 723,068,933
Net Grand List-October 1, 2015	716,891,101

Ten Largest Taxpayers:	<u>Grand List Assessment</u>
United Illuminating Co.	\$ 12,267,061
Antinozzi, Peter, Concetta & Justine	11,265,240
49 Pershing Drive LLC	9,425,500
Home Depot	8,203,720
500 NHA LLC	7,291,620
Yankee Gas Services Co.	6,208,344
Realty Income SUB 318, LLC	5,441,380
Opuszynski Jean A	4,127,760
Walgreen Eastern Co.	3,775,660
500 NHA LLC	3,644,410

Debt Statement as of June 30, 2017:

Short Term Debt	\$ 7,850,000
Long Term Debt	<u>13,505,800</u>
Total Direct Debt	21,355,800
Less: School construction grants	-
Water assessments receivable, net of allowance	<u>-</u>
Total Net Direct Debt	<u>\$ 21,355,800</u>

Current Debt Ratios

(Pro Forma)

Population (2015)*	12,796
Net Grand List(Taxable) - October 1, 2015	\$ 716,891,101
Estimated Full Value (70%)	\$ 723,068,933
Equalized Net Taxable Grand List (2015)**	\$ 1,027,004,776
Money Income per Capita (2014)*	\$ 51,596

\* Connecticut Economic Resource Center, Inc. (Cerc)

\*\* State of Connecticut, Office of Policy and Management

	<u>Total Direct Debt</u>	<u>Total Net Direct Debt</u>
Per Capita	1,669	1,669
Ratio to Net Taxable Grand List	2.98%	2.98%
Ratio to Estimated Full Value	2.95%	2.95%
Ratio to Equalized Net Taxable Grand List	2.08%	2.08%
Per Capita to Money Income per Capita	3.23%	3.23%