

# OFFICIAL STATEMENT

## NEW ISSUE- Book Entry Only

**RATING:** See "Rating" herein

*In the opinion of Bond Counsel, assuming the accuracy of and compliance by the Town with its representations and covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), under existing statutes, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; the Bonds are not "private activity bonds" and interest on the Bonds is not treated as a preference item for purposes of calculating the Federal alternative minimum tax for individuals; however, for tax years beginning before January 1, 2018, interest on the Bonds is included in the calculation of a corporation's adjusted current earnings for purposes of, and thus may be subject to, the federal alternative minimum tax for certain corporations; the Bonds are "qualified tax-exempt obligations"; interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the Bonds is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. (See Appendix B "Form of Opinion of Bond Counsel and Tax Status" herein.)*

## TOWN OF VERNON, CONNECTICUT

**\$5,000,000**

### GENERAL OBLIGATION BONDS, ISSUE OF 2018 BANK QUALIFIED

#### **Dated: Date of Delivery**

**Due: August 1, as shown below**

The Bonds will be general obligations of the Town of Vernon, Connecticut (the "Town") and the Town will pledge its full faith and credit to pay the principal of and the interest on the Bonds when due. (See "Security and Remedies" herein).

The Bonds will bear interest payable on February 1, 2019 and semiannually thereafter on February 1 and August 1 in each year until maturity. The Bonds are issuable by means of a book-entry transfer system and will be registered in the name of Cede & Co., as Bondowner, and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry-only form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. So long as Cede & Co. is the Bondowner, as nominee of DTC, reference herein to the Bondowner shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners (as described herein) of the Bonds. (See "Book-Entry-Only System" herein).

The Registrar, Certifying Bank, Transfer and Paying Agent for the Bonds will be U.S. Bank National Association, of Hartford, Connecticut.

**The Bonds ARE subject to optional redemption prior to maturity as described herein. (See "Optional Redemption" herein).**

#### MATURITY SCHEDULE AND AMOUNTS

Year	Amount	Interest Rate	Yield	CUSIP <sup>1</sup>	Year	Amount	Interest Rate	Yield	CUSIP <sup>1</sup>
2019	\$340,000	5.000 %	1.510 %	924427VR5	2027	\$330,000	3.000 %	2.600 % *	924427VZ7
2020	340,000	5.000	1.680	924427VS3	2028	330,000	3.000	2.750 *	924427WA1
2021	340,000	5.000	1.780	924427VT1	2029	330,000	3.000	2.900 *	924427WB9
2022	335,000	5.000	1.900	924427VU8	2030	330,000	3.000	3.000	924427WC7
2023	335,000	5.000	2.000	924427VV6	2031	330,000	3.000	3.050	924427WD5
2024	335,000	5.000	2.120	924427VW4	2032	330,000	3.000	3.100	924427WE3
2025	335,000	3.000	2.300 *	924427VX2	2033	330,000	3.125	3.150	924427WF0
2026	330,000	3.000	2.450 *	924427VY0					

\* - Priced assuming redemption on August 1, 2024 however any such redemption is at the option of the Town (see "Optional Redemption" herein).

## Baird

*The Bonds are offered for delivery when, as and if issued, subject to the final approving opinion of Day Pitney LLP, Bond Counsel, of Hartford, Connecticut. It is expected that the Bonds in definitive form will be available for delivery in New York, New York on or about August 2, 2018.*

**Dated: July 25, 2018**

Copyright, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Town and are included solely for the convenience of the holders of the Bonds. The Town is not responsible for the selection or use of these CUSIP numbers, does not undertake any responsibility for their accuracy, and makes no representation as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

No dealer, broker, salesman or other person has been authorized by the Town of Vernon, Connecticut (the "Town") to give any information or to make any representations not contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Town.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained by the Town from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness.

This Official Statement has been prepared only in connection with the initial offering and sale of the Bonds and may not be reproduced or used in whole or in part for any other purpose. The information, estimates and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no material change in the affairs of the Town since the date of this Official Statement.

Set forth in Appendix A – “Audited Financial Statements” hereto is a copy of the report of the independent auditors for the Town with respect to the financial statements of the Town included in that appendix. The report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

Other than as to matters expressly set forth in Appendix B "Opinion of Bond Counsel and Tax Status" respectively, Bond Counsel are not passing on and do not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and make no representation that they have independently verified the same.

Independent Bond and Investment Consultants LLC, the Town's Municipal Advisor, has assisted the Town in the preparation of this Official Statement from information supplied by Town officials and other sources. Independent Bond and Investment Consultants LLC does not assume responsibility for the adequacy or accuracy of the statements made herein and makes no representation that it has independently verified the same.

This Official Statement is in a form "deemed final" by the Town for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), but is subject to revision or amendment.

The Town currently files its official statements for primary offerings with the Municipal Securities Rulemaking Board through its EMMA system. In accordance with the requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the Town will agree to provide, or cause to be provided, (i) certain annual financial information and operating data; (ii) timely notice of the occurrence of certain events, but not in excess of ten (10) business days after the occurrence of such events, and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement to be executed in substantially the form of Appendix C to this Official Statement.

The Bonds have not been registered under the Securities Act of 1933, as amended. In addition, the Bonds have not been registered under any state securities law.

**BOND COUNSEL**  
**DAY PITNEY LLP**

Hartford, Connecticut  
(860) 275-0100

**INDEPENDENT MUNICIPAL ADVISOR**  
**INDEPENDENT BOND AND**  
**INVESTMENT CONSULTANTS LLC**

Madison, Connecticut  
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## **BOND SALE SUMMARY**

The information in this Bond Sale Summary is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The Official Statement speaks only as of its date and the information herein is subject to change.

<b>Issuer:</b>	Town of Vernon, Connecticut (the "Town").
<b>Issue:</b>	\$5,000,000 General Obligation Bonds, Issue of 2018 (the "Bonds").
<b>Dated Date:</b>	August 2, 2018.
<b>Principal Due:</b>	Serially, August 1, 2019 - 2033.
<b>Interest Due:</b>	February 1 and August 1 in each year, commencing February 1, 2019.
<b>Purpose and Authority:</b>	The Bonds are being issued to finance Town capital improvement projects undertaken by the Town and authorized pursuant to Title 7 and Title 10 of the General Statutes of Connecticut, as amended, the Charter of the Town of Vernon, and bond ordinances adopted by the Town Council and approved by the voters of the Town at referendum.
<b>Redemption:</b>	The Bonds <u><b>ARE</b></u> subject to redemption prior to maturity. See "Optional Redemption" herein.
<b>Security:</b>	The Bonds will be general obligations of the Town of Vernon, Connecticut, and the Town will pledge its full faith and credit to the payment of the principal of and interest on the Bonds when due.
<b>Credit Rating:</b>	The Bonds have been rated "Aa2" by Moody's Investors Service ("Moody's"). The rating on the Town's outstanding bonds has recently been affirmed as "Aa2" by Moody's.
<b>Basis of Award:</b>	True Interest Cost (TIC) as of the dated date.
<b>Tax Status:</b>	See Appendix B to this Official Statement.
<b>Continuing Disclosure Agreement:</b>	See Appendix C to this Official Statement.
<b>Bank Qualification:</b>	The Bonds <u><b>SHALL</b></u> be designated by the Town as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Bonds.
<b>Certifying Bank, Registrar, Transfer and Paying Agent:</b>	U.S. Bank National Association, of Hartford, Connecticut.
<b>Legal Opinion:</b>	Day Pitney LLP, of Hartford, Connecticut will act as Bond Counsel.
<b>Delivery and Payment:</b>	It is expected that delivery of the Bonds in book-entry-only form will be made on or about August 2, 2018, against payment in Federal Funds.
<b>Issuer Official:</b>	Questions regarding the Town and this Official Statement should be directed to Jeffrey O'Neill, Finance Officer, Town of Vernon, Town Hall, 14 Park Place, Vernon, Connecticut 06066 - Telephone (860) 870-3634.

## SECTION I - SECURITIES OFFERED

### Introduction

This Official Statement, including the cover page and appendices, has been prepared by the Town of Vernon, Connecticut (the "Town") with assistance from the municipal advisor, in connection with the sale of \$5,000,000 General Obligation Bonds, Issue of 2018 (the "Bonds") of the Town.

All quotations from and summaries and explanations of provisions of statutes, charters, or other laws and acts and proceedings of the Town contained herein do not purport to be complete and are qualified in their entirety by reference to the original official documents; and all references to the Bonds and the proceedings of the Town relating thereto are qualified in their entirety by reference to the definitive form of the Bonds and such proceedings.

The presentation of information is intended to show recent historical trends and is not intended to indicate future or continuing trends in the financial or other positions of the Town. Except for information expressly attributed to other sources, all financial and other information presented herein has been provided by the Town.

### Description of the Bonds

The Bonds will be dated the date of delivery and will mature in installments on August 1 in the years and amounts set forth on the cover page herein. Interest on the Bonds will be payable February 1, 2019 and semiannually thereafter on February 1 and August 1 in each year until maturity. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be payable to the registered owners of the Bonds as of the close of business on the fifteenth day of January and July in each year, or the preceding business day if the fifteenth is not a business day. The Bonds will be issued in fully-registered form in denominations of \$5,000 or any integral multiple thereof for any single maturity. A book-entry system will be employed evidencing ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with transfers of ownership effected on the records of The Depository Trust Company, New York, New York, ("DTC"), and its participants pursuant to rules and procedures established by DTC and its participants. (See "Book-Entry-Only System" herein). The legal opinion on the Bonds will be rendered by Day Pitney LLP of Hartford, Connecticut. (See "Appendix B" herein). The Registrar, Certifying Bank, Transfer and Paying Agent will be U.S. Bank National Association of Hartford, Connecticut. **The Bonds are subject to redemption prior to maturity. (See "Optional Redemption" herein).**

### Optional Redemption

The Bonds maturing on or before August 1, 2024 are not subject to redemption prior to maturity. The Bonds maturing on August 1, 2025 and thereafter are subject to redemption prior to maturity, at the option of the Town, on or after August 1, 2024, at any time, either in whole or in part, in such amounts and in such order of maturity (but by lot within a maturity) as the Town may determine, at the redemption prices (expressed as a percentage of the par amount of Bonds to be redeemed) set forth in the following table, together with interest accrued and unpaid to the redemption date:

<u>Redemption Dates</u>	<u>Redemption Price</u>
August 1, 2024 and thereafter	100.0%

### Notice of Redemption

Notice of redemption shall be given by the Town or its agent by mailing a copy of the redemption notice by first-class mail at least thirty days prior to the date fixed for redemption to the registered owner of the Bonds designated for redemption in whole or in part at the address of such registered owner as the same shall last appear on the registration books for the Bonds. Failure to give such notice by mailing to any registered owner, or any defect therein, shall not affect the validity of the redemption of any other Bonds. Upon the giving of such notice, if such funds available solely for redemption are on deposit with the Paying Agent, the Bonds or portions thereof so called for redemption will cease to bear interest after the specified redemption date.

If less than all the Bonds of any one maturity shall be called for redemption, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot in such manner as the Town in its discretion may determine; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of \$5,000 or some multiple thereof and that, in selecting Bonds for redemption, each Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by \$5,000.

The Town, so long as a book-entry-only system is used for the Bonds being called for redemption, will send any notice of redemption only to DTC (or a successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participant or of any Direct Participant or Indirect Participant to notify any Indirect Participant or Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of such Bonds called for redemption. Redemption of portions of the Bonds of any maturity by the Town will reduce the outstanding principal amount of Bonds held by DTC. In such event it is the current practice of DTC to allocate by lot, through its book-entry system, among the interest held by Direct Participants in the Bonds to be redeemed, the interest to be reduced by such redemptions in accordance with its own rules or other agreements with Direct Participants. The Direct Participants and Indirect Participants may allocate reductions of the interests in the Bonds to be redeemed held by the Beneficial Owners. Any such allocation of interests in the Bonds to be redeemed will not be governed by the determination of the Town authorizing the issuance of the Bonds and will not be conducted by the Town, the Registrar or Paying Agent.

## **Authorization and Use of Proceeds**

### Authorizations:

The Bonds were authorized pursuant to Title 7 of the General Statutes of Connecticut, as amended, the Charter of the Town of Vernon, and bond ordinances adopted by the Town Council and approved by the voters of the Town at referendum.

Use of Proceeds: Proceeds of the Bonds will be used to finance the following projects:

<b>Project</b>	<b>Total Amount of Authorization</b>	<b>Prior Debt Issued</b>	<b>Notes Maturing 8/2/2018</b>	<b>The Bonds (This Issue)</b>
Road Reconstruction and Improvements	\$ 27,637,000	\$15,610,000	\$1,525,000	\$ 3,387,000
Senior Center Project	3,245,000	1,270,000	1,800,000	1,613,000
Total	<u>\$ 30,882,000</u>	<u>\$16,880,000</u>	<u>\$3,325,000</u>	<u>\$ 5,000,000</u>

## **Rating**

The Bonds have been rated "Aa2" by Moody's Investors Service, Inc. ("Moody's"). The rating on the Town's outstanding Bonds has recently been affirmed as "Aa2" by Moody's. Such rating reflects only the views of such organization and any explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The Town furnished certain information and materials to the rating agency, some of which may not have been included in this Official Statement. There is no assurance that such rating will continue for any given period of time or that the rating will not be revised or withdrawn entirely by the agency if, in the judgment of such rating agency, circumstances so warrant. A revision or withdrawal of such rating may have an effect on the market price of the Town's bonds and notes.

## **Security and Remedies**

The Bonds will be general obligations of the Town of Vernon, and the Town will pledge its full faith and credit to pay the principal of and interest on the Bonds when due.

Unless paid from other sources, the Bonds are payable from the general property tax revenue of the Town. The Town has the power under Connecticut General Statutes to levy ad valorem taxes on all taxable property in the Town without limit as to rate or amount, except as to certain classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts. There was, however, no such certified forest land on the last completed grand list of the Town. The Town may place a lien on the property for the amount of tax relief granted; plus interest, with respect to the dwelling houses of qualified elderly persons of low income or qualified disabled persons. Under existing statutes, the State of Connecticut is obligated to pay to the Town the amount of tax revenue which the Town would have received except for the limitation under certain of the statutes upon its power to tax such dwellings houses of qualified elderly persons of low income.

Payment of the Bonds is not limited to property tax revenues or any other revenue source, but certain revenues of the Town may be restricted as to use and therefore may not be available to pay debt service on the Bonds.

There are no statutory provisions for priorities in the payment of general obligations of the Town. There are no statutory provisions for a lien on any portion of the tax levy or other revenues to secure the Bonds, or judgments thereon, in priority to other claims.

The Town is subject to suit on its general obligation bonds and notes, and a court of competent jurisdiction has the power in appropriate proceedings to render a judgment against the Town. Courts of competent jurisdiction also have the power in appropriate proceedings to order payment of a judgment on such bonds or notes from funds lawfully available therefore or, in the absence thereof, to order the Town to take all lawful action to obtain the same, including the raising of the required amount in the next annual tax levy. In exercising their discretion as to whether to enter such an order, the courts may take into account all relevant factors, including the current operating needs of the Town and the availability and adequacy of other remedies.

Enforcement of a claim for payment of principal or interest on the Bonds would also be subject to the applicable provisions of Federal bankruptcy laws as well as other bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion. Section 7-566 of the Connecticut General Statutes, as amended in 1993, provides that no Connecticut municipality shall file a petition in bankruptcy without the express prior written consent of the Governor. This prohibition applies to any town, city, borough, metropolitan district and any other political subdivision of the State having the power to levy taxes and issue bonds or other obligations.

## **THE TOWN OF VERNON, CONNECTICUT HAS NEVER DEFAULTED ON THE PAYMENT OF PRINCIPAL OR INTEREST ON ITS BONDS OR NOTES**

### **Qualification for Financial Institutions**

The Bonds **SHALL** be designated as qualified tax-exempt obligations under the provisions of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Bonds.

### **Book-Entry Transfer System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond and Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds will be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not



receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on, and redemption premium, if any, with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Town or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond and Note certificates are required to be printed and delivered.

The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond and Note certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry-only system has been provided by DTC. The Town takes no responsibility for the accuracy thereof.

### **Replacement Bonds**

The determination of the Town officials authorizing the issuance of the Bonds provides for issuance of fully-registered Bond certificates directly to Beneficial Owners of the Bonds or their nominees in the event that: (a) DTC determines not to continue to act as securities depository for the Bonds, and the Town fails to identify another qualified securities depository for the Bonds to replace DTC; or (b) the Town determines to discontinue the book-entry-only system of evidence and transfer of ownership of the Bonds. A Beneficial Owner of the Bonds, upon registration of certificates held in such Beneficial Owner's name, will become the registered owner of the Bonds.

### **DTC Practices**

The Town can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Bonds will act in a manner described in this Official Statement. DTC is required to act according to rules and procedures established by DTC and its participants which are on file with the Securities and Exchange Commission.

## **SECTION II - THE ISSUER**

### **Description of the Town**

The Town of Vernon, originally part of Bolton, Connecticut, was incorporated as a separate township in October 1808. In 1965, the Town of Vernon, in its current form, was created when the Town, the City of Rockville and the Vernon Fire District were consolidated. At that time, the Town of Vernon assumed all assets and liabilities of each of the governmental units and a new town charter was adopted. Since 1970, when the charter was revised, Vernon has operated under a Mayor-Town Council form of government with a full-time professional Town Administrator.

Vernon, which encompasses a land area of 18.6 square miles, is located 14 miles northeast of Hartford, in Tolland County. Interstate 84, a major expressway leading to New York, Boston and northern New England, traverses the Town, and has four interchanges within the Town's borders. Interstate 84 connects with I-90 (Massachusetts Turnpike), I-384, I-91, and I-291 providing convenient access to other parts of the region. Additional accessibility is provided by U.S. Route 44 and State Routes 30, 31, 74 and 83. National and international air service is provided by Bradley International Airport, which is only thirty minutes from Vernon.

The convenient access provided by the interstate highway system has contributed to Vernon's development as a suburban community and a regional commercial center. The 2016 American Community Survey reported Vernon's population as 29,140. Currently 52% of total housing units are single-family, owner-occupied homes. Approximately 45% of Vernon's labor force is employed in the finance, insurance, scientific, management, education and health care sectors.

As the economic base for the Hartford region has shifted from manufacturing and industrial production to retail commerce and professional services, so too has the Town's economic base. The Town's leading employers are engaged in health care services, retail sales and manufacturing. The Town's former Rockville mills section has also made a transition from being primarily an industrial and commercial center to a professional and governmental center. It is currently the site of Town and local Board of Education offices. Industrial employment in Town is in mechanical contracting, textile coating and printing.

The development of the Town has been guided by zoning regulations and land use planning. The zoning regulations that existed for the former City of Rockville and Vernon Fire District prior to consolidation were converted to the Town of Vernon's zoning regulations. The Town's zoning regulations were adopted in 1965 and are periodically revised to reflect current development standards and practices. The Town's first Master Plan of Conservation and Development was adopted in 1967 and the most recent plan was adopted in 2012.

The Town has an Economic Development Commission and an Economic Development Coordinator to foster expansion of the economic base. Due to the limited amount of land available for commercial and industrial growth, the Town is aggressively pursuing the availability of large parcels of land for development. Areas designated for new development include downtown Rockville, Vernon Circle, Lafayette Square, the I-84 Corridor and the Gerber Farm area. The Commission is also pursuing the redevelopment of the numerous older mill properties located throughout Town.

The Town's educational system for its residents consists of five elementary schools, one middle school, one special education school and one senior high school.

### **Form of Government**

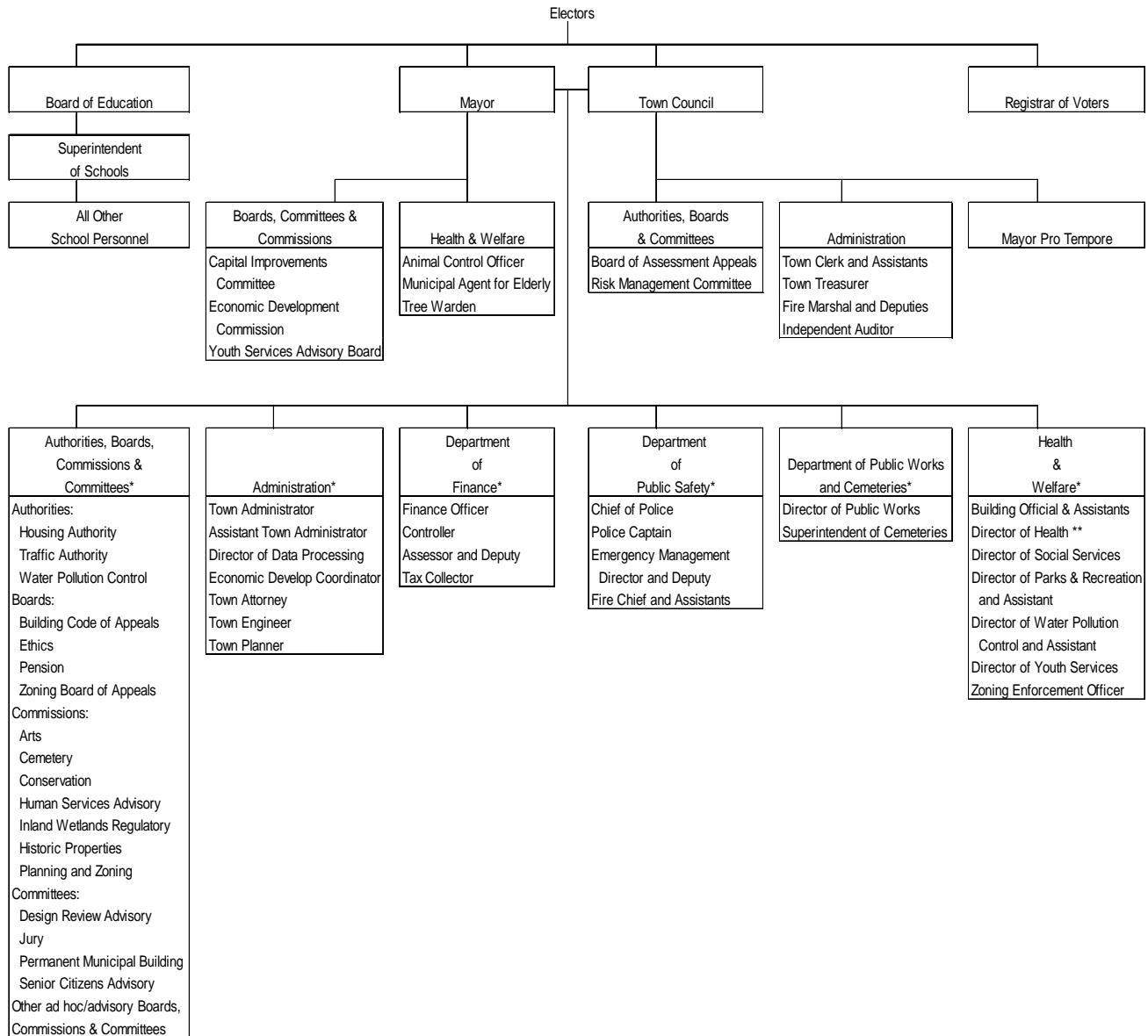
The Town of Vernon has operated under the Mayor-Town Council form of government since 1970. The Town Council acts as the legislative body of the Town. The Town Council consists of twelve members elected on a partisan basis for two-year terms. A full-time, professional Town Administrator is appointed by the Mayor and approved by the Town Council. The Town's operating budget is submitted by the Mayor to the Town Council annually by March 15<sup>th</sup>. The Council reviews the budget and holds at least two public hearings on it. The last hearing on the budget is the Annual Town Meeting, held on the fourth Tuesday in April, at which time eligible voters present at the hearing vote on the budget, and the budget will become effective only after it has been approved by a majority vote. Such vote may neither increase nor decrease the amount approved by the Town Council. Following the Annual Town Meeting, the Council sets the mill rate for the ensuing fiscal year. The Town's fiscal year is from July 1 through the following June 30.

The Town Meeting is retained under the Charter for approval of the annual budget and for supplemental appropriations and bond authorizations which exceed certain amounts. See "SECTION IV - INDEBTEDNESS - Legal Requirements for Approval of Borrowing" and "SECTION V - FINANCIAL DATA - Supplemental Appropriations" herein.

## Table of Organization

### TOWN OF VERNON, CT

#### ORGANIZATION CHART



\* Mayor recommended, Town Council approved.

\*\* The Town is a member of the North Central District Health Department.

## Municipal Officials

<u>Name</u>	<u>Position</u>	<u>Term</u>
Daniel A. Champagne	Mayor	2 years – Elected
Laura B. Bush	Town Council	2 years - Elected
William F. Campbell	Town Council	2 years - Elected
Julie Clay	Town Council	2 years - Elected
Thomas DiDio	Town Council	2 years - Elected
Ann Letendre	Town Council	2 years - Elected
Brian R. Motola	Town Council	2 years - Elected
Steven Peterson	Town Council	2 years - Elected
Pauline Schaefer	Town Council	2 years - Elected
James Tedford	Town Council	2 years - Elected
Steve Wakefield	Town Council	2 years – Elected
Micheal Wendus	Town Council	2 years – Elected
Ralph Zahner	Town Council	2 years – Elected
Michael Purcaro	Town Administrator	Appointed
James Luddecke	Treasurer	Appointed
Jeffrey O'Neill	Finance Officer	Appointed
Joseph Macary	Superintendent of Schools	Appointed

## Biographies of Principal Officials

**Mayor:** Mayor Daniel Champagne was elected Mayor of the Town of Vernon in November, 2013. He previously served on the Town Council from 2005 to 2011. Mayor Champagne served as a police officer for the Town of Vernon from 1990 to March, 2011; and as a patrol sergeant from April, 2011 until his retirement in 2012. During his tenure in the police department, Mayor Champagne was awarded the Distinguished Service Award five (5) times, the Meritorious Service Award twice, and served as the D.A.R.E. instructor from 1994 to 2003, working throughout the Vernon public school system. Mayor Champagne received his Bachelor of Arts degree in Sociology from Eastern Connecticut State University and his Master's degree in Public Administration from the University of Connecticut. Mayor Champagne served in the Connecticut Army National Guard from 1987 to 1992.

**Town Administrator:** Mr. Michael Purcaro serves as the Town Administrator for the Town of Vernon, Connecticut and is the Town's Emergency and Risk Management Director. Over the past twenty-two years, his public service positions have included: Director of Business and Finance for Vernon Public Schools, Chief Administrative and Fiscal Officer for the Connecticut Department of Public Health (DPH), Chief Contracting and Grants Officer for DPH, a Spokesperson for DPH, Civilian Project Director for the New England Disaster Training Center at Camp Hartell, a member of the State of Connecticut Homeland Security Coordinating Council, a practicing Physical Therapist at Yale New Haven Hospital, and an Administrative Officer for the United States Department of Health and Human Services - Connecticut Disaster Medical Assistance Team (CT-1 DMAT).

Mr. Purcaro has earned a Master of Science degree in Management from Rensselaer and a Bachelor of Science degree in Physical Therapy from Quinnipiac University. He is a Connecticut Certified School Business Administrator and a Connecticut Licensed Physical Therapist. Mr. Purcaro currently serves as the Vice Chairman of the Board of Education for the Town of Ellington and is the Treasurer and Secretary for the Connecticut Association of Boards of Education (CABE). He also serves on the Board of Advisors for the Indian Valley Family YMCA and the Board of Trustees for the Lutz Children's Museum.

**Finance Officer:** Jeffrey O'Neill joined the Town of Vernon in February of 2018 as the Finance Officer. Mr. O'Neill brings twenty-five years of experience in management and financial administration within the private and public sectors. Over the course of his career, Jeff was responsible for leading global teams of professionals to drive business operations, develop and execute complex financial strategies and enhance relationship management amongst investment managers. He has held senior level financial positions at Securities Finance Trust Co., Brown Brothers Harriman, K Capital Partners and State Street Bank.

In addition to his professional roles, Jeff has been a member of the Town of Medway, MA Finance Committee since 2009, serving as Chairman from 2012 -2014. The committee is charged with making recommendations on all financial matters, including the budget, to town meeting and has oversight responsibility of all municipal financial issues, as well as other statutory authority granted by town bylaws. He has also served in recent years as an appointed member to the Town Administrator

Search, Middle School Building, Schools Strategic Review and Charter Review Committees. Mr. O'Neill received his Bachelor of Science in Business Administration from Northeastern University and a Master of Science in Finance from Suffolk University.

**Treasurer:** James M. Luddecke has served as Finance Officer since 1981, and Treasurer since 1989. Mr. Luddecke received his Bachelor of Science degree in Accounting from Southern New Hampshire University in 1975 and his Master's degree in Public Administration from the University of Hartford in 1988. He is the Past President of the Government Finance Officers Association of Connecticut and served eight years on their Executive Board, while chairing several committees. Mr. Luddecke served two years as liaison to the State of Connecticut Municipal Finance Advisory Committee and has been a guest speaker at state and national events.

Prior to his employment with the Town of Vernon, Mr. Luddecke worked as a controller for the Greater Boston YMCA for two years and Business Manager of the Hartford Arts Consortium for three years.

**Superintendent of Schools:** Joseph Macary has been the Superintendent of Schools in Vernon since October, 2015. Prior to that, he successfully served as the Superintendent of Schools for the Town of Wolcott, Connecticut from July 2009 to September 2015. In Wolcott, he received excellent reviews on his instructional leadership, planning & management, vision of student learning, technology development, and communications with district stakeholders. Mr. Macary was employed with the Wolcott Public Schools from October 2005, serving as the Assistant Superintendent for Curriculum & Instruction and the Director of Student Services and Alternate Programs. Mr. Macary started his teaching career in the Waterbury Public Schools as a Social Studies Teacher at Wilby High School and then at Crosby High School. At Crosby HS, he became the Social Studies Department Chair and Athletic Director at the school. Mr. Macary graduated from Crosby High School and the University of Connecticut with a Bachelor's Degree, majoring in Political Science and a concentration in Economics. He graduated from Quinnipiac College with a Master Degree in Teaching and then received his Sixth Year Degree from Southern Connecticut State University in Educational Leadership. He is currently completing his doctoral studies at the University of Connecticut in Educational Leadership.

### **Summary of Municipal Services**

The Town of Vernon has a full-time professional staff that includes a Town Administrator, Finance Officer, Controller, Town Clerk, Collector of Revenue, Assessor, Town Clerk, Building and Housing Code Inspector, Town Planner, Economic Development Coordinator, Town Engineer, Director of Public Works, Police Chief and Captain, Data Processing Director, Social Services Director, Youth Services Director, Recreation Director, Senior Center Director, Fire Chief, Fire Marshal, Waste Treatment Plant Director, Waste Treatment Plant Finance Analyst, Registrars of Voters and a Cemetery Superintendent. The following is a list of services provided by the Town:

**Police Protection.** The Police Department is responsible for the prevention, detection and deterrence of crime, the apprehension of offenders, the custodian of property, the efficient control and movement of traffic, and the promotion of public safety. It is responsible for the enforcement of all laws, ordinances and regulations governing the criminal and motor vehicle statutes and the protection of all civil right guarantees provided by the U.S. and the State of Connecticut constitutions. The staff consists of a chief, a captain, two lieutenants, four detectives, nine sergeants, thirty-three patrol officers, eight dispatchers, one administrative secretary, three clerks, one supervisor of police records and an evidence technician. The Department's major equipment includes twenty-six cruisers, three special service vehicles and a complete radio communications system with dispatch center.

**Fire Protection and Ambulance Service.** The Town of Vernon Fire Department is a volunteer service agency that provides fire, rescue, hazardous materials and emergency medical services (at the Basic Life Support level) to the community. The Department includes a total of 164 members who operate from six fire stations distributed throughout the town. The Department includes a Fire Chief, 3 Assistant Chiefs, 34 Line and Staff Officers, 110 firefighters, 11 special service members and 5 auxiliary members. The Department operates a fleet of 7 engines (pumpers), 2 heavy rescues, 2 aerial ladders, 1 mobile air unit, 1 command vehicle, 1 pickup with trailer, 2 All-Terrain Vehicles (that are both firefighting and EMS transport equipped) and an inflatable boat. The department also operates a special hazards vehicle and decontamination unit provided by the State of Connecticut.

The Ambulance is a division of the Fire Department. The Ambulance Division is charged with providing Basic Life Support ("BLS") and BLS Transport service for the community. Service is provided 24 hours a day, 7 days a week. The Ambulance Division utilizes three state-certified ambulances, two housed at the Public Safety Building, the third housed at the Nye Street Firehouse. On most days, the ambulance is staffed full-time from 6 a.m. to 6 p.m., and a second ambulance is staffed from 8 a.m. to 3 p.m. Nights and weekends are covered with at least one ambulance fully staffed. Currently, there are 25 part time

EMT's (non-benefited), one full-time supervisor and one part time supervisor, all employees of the Town of Vernon. Advanced Life Support (paramedic) services are contracted through a commercial service provider.

**Public Works.** The Town provides services in the areas of highways, equipment repair, park engineering and building maintenance. The department maintains 113 miles of roads throughout Town, 29 buildings and 104 pieces of motorized equipment and vehicles.

**Parks and Recreation.** Vernon Parks and Recreation Department operates a comprehensive program of activities. Recreation facilities include 26 parks covering 583 acres of land, 35 miles of trails. Park amenities include two swimming pools, two kiddie pools, a spray tower, a beach and boat launch at Middle Bolton Lake and a beach at Valley Falls which provides swimming, a beach house, picnic areas, fishing and ice skating. Additional facilities include a Lodge, Teen Center, Valley Falls Nature Barn, numerous playgrounds, three Pavilions and the historic Fox Hill Tower. Athletic areas include 16 baseball fields, 8 softball fields (two that are lighted), 11 soccer fields, 6 lacrosse fields and 2 football fields. There are also 10 lighted tennis courts at Rockville High School and Henry Park, 5 outdoor basketball courts, a volleyball court, a disc golf course and numerous trails. The Michael Shea Fitness Trail at Dart Hill Park is the newest addition to the Vernon Parks and Recreation's list of activities for physical fitness.

**Water Pollution Control Authority.** The Town has one wastewater treatment facility which serves approximately 80% of the Town's residents. The facility also accepts sanitary waste from portions of the surrounding towns of Tolland, Ellington, Manchester and South Windsor in accordance with the provisions of Intergovernmental Sewer Agreements between each of those communities and the Town. The Town of Vernon Water Pollution Control Facility is currently in the Design Phase of a multi-year effort to upgrade the facility. While the Facility currently meets all permits and requirements, future mandated changes in phosphorous and nitrogen discharge limits will necessitate changes. The Town completed a Facility Study in 2017, and is currently in the Design Phase, with construction schedule to begin in July 2019. The Town is listed on the State of Connecticut Department of Energy and Environmental Protection Clean Water Fund Financial Assistance Programs Municipal Water Pollution Control State Fiscal Years 2018 and 2019 eligible projects list. Clean Water Fund eligibility provides for 50%, 30%, and 20% grant funding for phosphorous, nitrogen, and general upgrades (respectively). Intergovernmental Agreements further provide 29.95% funding of the local share. The Town's portion of the project will be financed through State of Connecticut Clean Water Fund loans which carry a fixed 2% interest rate. The Town currently estimates the improvements to be approximately \$82 million, with a net share to the Town of approximately \$43 million. Once completed upgrades will continue the legacy of effective, efficient, and reliable treatment for decades to come, protecting the natural ecology of the river and preserving its aesthetic and recreational values for future generations.

The Town of Vernon and the neighboring Town of Bolton have entered into a consent order with the Connecticut Department of Environmental Protection (CTDEP) on October 14, 1999, requiring the towns to take the necessary steps to address wastewater disposal alternatives for the Bolton Lakes' area. The Bolton Lakes Regional Water Pollution Control Authority (BLRWPCA) was created by ordinances adopted in both towns. In Vernon, Ordinance #242 was adopted in April of 2003. The formation of the regional authority gives the BLRWPCA the power and authority, granted by State Statutes, to construct a sewerage system, charge user fees, levy assessments, bill for hook-up fees and to operate and manage the sewer system. The BLRWPCA sewer project was completed in 2016 with approximately \$6,291,000 or 29% of project costs attributable to the Town of Vernon. This proportionate share was reduced by BLRWPCA grants and benefit assessments to \$2,701,277. In June 2016, the BLRWPCA issued a State of Connecticut Clean Water Fund loan obligation to finance project costs, allocating \$2,701,277 to Vernon. This allocation is considered overlapping debt for the Town of Vernon. The balance of overlapping debt as of August 2, 2018 is \$2,284,830.

**Solid Waste** – Residential wastes are collected once weekly by the Town's Public Works Department. The Town has a contract with Covanta Energy Corporation, a sustainable waste management and renewable energy company. The contract bundles solid waste and recyclable disposal, with all material disposed at Willimantic Waste. The current contract will expire on June 30, 2020 and there is a renewal term available on agreement of the parties. The Town currently pays a fee of \$65.12 per ton for solid waste disposal and receives a fee of \$20.00 per ton for recyclables. The disposal fee will rise after November 11, 2018 at the rate of the current Consumer Price Index. As part of its Community Outreach program, Covanta Energy donates \$1 per ton of refuse collected year to the Town.

**Water.** Water is supplied to the Town by the Connecticut Water Company.

**Electricity.** Electricity is supplied by EDF Energy Services and delivered by Eversource.

## Educational System

The Town's school system consists of five elementary schools for pupils in grades Pre-K through 5; one middle school for pupils in grades 6-8, one high school and vocational education center for pupils in grades 9-12, and a special education facility. The schools are governed by a nine-member Board of Education.

## Educational Facilities

<u>School</u>	<u>Grade</u>	<u>Date Occupied</u>	<u>Date of Renovations</u>	<u>Number of Classrooms</u>	<u>Enrollment 10/1/2017</u>	<u>Design Capacity</u>
Center Road Elementary School	PK-5	1969	2010	33	492	825
Lake Street Elementary School	PK-5	1960	1961, 2010	20	230	525
Maple Street Elementary School	PK-5	1923	1962, 2010	23	285	525
Northeast Elementary School	PK-5	1954	2010	19	232	525
Skinner Road Elementary School	PK-5	1963	2010	21	332	525
Vernon Middle School	6-8	1968	2010	70	703	1,500
Rockville High School and VO-AG	9-12	1959	1964, 1976, 2010	136	792	2,400
Out of District	All	n/a	n/a	n/a	38	n/a
<b>Total</b>				<b>322</b>	<b>3,104</b>	<b>6,825</b>

Source: Superintendent of Schools.

## School Enrollments <sup>1</sup>

<u>Actual Enrollments</u>					<u>Out of</u>	
<u>School Year</u>	<u>Pre-K</u>	<u>K-5</u>	<u>6 - 8</u>	<u>9 - 12</u>	<u>District</u>	<u>Total</u>
2008-09	33	1,588	786	1,177	37	3,621
2009-10	124	1,638	802	1,139	38	3,741
2010-11	129	1,620	768	1,079	38	3,634
2011-12	142	1,615	738	1,055	38	3,588
2012-13	172	1,595	697	976	48	3,488
2013-14	177	1,552	659	929	48	3,365
2014-15	177	1,535	649	877	46	3,284
2015-16	165	1,499	681	823	41	3,209
2016-17	146	1,480	712	848	38	3,224
2017-18	135	1,436	703	792	38	3,104

<u>Projected Enrollments</u>					<u>Out of</u>	
<u>School Year</u>	<u>Pre-K</u>	<u>K-5</u>	<u>6 - 8</u>	<u>9 - 12</u>	<u>District</u>	<u>Total</u>
2018-19	174	1,422	654	848	41	3,139
2019-20	174	1,421	641	829	41	3,106
2020-21	174	1,404	630	846	41	3,095
2021-22	174	1,397	619	836	41	3,067
2022-23	174	1,393	619	788	41	3,015

<sup>1</sup> As of October 1 in each year.

Source: Superintendent of Schools.

## Municipal Employees

<u>Fiscal Year</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board of Education	580	580	629	615	622
General Government	212	212	212	209	208
<b>Total</b>	<u>792</u>	<u>792</u>	<u>841</u>	<u>824</u>	<u>830</u>

Source: Town Officials.

## Municipal Employees by Category

<u>Department</u>	<u>Number of Employees</u>
<b><u>General Government</u></b>	
General Government	36
Community Development	3
Public Safety	76
Maintenance and Development	72
Human Services	11
Parks and Recreation	12
Townwide	2
Subtotal	<u>212</u>
<b><u>Board of Education</u></b>	
Administration and Principals	17
Teachers	295
Classroom Instructional Aids/Paraprofessionals	110
Nurses	8
Clerical/Custodial/Maintenance	63
Cafeteria Workers	30
Plant Operation Supervisors	2
Librarians/Media Managers/Assistants	8
Non-Bargaining Employees	47
Subtotal	<u>580</u>
<b>Grand Total</b>	<u>792</u>

Source: Town Officials.



## Employee Collective Bargaining Representation

<b>Employees</b>	<b>Organization</b>	<b>Number of Employees Covered</b>	<b>Current Contract Expiration</b>
<b>General Government</b>			
Police officers	Local 17, Connecticut Independent Police Union	48	6/30/2022
Public Works/Parks/Water Pollution	Local 1471, AFSCME, AFL-CIO	59	6/30/2019
Public Works Supervisors	Local 818, AFSCME, AFL-CIO	5	6/30/2018 <sup>1</sup>
Civilian Police Department Employees	Local 47, Connecticut Independent Laborers Union (CILU)	13	6/30/2017 <sup>1</sup>
Professionals	Local 818, AFSCME, AFL-CIO	34	6/30/2019
Waste Treatment Plant Supervisors	Local 818, AFSCME, AFL-CIO	3	6/30/2019
Non-Bargaining	Not affiliated	50	N/A
<b>Subtotal - General Government</b>		<b>212</b>	
<b>Board of Education</b>			
Clerical/Custodial/Maintenance	Local 1303, AFSCME, AFL-CIO	63	6/30/2019
Teachers	Vernon Education Association	295	6/30/2021
School Administrators	Vernon School Administrators Association	17	6/30/2022
School Nurses	Vernon School Nurses' Association	8	6/30/2019
Cafeteria	United Food & Commercial Workers, Local 919, AFL-CIO	30	6/30/2020
Plant Operation Supervisors	Local 818, Council #4, Supervisors	2	6/30/2022
Service Aids & Teacher Assistants	Vernon Federation of Paraprofessionals	110	6/30/2020
Librarians/Media Managers/Assistants	Local 1303-279, AFSCME, AFL-CIO	8	6/30/2019
Non-Bargaining	Not affiliated	47	N/A
<b>Subtotal -Board of Education</b>		<b>580</b>	
<b>Total</b>		<b>792</b>	

<sup>1</sup> In negotiations.

The negotiation of collective bargaining agreements is subject to binding arbitration under Connecticut General Statutes Sections 7-473c, 7-474 and 10-153a to 10-153n to provide a procedure for binding arbitration of collective bargaining agreements between municipal employers and organizations representing municipal employees, including certified teachers and certain other employees. The legislative body of a municipal entity may reject an arbitration panel's decision by a two-thirds majority vote. The State of Connecticut and the employee organization must be advised in writing of the reasons for rejection. The State then appoints a new panel of either one or three arbitrators to review the decisions on each of the rejected issues. The panel must accept the last best offer of either party. In reaching its determination, the arbitration panel gives priority to the public interest and the financial capability of the municipal employer, including consideration of other demands on the financial capability of the municipal employer. Effective October 1, 1997, for binding arbitration of teachers' contracts, in assessing the financial capability of a municipal entity, there is an irrefutable presumption that a budget reserve of 5% or less is not available for payment of the cost of any item subject to arbitration. In light of the employer's financial capability, the panel considers prior negotiations between the parties, the interests and welfare of the employee group, changes in the cost of living, existing employment conditions, and the wages, salaries, fringe benefits and other conditions of employment prevailing in the labor market, including developments in private sector wages and benefits.

### SECTION III - ECONOMIC AND DEMOGRAPHIC DATA

#### Population Trends

<u>Year</u>	<u>Town of Vernon</u>	<u>Tolland County</u>	<u>State of Connecticut</u>
1980	27,974	114,823	3,107,576
1990	29,841	128,699	3,287,116
2000	28,063	136,364	3,405,565
2010	29,179	152,691	3,574,097
2016	29,140	151,689	3,588,570

Source: U.S. Bureau of Census.

#### Age Characteristics of Population

<u>Age</u>	<u>Town of Vernon</u>		<u>Tolland County</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 5	1,771	6.1	6,169	4.1	188,812	5.3
5 - 9	1,266	4.3	7,663	5.1	210,557	5.9
10 - 14	1,375	4.7	8,535	5.6	228,543	6.4
15 - 19	1,403	4.8	15,483	10.2	252,522	7.0
20 - 24	1,874	6.4	18,509	12.2	242,007	6.7
25 - 34	5,381	18.5	15,396	10.1	438,471	12.2
35 - 44	3,470	11.9	16,301	10.7	439,606	12.3
45 - 54	3,584	12.3	22,355	14.7	545,977	15.2
55 - 59	2,101	7.2	10,734	7.1	263,778	7.4
60 - 64	1,809	6.2	9,507	6.3	223,274	6.2
65 - 74	2,677	9.2	12,220	8.1	303,959	8.5
75 - 84	1,762	6.0	6,433	4.2	163,137	4.5
85 and over	667	2.3	2,384	1.6	87,927	2.5
<b>Total</b>	<b>29,140</b>	<b>100.0</b>	<b>151,689</b>	<b>100.0</b>	<b>3,588,570</b>	<b>100.0</b>

Source: U.S. Bureau of the Census, American Community Survey, 2012-2016.

#### Educational Attainment

<u>Educational Attainment Group</u>	<u>Town of Vernon</u>		<u>Tolland County</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than 9th grade	642	3.0	1,839	1.9	103,279	4.2
9th to 12th grade	951	4.4	4,085	4.3	139,653	5.7
High School graduate	6,513	30.4	25,808	27.1	673,220	27.3
Some college, no degree	3,878	18.1	17,475	18.3	427,232	17.3
Associates degree	1,976	9.2	9,078	9.5	184,426	7.5
Bachelor's degree	4,497	21.0	20,999	22.0	524,370	21.3
Graduate or professional degree	2,994	14.0	16,046	16.8	413,949	16.8
<b>Total</b>	<b>21,451</b>	<b>100.0</b>	<b>95,330</b>	<b>100.0</b>	<b>2,466,129</b>	<b>100.0</b>
Percent of High School Graduates		92.6%		93.8%		90.1%
Percent of College Graduates		34.9%		38.9%		38.0%

Source: U.S. Bureau of Census, American Community Survey, 2012-2016.

## Selected Wealth and Income Indicators

	Median Family		Per Capita Income	
	(2000)	(2016)	(2000)	(2016)
Town of Vernon	\$59,599	\$85,856	\$25,150	\$35,137
Tolland County	70,856	101,103	25,474	36,364
Connecticut	65,521	91,274	28,766	39,906
United States	49,600	67,871	21,690	29,829

Source: U.S. Bureau of Census.

## Income Distribution

	Town of Vernon		Tolland County		State of Connecticut	
	Families	Percent	Families	Percent	Families	Percent
\$ -0- to 9,999	142	2.0	456	1.3	29,623	3.3
10,000 to 14,999	68	1.0	262	0.7	17,060	1.9
15,000 to 24,999	458	6.6	1,188	3.3	44,354	5.0
25,000 to 34,999	553	8.0	1,658	4.7	54,456	6.1
35,000 to 49,999	778	11.2	2,917	8.2	81,300	9.1
50,000 to 74,999	1,080	15.6	5,130	14.4	137,336	15.4
75,000 to 99,999	997	14.4	5,909	16.6	124,033	13.9
100,000 to 149,999	1,757	25.3	9,067	25.4	186,214	20.8
150,000 to 199,999	707	10.2	4,788	13.4	96,075	10.7
200,000 or more	392	5.7	4,264	12.0	123,962	13.9
	<u>6,932</u>	<u>100.0</u>	<u>35,639</u>	<u>100.0</u>	<u>894,413</u>	<u>100.0</u>

Source: U.S. Bureau of the Census, American Community Survey, 2012-2016.

## Employment by Industry

Employment Sector	Town of Vernon		Tolland County		State of Connecticut	
	Number	Percent	Number	Percent	Number	Percent
Agriculture, Forestry, Fishing, Hunting & Mining	111	0.7	782	1.0	7,209	0.4
Construction	882	5.6	5,166	6.4	101,497	5.7
Manufacturing	2,027	12.9	8,840	11.0	190,713	10.6
Wholesale Trade	311	2.0	1,849	2.3	45,110	2.5
Retail Trade	1,716	11.0	7,762	9.6	193,853	10.8
Transportation, Warehousing & Utilities	751	4.8	2,983	3.7	66,516	3.7
Information	343	2.2	1,369	1.7	42,374	2.4
Finance, Insurance & Real Estate	1,467	9.4	7,080	8.8	163,765	9.1
Professional, Scientific & Management	1,382	8.8	7,457	9.3	206,042	11.5
Educational Services & Health Care	4,249	27.1	22,966	28.5	474,976	26.5
Arts, Entertainment, Recreation & Food Services	1,220	7.8	7,348	9.1	153,754	8.6
Other Service (including nonprofit)	761	4.9	3,303	4.1	81,588	4.5
Public Administration	441	2.8	3,572	4.4	66,291	3.7
<b>Total Labor Force, Employed</b>	<u>15,661</u>	<u>100.0</u>	<u>80,477</u>	<u>100.0</u>	<u>1,793,688</u>	<u>100.0</u>

Source: U.S. Bureau of Census, American Community Survey, 2012-2016.

## Major Employers

<b>Name of Employer</b>	<b>Nature of Entity</b>	<b>Estimated Number of Employees</b>
Town of Vernon	Municipality	792
Rockville General Hospital	General hospital and specialized health	488
Visiting Nurse and Health Services	Nursing, therapy and supporting services	470
Stop & Shop	Retail grocery supermarket	273
New England Mechanical Services	HVAC engineering, contracting and	220
Vernon Manor	Convalescent and elderly care	197
Rein's Delicatessen	Restaurant	155
Price Chopper	Retail grocery supermarket	154
State of Connecticut	State government agencies	145
Fox Hill Nursing and Rehabilitation	Convalescent and elderly care	143
<b>Total</b>		<b>3,037</b>

Source: Town of Vernon, Economic Development Coordinator.

## Unemployment Rate Statistics

<b>Yearly Average</b>	<b>Town of Vernon</b>	<b>Hartford Labor Market</b>	<b>State of Connecticut</b>	<b>United States</b>
2008	5.2%	5.7%	5.8%	5.8%
2009	7.6%	8.3%	8.3%	9.3%
2010	8.6%	9.2%	9.1%	9.6%
2011	8.1%	9.2%	9.1%	9.0%
2012	8.0%	8.4%	8.3%	8.1%
2013	7.4%	7.8%	7.8%	7.4%
2014	6.4%	6.6%	6.6%	6.2%
2015	5.4%	5.6%	5.6%	5.3%
2016	4.9%	5.1%	5.0%	4.7%
2017	4.5%	4.8%	4.7%	4.4%
<b><u>2017 Monthly</u></b>				
January	5.2%	5.3%	5.3%	4.5%
February	5.3%	5.1%	5.1%	4.4%
March	4.8%	4.7%	4.7%	4.1%
April	4.3%	4.4%	4.3%	3.7%
May	4.3%	4.3%	4.3%	3.6%

Source: State of Connecticut, Department of Labor; United States Department of Labor, Bureau of Labor Statistics.

## Number and Value of Building Permits

Fiscal Year	Residential		Commercial/ Industrial		All Other		Total Building Permits	
	No.	Value	No.	Value	No.	Value	No.	Value
2018 <sup>1</sup>	9	\$1,396,000	78	\$ 9,567,959	1,566	\$19,215,375	1,653	\$ 30,179,334
2017	10	1,450,000	127	17,970,651	2,264	22,409,269	2,401	41,829,920
2016	9	1,308,200	127	52,852,968 <sup>2</sup>	2,264	27,355,063	2,400	81,516,231
2015	16	2,100,600	50	11,502,039	2,064	19,536,294	2,130	33,138,933
2014	11	1,368,500	76	7,120,134	1,851	14,408,011	1,938	22,896,645
2013	16	1,998,000	80	5,741,017	1,807	19,899,840	1,903	27,638,857
2012	13	1,954,000	89	6,504,974	1,915	19,704,831	2,017	28,163,805
2011	23	2,569,000	103	4,583,919	1,668	13,263,268	1,794	20,416,187
2010	34	5,618,507	99	4,408,402	1,717	13,352,039	1,850	23,378,948
2009	27	3,759,546	66	1,901,260	1,373	15,661,565	1,466	21,322,371

<sup>1</sup> As of May 31, 2018.

<sup>2</sup> Includes \$26.6M in improvements for the Connecticut Water Company and \$18M for renovations at Talcott Mill.

Source: Town of Vernon, Office of Building Inspections

## Number of Dwelling Units

2016	2010	2000	1990	% Increase 1990-2016	% Increase 2000-2016	% Increase 2010-2016
14,170	13,896	12,867	12,748	11.15%	10.13%	1.97%

Source: U.S. Bureau of Census.

## Vernon Housing Inventory

Type	Units	Percent
1-unit detached .....	6,431	45.4
1-unit attached .....	873	6.2
2 to 4 units .....	2,605	18.4
5 to 9 units .....	1,524	10.8
10 or more units .....	2,442	17.2
Mobile home, trailer, other .....	295	2.1
Total Inventory .....	14,170	100.0

Source: U.S. Bureau of Census, American Community Survey, 2012-2016.

## Characteristics of Housing Units

Value of Owner Occupied Units	Town of Vernon		Tolland County		State of Connecticut	
	Number	Percent	Number	Percent	Number	Percent
\$ 0 to 50,000	299	4.2	1,151	2.9	24,343	2.7
50,000 to 99,999	262	3.7	861	2.2	29,703	3.3
100,000 to 149,999	827	11.7	2,998	7.6	81,158	9.0
150,000 to 199,999	1,966	27.7	6,953	17.5	139,979	15.5
200,000 to 299,999	2,799	39.4	14,660	36.9	246,071	27.3
300,000 to 499,999	688	9.7	10,882	27.4	233,345	25.9
500,000 to 999,999	155	2.2	1,847	4.7	104,952	11.7
1,000,000 and over	101	1.4	327	0.8	40,672	4.5
<b>Total</b>	<b>7,097</b>	<b>100.0</b>	<b>39,679</b>	<b>100.0</b>	<b>900,223</b>	<b>100.0</b>
Median Value	\$205,900		\$247,800		\$269,300	

Source: U.S. Bureau of Census, American Community Survey, 2012-2016.

## Age Distribution of Housing

Year Structure Built	Town of Vernon		Tolland County		State of Connecticut	
	Number	Percent	Number	Percent	Number	Percent
1939 or earlier	1,867	13.2	7,683	13.1	334,202	22.4
1940 to 1949	441	3.1	2,441	4.2	105,566	7.1
1950 to 1959	2,294	16.2	7,632	13.0	225,824	15.1
1960 to 1969	2,773	19.6	9,196	15.7	201,812	13.5
1970 to 1979	2,356	16.6	8,639	14.7	200,614	13.4
1980 to 1989	2,164	15.3	9,154	15.6	190,755	12.8
1990 to 1999	873	6.2	6,565	11.2	113,584	7.6
2000 to 2009	1,194	8.4	6,025	10.3	104,308	7.0
2010 to 2013	201	1.4	1,069	1.8	14,673	1.0
2014 or later	7	0.0	170	0.3	2,460	0.2
<b>Total housing units</b>	<b>14,170</b>	<b>100.0</b>	<b>58,574</b>	<b>100.0</b>	<b>1,493,798</b>	<b>100.0</b>

Source: U.S. Bureau of Census, American Community Survey, 2012-2016.

## Breakdown of Land Use

Category	# of Acres	% of Total	% of Developed / Committed Land
Residential	5,304	46.0%	53.7%
Commercial / Industrial	712	6.2%	7.2%
Community Facilities / Institutional	352	3.1%	3.6%
Open Space	1,904	16.5%	19.3%
R-O-W / Utilities	1,610	14.0%	16.3%
Vacant	1,636	14.2%	-
<b>Total</b>	<b>11,518</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Town of Vernon.

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## SECTION IV - INDEBTEDNESS

### Computation of Statutory Debt Limit

As of August 2, 2018 (Pro Forma)

Total fiscal year ended 2017 tax collections (including interest and lien fees) <sup>1</sup>	\$ 68,046,900
State Reimbursement for Revenue Loss on Tax Relief for the Elderly	<u>130,566</u>
Base for Establishing Debt Limit	<u><u>\$ 68,177,466</u></u>

### Debt Limit

	General Purpose	Schools	Sewers	Urban Renewal	Unfunded Past Pension	Total Debt
(2.25 times base)	\$153,399,299					
(4.50 times base)		\$306,798,597				
(3.75 times base)			\$255,665,498			
(3.25 times base)				\$221,576,765		
(3.00 times base)					\$204,532,398	
(7.00 times base)						\$477,242,262
<b>Indebtedness (Including The Bonds)</b>						
Bonds Payable	\$ 22,380,000	\$ 14,934,000	\$ 416,000	\$ -	\$ -	\$ 37,730,000
The Bonds <i>(This Issue)</i>	5,000,000	-	-	-		5,000,000
Authorized but Unissued						
Debt	<u>9,491,690</u>	<u>5,051,504</u>	<u>3,648,946</u>	<u>-</u>	<u>-</u>	<u>18,192,140</u>
Gross Direct Debt	36,871,690	19,985,504	4,064,946	-	-	60,922,140
Overlapping Debt:						
Bolton Lakes Regional						
WPCA <sup>2</sup>	<u>-</u>	<u>-</u>	<u>2,284,830</u>	<u>-</u>	<u>-</u>	<u>2,284,830</u>
Total Net Direct and						
Overlapping Debt	<u>36,871,690</u>	<u>19,985,504</u>	<u>6,349,776</u>	<u>-</u>	<u>-</u>	<u>63,206,970</u>
Excess of Limit Over						
Outstanding and						
Authorized Debt	<u><u>\$116,527,609</u></u>	<u><u>\$286,813,093</u></u>	<u><u>\$249,315,722</u></u>	<u><u>\$221,576,765</u></u>	<u><u>\$204,532,398</u></u>	<u><u>\$414,035,292</u></u>

<sup>1</sup> Fiscal year ending June 30, 2018 tax collections are not yet available, however the Town expects that fiscal year 2018 tax collections will exceed the amount collected in fiscal year 2017. As a result, the Town expects that its Statutory Debt Limit will increase.

<sup>2</sup> Reflects Town's 29% share of total project costs. The Town expects to assess the benefitting property owners for a portion of the Town's net project cost. See "Summary of Municipal Services – Water Pollution Control Authority" and "Overlapping Indebtedness" herein.

Source: Town Officials

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**Calculation of Net Direct Debt**

As of August 2, 2018 (Pro Forma)

<b>Bonded Debt:</b>	
The Bonds ( <i>This Issue</i> )	\$ 5,000,000
General Purpose	22,380,000
Schools	14,934,000
Sewers	<u>416,000</u>
<b>Total Bonded Debt</b> <sup>1</sup>	<u>42,730,000</u>
<b>Total Short Term Debt</b>	<u>-</u>
<b>Total Direct Debt</b>	<u>42,730,000</u>
<b>Net Direct Debt</b>	<u>42,730,000</u>
<b>Overlapping Debt:</b>	
Bolton Lakes Regional WPCA <sup>2</sup>	<u>2,284,830</u>
<b>Net Direct Plus Overlapping Debt</b>	<u><u>\$ 45,014,830</u></u>

<sup>1</sup> Does not include authorized but unissued debt of \$18,192,140.

<sup>2</sup> Reflects Town's 29% share of total project costs. The Town expects to assess the benefitting property owners for a portion of the Town's net project cost. See "Summary of Municipal Services – Water Pollution Control Authority" and "Overlapping Indebtedness" herein.

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## Current Debt Ratios

As of August 2, 2018 (Pro Forma)

Total Direct Debt	\$ 42,730,000
Net Direct Debt	\$ 42,730,000
Net Direct Plus Overlapping Debt	\$ 45,014,830
Population <sup>1</sup>	29,140
Net Taxable Grand List (10/1/17)	\$1,820,225,893
Estimated Full Value	\$2,600,322,704
Equalized Net Taxable Grand List (10/1/16) <sup>2</sup>	\$2,564,921,991
Per Capita Income <sup>1</sup>	\$ 35,137

### Total Direct Debt:

Per Capita	\$1,466.37
To Net Taxable Grand List	2.35%
To Estimated Full Value	1.64%
To Equalized Net Taxable Grand List	1.67%
Per Capita to Per Capita Income	4.17%

### Net Direct Debt:

Per Capita	\$1,466.37
To Net Taxable Grand List	2.35%
To Estimated Full Value	1.64%
To Equalized Net Taxable Grand	1.67%
Per Capita to Per Capita Income	4.17%

### Net Direct Plus Overlapping Debt:

Per Capita	\$1,544.78
To Net Taxable Grand List	2.47%
To Estimated Full Value	1.73%
To Equalized Net Taxable Grand List	1.76%
Per Capita to Per Capita Income	4.40%

<sup>1</sup> U.S. Bureau of Census.

<sup>2</sup> Office of Policy and Management, State of Connecticut

## Historical Debt Statement

	2017-18 <sup>1</sup>	2016-17	2015-16	2014-15	2013-14
Population <sup>2</sup>	29,140	29,140	29,140	29,114	29,162
Net taxable grand list	\$1,794,830,542	\$1,768,696,503	\$1,767,082,528	\$1,762,050,886	\$1,734,380,865
Estimated full value	\$2,564,043,631	\$2,526,709,290	\$2,524,403,611	\$2,517,215,551	\$2,477,686,950
Equalized net taxable grand list <sup>3</sup>	\$2,564,921,991	\$2,514,856,763	\$2,546,983,355	\$2,520,764,900	\$2,402,677,895
Per capita income <sup>2</sup>	\$ 35,137	\$ 35,137	\$ 35,137	\$ 33,874	\$ 35,314
Short-term debt	\$ 3,325,000	\$ 2,200,000	\$ 6,350,000	\$ -	\$ -
Long-term debt	\$ 41,645,000	\$ 40,960,000	\$ 38,586,194	\$ 36,659,022	\$ 40,839,643
Total Direct Indebtedness	\$ 44,970,000	\$ 43,160,000	\$ 44,936,194	\$ 36,659,022	\$ 40,839,643
Net Direct Debt	\$ 44,970,000	\$ 43,160,000	\$ 44,758,357	\$ 36,130,797	\$ 39,966,893
Overlapping Debt	\$ 2,284,830	\$ 2,566,213	\$ 2,566,213	\$ 2,702,000	\$ 2,737,386
Net Direct Plus Overlapping Debt	\$ 47,254,830	\$ 45,726,213	\$ 47,324,570	\$ 38,832,797	\$ 42,704,279

<sup>1</sup> Unaudited estimate.

<sup>2</sup> U.S. Bureau of Census.

<sup>3</sup> Office of Policy and Management, State of Connecticut

## Historical Debt Ratios

<b>Total Direct debt:</b>	<b>2017–18<sup>1</sup></b>	<b>2016–17</b>	<b>2015–16</b>	<b>2014–15</b>	<b>2013–14</b>
Per capita	\$1,543.24	\$1,481.13	\$1,542.08	\$1,259.15	\$1,400.44
To net taxable grand list	2.51%	2.44%	2.54%	2.08%	2.35%
To estimated full value	1.75%	1.71%	1.78%	1.46%	1.65%
To equalized net taxable grand list	1.75%	1.72%	1.76%	1.45%	1.70%
Debt per capita to per capita income	4.39%	4.22%	4.39%	3.72%	3.97%
<b>Net Direct debt:</b>					
Per capita	\$1,543.24	\$1,481.13	\$1,535.98	\$1,241.01	\$1,370.51
To net taxable grand list	2.51%	2.44%	2.53%	2.05%	2.30%
To estimated full value	1.75%	1.71%	1.77%	1.44%	1.61%
To equalized net taxable grand list	1.75%	1.72%	1.76%	1.43%	1.66%
Debt per capita to per capita income	4.39%	4.22%	4.37%	3.66%	3.88%
<b>Net Direct Plus</b>					
Per capita	\$1,621.65	\$1,569.19	\$1,624.04	\$1,333.82	\$1,464.38
To net taxable grand list	2.63%	2.59%	2.68%	2.20%	2.46%
To estimated full value	1.84%	1.81%	1.87%	1.54%	1.72%
To equalized net taxable grand list	1.84%	1.82%	1.86%	1.54%	1.78%
Debt per capita to per capita income	4.62%	4.47%	4.62%	3.94%	4.15%

<sup>1</sup> Unaudited estimate.

## Outstanding Short-Term Indebtedness

Following this issue, the Town will have no outstanding short-term debt.

## Capital Leases

The Town has entered into a capital lease agreement for the purchase of two fire pumps, a fire rescue truck, an excavator, a recycling truck and a parks tractor. The present value of future minimum lease payment as of June 30, 2018 is estimated to be \$693,718. These payments are not included in outstanding bonded debt schedules herein.

## Overlapping Indebtedness

The Town of Vernon and the neighboring Town of Bolton entered into a consent order with the Connecticut Department of Environmental Protection (CTDEP) on October 14, 1999, requiring the towns to take the necessary steps to address wastewater disposal alternatives for the Bolton Lakes' area. The Bolton Lakes Regional Water Pollution Control Authority (BLRWPCA) was created by ordinances adopted in both towns. In Vernon, Ordinance #242 was adopted in April of 2003. The formation of the regional authority gives the BLRWPCA the power and authority, granted by State Statutes, to construct a sewerage system, charge user fees, levy assessments, bill for hook-up fees and to operate and manage the sewer system. The BLRWPCA sewer project was completed in 2016 with approximately \$6,291,000 or 29% of project costs attributable to the Town of Vernon. This proportionate share was reduced by BLRWPCA grants and benefit assessments to \$2,701,277. In June 2016, the BLRWPCA issued a State of Connecticut Clean Water Fund loan obligation to finance project costs, allocating \$2,701,277 to Vernon. This allocation is considered overlapping debt for the Town of Vernon. The balance of overlapping debt as of August 2, 2018 is \$2,284,830.

## **Clean Water Fund Program**

The State of Connecticut Clean Water Fund Program (Connecticut General Statutes Section 22a-475 et seq., as amended) provides financial assistance to municipalities to finance wastewater treatment projects through a combination of grants and loans bearing interest at a rate of 2% per annum. All participating municipalities receive a grant of 20% and a loan of 80% of total eligible costs (with the exception of combined sewer overflow correction projects which are financed with a 50% grant and a 50% loan).

Loans to each municipality are made pursuant to Project Grant and Project Loan Agreements (the "Loan Agreement"). Each municipality is obligated to repay only that amount which it draws down for the payment of project costs (Interim Funding Obligations). Each municipality must deliver to the State an obligation secured by the full faith and credit of the municipality, and/or a dedicated source of revenue of such municipality.

Amortization of each loan is required to begin one year from the earlier of the project completion date specified in the Loan Agreement or the actual project completion date. The final maturity of each loan is twenty years from the scheduled completion date. Principal and interest payments are made (1) in equal monthly installments commencing one month after the scheduled completion date, or (2) in single annual installments representing 1/20 of total principal not later than one year from the project completion date specified in the Loan Agreement repayable thereafter in monthly installments. Loans made under loan agreements entered into prior to July 1, 1989 are repayable in annual installments. Borrowers may elect to make level debt service payments or level principal payments. Borrowers may prepay their loans at any time prior to maturity without penalty.

## **Legal Requirements for Approval of Borrowing**

The Town has the power to incur indebtedness by issuing its bonds or notes as authorized by the Connecticut General Statutes, as amended, subject to statutory debt limitations and the requirements of the Town Charter for the authorization of indebtedness. Under the Town Charter, upon vote of the Town Council, the Town may issue bonds pursuant to the Connecticut General Statutes for the purposes and to the limit allowed by the Connecticut General Statutes. Except for refunding bonds, any borrowing that will exceed \$10,000 in any fiscal year shall be subject to approval by referendum vote. The referendum takes place at the next general election or at a special election called for and held in the manner provided by the Connecticut General Statutes. Borrowing of funds shall not proceed unless a majority of those voting thereon at referendum shall have voted in favor thereof.

## **Temporary Financing**

When general obligation bonds have been authorized, bond anticipation notes may be issued maturing in not more than two years (CGS Sec. 7-378). Temporary notes may be renewed up to ten years from their original date of issue as long as all project grant payments are applied toward payment of project costs or temporary notes when they become due and payable, and the legislative body schedules principal reductions by the end of the third year and for each subsequent year during which such temporary notes remain outstanding, in an amount equal to a minimum of 1/20<sup>th</sup> (1/30<sup>th</sup> for sewer projects and certain school projects) of the estimated net project cost (CGS Sec. 7-378a). The term of the bond issue is reduced by the amount of time temporary financing exceeds two years.

Temporary notes must be permanently funded no later than ten years from their initial borrowing date, except sewer notes issued in anticipation of State and/or Federal grants. If written commitment exists, the municipality may renew the sewer notes from time to time in terms not to exceed six months until such time that the final grant payments are received (CGS Sec. 7-378b).

Temporary notes may also be issued for up to 15 years for certain capital projects associated with the operation of a waterworks system (CGS Sec. 7-244a) or a sewage system (CGS Sec. 7-264a). In the first year following the completion of the project(s), or in the sixth year following the original date of issue (whichever is sooner), and in each year thereafter, the notes must be reduced by 1/15<sup>th</sup> of the total amount of the notes issued by funds derived from sources of payment specified by statute. Temporary notes may be issued in one-year maturities for up to 15 years in anticipation of sewer assessments receivable, such notes to be reduced annually by the amount of assessments received during the preceding year (CGS Sec. 7-269a).

## **Existing and Future Capital Project Financing**

On January 28, 2014 voters approved a public road improvement bond authorization of \$27,637,000 to fund improvements to over 200 Town roads. This issue is the fourth issuance against the authorization. The Town expects to finance the improvements through one additional bond issues within the next two fiscal years.

On March 28, 2017, voters approved a bond authorization in the amount of \$3,245,000 to fund the acquisition of property located at 135 Bolton Road in Vernon and the design, reconstruction and improvement of the existing building on the property for use as a senior center. This issue is the second and final issuance against the authorization.

The Town is currently undertaking comprehensive improvements to the wastewater treatment facility including installation of screening and grit equipment, upgrading the aeration system to allow for the removal of nitrogen, improvements to filtering processes for the removal of phosphorous, switching from bleach disinfection to UV disinfection to provide for safer and cost-effective treatment, installing thickening equipment to reduce sludge hauling and disposal costs. The Town currently estimates the improvements to be approximately \$82 million, with a net share to the Town of approximately \$43 million. The Town expects plans to finance most of the improvements through the State of Connecticut Clean Water Fund program and expects that certain expenses may be eligible for grants of between 20% and 50% of the costs. Additionally, the Town expects that the Towns of Ellington, Tolland, South Windsor and Manchester will collectively contribute approximately 30% of the net costs of the improvements.

### Capital Improvement Plan

The Mayor annually prepares an updated six-year capital improvement program. The plan is a systematic program to add or replace capital items for each department within the General Government and Board of Education. The 2019-2024 Plan projects a total of \$123,114,528 in spending for projects and equipment, of which approximately \$93,420,683 is expected to be financed through capital borrowing (bonds, capital leases and state loans). A complete copy of the most recent capital improvement program is available from the Finance Office.

	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>Total</u>
<b><u>Summary of Programs</u></b>							
Total Projects	\$17,190,552	\$52,484,955	\$41,817,500	\$2,582,500	\$ 867,500	\$ 962,500	\$115,905,507
Total Equipment	2,065,950	2,324,137	428,293	846,167	1,322,274	222,200	7,209,021
<b>Total Program Costs</b>	<b><u>\$19,256,502</u></b>	<b><u>\$54,809,092</u></b>	<b><u>\$42,245,793</u></b>	<b><u>\$3,428,667</u></b>	<b><u>\$2,189,774</u></b>	<b><u>\$1,184,700</u></b>	<b><u>\$123,114,528</u></b>
<b><u>Sources of Financing</u></b>							
General Fund Impact	\$660,172	\$5,681,824	\$3,648,260	\$2,413,134	\$ 800,000	\$ 800,000	\$ 14,003,390
LoCIP Grants	176,658	616,173	209,533	209,533	209,533	209,533	1,630,963
Other Sources and Funds	1,639,224	499,720	48,000	326,000	180,241	175,167	2,868,352
Capital and Non-Recurring	793,000	241,140	-	-	-	-	1,034,140
Grant Applications	5,757,000	4,400,000	-	-	-	-	10,157,000
Lease Purchase	1,515,828	1,923,000	140,000	480,000	1,000,000	-	5,058,828
G.O. Bonds	4,078,598	3,247,235	-	-	-	-	7,325,833
State Clean Water Fund	4,636,022	38,200,000	38,200,000	-	-	-	81,036,022
<b>Total Funding Sources</b>	<b><u>\$19,256,502</u></b>	<b><u>\$54,809,092</u></b>	<b><u>\$42,245,793</u></b>	<b><u>\$3,428,667</u></b>	<b><u>\$2,189,774</u></b>	<b><u>\$1,184,700</u></b>	<b><u>\$123,114,528</u></b>

## School Construction Projects

The State of Connecticut provides proportional progress payments for eligible school construction expenses on projects approved after July 1, 1996. Debt service reimbursement will continue under the old program for all projects approved prior to July 1, 1996.

Under the old program, the State of Connecticut will reimburse the Town for principal and interest costs for eligible school construction projects over the life of outstanding school bonds and the subsequent bond issues necessary to completely fund the school projects. None of the Town's current school projects are reimbursed under the old program.

Under the new program, the State of Connecticut will make proportional progress payments for eligible construction costs during certain phases of construction. The following projects will be reimbursed under this method:

<b>Project</b>	<b>Total Appropriation</b>	<b>Estimated Reimbursement Rate (%)</b>	<b>Total Estimated Grant <sup>1</sup></b>
Vernon Center Middle School Roof Replacement	\$ 872,865	68.93	\$ 411,226
Northeast School Roof Replacement	1,231,881	68.93	817,832
Skinner Road School Roof Replacement	1,656,354	68.93	965,097
Vernon Center Middle School Roof Replacement	1,863,227	68.21	1,270,907
<b>Total</b>	<b>\$ 5,624,327</b>		<b>\$ 3,465,063</b>

<sup>1</sup> Estimated grants receivable are based upon eligibility of reimbursable project costs. Final eligible costs to be determined at completion of post project audit. To date, the Town has received \$1,953,358 in grants for the projects and expects to receive an additional \$1,511,705.

## Authorized but Unissued Debt

<b>Project</b>	<b>Amount of Total Authorization</b>	<b>Prior Debt/ Grants</b>	<b>The Bonds This Issue</b>	<b>Authorized But Unissued Debt</b>
Road Reconstruction, Drainage Improv.				
Sidewalk & Bridge Replacement	\$ 19,103,000	\$ 18,361,310	\$ -	\$ 741,690
Sewer System Improvements	1,211,000	1,153,054	-	57,946
Rockville High School Project <sup>1</sup>	34,657,000	33,056,304	-	1,600,696
Vernon Center Middle School Project	11,519,000	10,738,421	-	780,579
Various Elementary School Additions and Renovations <sup>1</sup>	22,146,000	19,475,771	-	2,670,229
Bolton Lakes Regional WPCA <sup>2</sup>	6,293,000	2,702,000	-	3,591,000
Road Reconstruction and Improvements	27,637,000	15,862,000	3,387,000	8,388,000
Senior Center	3,245,000	1,270,000	1,613,000	362,000
<b>Total All Projects</b>	<b>\$125,811,000</b>	<b>\$102,618,860</b>	<b>\$5,000,000</b>	<b>\$18,192,140</b>

<sup>1</sup> The Town expects progress payment grants from the State of Connecticut which will reduce the authorized but unissued debt by a similar amount. Please see "School Construction Projects" herein.

<sup>2</sup> Reflects Town's 29% share of total project costs. The Town expects to assess the benefitting property owners for a portion of the Town's net project cost. See "Summary of Municipal Services – Water Pollution Control Authority" and "Overlapping Indebtedness" herein.

# **Combined Schedule of Long Term Debt through Maturity**

As of August 2, 2018 (Pro Forma)

<b>Fiscal Year</b>	<b>Principal Payments</b>	<b>Interest Payments</b>	<b>Total Payments</b>	<b>Principal <i>This Issue</i></b>	<b>Principal All Issues</b>
2019 <sup>1</sup>	\$ 4,170,000	\$ 1,363,481	\$ 5,533,481	\$ -	\$ 4,170,000
2020	4,160,000	1,222,881	5,382,881	340,000	4,500,000
2021	4,170,000	1,061,394	5,231,394	340,000	4,510,000
2022	4,175,000	898,169	5,073,169	340,000	4,515,000
2023	4,275,000	732,206	5,007,206	335,000	4,610,000
2024	4,270,000	568,931	4,838,931	335,000	4,605,000
2025	3,325,000	432,306	3,757,306	335,000	3,660,000
2026	3,315,000	321,013	3,636,013	335,000	3,650,000
2027	3,045,000	218,450	3,263,450	330,000	3,375,000
2028	2,405,000	143,900	2,548,900	330,000	2,735,000
2029	1,130,000	97,706	1,227,706	330,000	1,460,000
2030	1,130,000	69,900	1,199,900	330,000	1,460,000
2031	1,110,000	40,881	1,150,881	330,000	1,440,000
2032	685,000	17,175	702,175	330,000	1,015,000
2033	280,000	4,200	284,200	330,000	610,000
2034	-	-	-	330,000	330,000
<b>Total</b>	<b>\$ 41,645,000</b>	<b>\$ 7,192,594</b>	<b>\$48,837,594</b>	<b>\$ 5,000,000</b>	<b>\$ 46,645,000</b>

<sup>1</sup> Includes \$3,915,000 in principal and \$674,550 in interest payments as of August 2, 2018.

Source: Annual audited financial statements.

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## SECTION V - FINANCIAL DATA

### Accounting Policies

The Town's accounting policies are summarized in Note 1 "Summary of Significant Account Policies" in the Notes to Financial Statements.

### Basis of Accounting

See Note 1 "Measurement Focus, Basis of Accounting and Financial Statement Presentation" in the Notes to Financial Statements (Appendix A).

### Audit

Pursuant to the provisions of the Municipal Auditing Act (Chapter 111 of the Connecticut General Statutes) and the Town of Vernon Charter, the Town is obligated to undergo an annual examination by an independent certified public accountant. The current auditors, Mahoney Sabol & Company, LLC of Glastonbury, Connecticut were re-appointed by the Town Council in March 2018 and are required to conduct their examination under the guidelines issued by the State of Connecticut Office of Policy & Management, who receive a copy of said Audit Report when completed.

The most recent annual audit covers the fiscal year ended June 30, 2017, a portion of which is included in this document and made a part hereof as Appendix A. Included in Appendix A are the Town's Basic Financial Statements, Notes to the Financial Statements and Required Supplemental Information, together with the report of the independent auditor. The information contained in "Appendix A" is not the whole audit report. Individuals wishing a complete document should contact the Finance Officer of the Town of Vernon, Connecticut.

### Certificate of Achievement for Excellence in Financial Reporting

The Town of Vernon's Comprehensive Annual Financial Reports ("CAFR") for fiscal years 1995 through 2016 were awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Financial Officers Association of the United States and Canada ("GFOA"). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

### Budgetary Procedure

The Town adheres to the following procedure in establishing the budgetary data included in the General Fund and certain Special Revenue Funds financial statements. No later than March 15, the Mayor shall present to the Town Council a budget and recommendations. The Town Council shall hold two or more public hearings the last of which shall be the Annual Town Meeting not later than April 30<sup>th</sup>, at which time any elector or taxpayer may be heard regarding appropriations for the ensuing fiscal year. The Town Council approves a budget and presents it to electors and taxpayers at the Annual Town Meeting for adoption. Within (5) five days of adoption, the Town Council must set the tax (mill) rate for the ensuing fiscal year. Per the Connecticut General Statutes, the Annual Town Meeting may be adjourned to a referendum vote within 14 days of the Town Meeting date.

<u>On or About</u>	<u>Action</u>
January 8	Department budget request forms distributed.
February 10	Departments, offices, boards, commissions submit estimates of receipts and expenditures to the Mayor and Finance Officer.
March 15	The Mayor submits the budget to the Town Council for review.
April 30	The Town Council must hold two or more public hearings to obtain elector or taxpayer comments, the last of which shall be the Annual Town Meeting, at which a budget approved and submitted by Town Council will be voted on.
July 1	The new fiscal year begins.

All unencumbered appropriations lapse at year-end, except those for the Capital Projects Fund and certain special revenue grants. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one fiscal year.

Connecticut General Statutes Section 4-661 creates a cap on adopted general budget expenditures for municipalities in Connecticut in order for municipalities to be eligible to receive the full amount of the State's municipal revenue sharing grant. Beginning in fiscal year ending June 30, 2018, and in each fiscal year thereafter, the Office of Policy and Management ("OPM") must reduce the municipal revenue sharing grant amount for those municipalities whose adopted general budget expenditures (with certain exceptions including but not limited to debt service, special education, implementation of court orders or arbitration awards, budgeting for an audited deficit, nonrecurring grants, capital expenditures of \$100,000 or more, or payments on unfunded pension liabilities, and certain major disaster or emergency expenditures) exceeds the spending limits specified in the statute. For each applicable fiscal year, OPM must determine the municipality's percentage growth in general budget expenditures over the prior fiscal year and reduce the grant if the growth rate is equal to or greater than 2.5% or the inflation rate, whichever is greater, each of those amounts adjusted by an amount proportionate to any increase in the municipality's population from the previous fiscal year. The reduction is generally equal to 50 cents for every dollar the municipality spends over this cap. Each municipality must annually certify to the Secretary of the OPM whether such municipality has exceeded the cap set forth in the statute and if so the amount by which the cap was exceeded. The 2017-2019 biennium budget legislation does not provide funding for the municipal revenue sharing grant in the fiscal years ending June 30, 2018 and June 30, 2019, but provides that such funding will resume following July 1, 2019.

### Supplemental Appropriations

Under the Town Charter, any appropriation in excess of 1/10 of 1% of the total budget in addition to or supplementary to the annual budget requires a public hearing and approval at a Special Town Meeting. The issuance of bonds and notes (except refunding bonds) are to be authorized by ordinance, and if the borrowing exceeds \$10,000, it must be approved by a referendum vote.

### Employee Pension Systems

The Town maintains three single-employer defined benefit retirement plans which cover substantially all full-time employees, except for the groups covered by the Connecticut State Teachers' Retirement Plan, and members of the Town's Volunteer Fire Department based upon certain service criteria. The pension plan for the Volunteer Fire Department was established effective January 1, 2000 and is known as the Town of Vernon Length of Service Award Program (LOSAP). Of the three defined benefit retirement plans, the Town Plan is currently closed to new hires for all Town-side bargaining units and non-affiliated employees as well as non-affiliated employees of the Board of Education.

As of January 1, 2017 there were approximately 1,074 active and retired persons in the plans (including the Volunteer Fire LOSAP). The most recent valuations for the Town's Police and Town as well as the Volunteer Fire LOSAP plan were as of January 1, 2017.

The Town has implemented Government Accounting Standards Board's (GASB) Statement No. 67. Because the plan year is the calendar year, the net position is based on fair market value as of December 31st and the Total Pension Liability is based on the actuarial assumptions as of the prior valuation date projected forward to December 31st. In accordance with GASB Statement No. 67, the components of the net pension liability of the Town plans of were as follows:

	<b>Police Plan</b>	<b>Town Plan</b>	<b>LOSAP Plan</b>
Total pension liability	\$ 43,879,584	\$ 79,798,201	\$ 1,447,013
Plan fiduciary net position	22,305,796	45,227,099	1,574,854
Net pension liability	<u>\$ 21,573,788</u>	<u>\$ 34,571,102</u>	<u>\$ (127,841)</u>
Plan fiduciary net position as a %			
of total pension liability	50.8%	56.7%	108.8%



The following represents the net pension liability of the Town, calculated using the current discount rate of each plan, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

<b><u>Police Plan</u></b>		<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
		<b>6.00%</b>	<b>Discount Rate</b>	<b>8.00%</b>
			<b>7.00%</b>	
Net Pension Liability		\$ 16,954,755	\$ 21,573,788	\$ 26,881,697

<b><u>Town Plan</u></b>		<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
		<b>6.00%</b>	<b>Discount Rate</b>	<b>8.00%</b>
			<b>7.00%</b>	
Net Pension Liability		\$ 27,220,748	\$ 34,571,102	\$ 42,861,909

<b><u>LOSAP Plan</u></b>		<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
		<b>5.50%</b>	<b>Discount Rate</b>	<b>7.50%</b>
			<b>6.50%</b>	
Net Pension Liability		\$ 72,819	\$ (127,841)	\$ (319,787)

The following represents historic trend information of the Town's Plans:

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Over (Unfunded) AAL (UAAL) (a) - (b)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(a) - (b) / (c)]</b>
<b>Police</b>						
2017	\$ 20,789,699	\$ 41,165,497	\$(20,375,798)	50.5%	\$ 4,789,390	-425.4%
2016	19,839,445	40,020,990	(20,181,545)	49.6%	4,866,463	-414.7%
2015	19,088,421	38,238,607	(19,150,186)	49.9%	4,747,257	-403.4%
2014	18,032,156	35,556,727	(17,524,571)	50.7%	4,549,520	-385.2%
2013	16,662,221	33,489,061	(16,826,840)	49.8%	4,390,111	-383.3%
<b>Town</b>						
2017	\$ 42,084,655	\$ 74,453,888	\$(32,369,233)	56.5%	\$14,795,233	-218.8%
2016	39,900,098	73,351,990	(33,451,892)	54.4%	15,411,202	-217.1%
2015	37,610,383	69,025,078	(31,414,695)	54.5%	14,789,154	-212.4%
2014	34,566,389	61,575,373	(27,008,984)	56.1%	14,933,089	-180.9%
2013	31,354,306	56,269,385	(24,915,079)	55.7%	14,895,476	-167.3%
<b>LOSAP</b>						
2017	\$ 1,574,854	\$ 1,369,527	\$ 205,327	115.0%	N/A	N/A
2016	1,441,953	1,305,400	136,553	110.5%	N/A	N/A
2015	1,508,812	1,237,535	271,277	121.9%	N/A	N/A
2014	1,464,512	1,035,916	428,596	141.4%	N/A	N/A
2013	1,267,827	973,134	294,693	130.3%	N/A	N/A

## Schedule of Employer Contributions

Fiscal Year	Police		Town		LOSAP	
	Actuarially Determined Contribution	Percentage Contributed	Actuarially Determined Contribution	Percentage Contributed	Actuarially Determined Contribution	Percentage Contributed
2019 <sup>1</sup>	\$ 1,864,551	100.0%	\$ 2,530,602	100.0%	\$ 112,874	100.0%
2018 <sup>2</sup>	1,839,551	100.0%	2,495,374	100.0%	53,605	100.0%
2017	1,730,812	100.0%	2,525,719	100.0%	52,289	100.0%
2016	1,639,455	100.0%	2,383,370	100.0%	39,924	100.0%
2015	1,515,199	100.0%	2,135,571	100.0%	37,752	100.0%

<sup>1</sup> Adopted budget, estimated ADC for Fiscal Year 2018-19.

<sup>2</sup> Unaudited.

Another retirement plan available in the Town is the Connecticut State Teachers' Retirement Plan. This is a noncontributory multiple employer PERS. The certified teaching faculty and administrative personnel participate in this employee contributory plan administered by the Connecticut State Teachers' Retirement Board. The Town does not contribute to the plan nor does it have any legal obligation for benefit payments.

For further discussion on the plans, see Appendix A, "Notes to Financial Statements".

### Defined Contribution Pension Plan

The Town Council has authorized the establishment of twelve separate single-employer Defined Contribution Pension Plans for various qualifying bargaining unit members and certain non-affiliated employees. The Town Administrator is responsible for the administration of these plans and only the Town Council may approve amendments to each plan's provisions and contribution requirements. Employees are not required to contribute to the respective defined contribution plan. The required level of Employer contribution varies by group and is dependent on the level of the Employee's contribution.

The effective establishment dates for these twelve plans are as follows:

Effective Date	Plan
July 1, 2009	Department of Public Works Clerical Bargaining Unit
January 1, 2010	Professional Employees Bargaining Unit
January 1, 2010	Department of Public Works Supervisors Bargaining Unit
January 1, 2010	Water Pollution Control Supervisors Bargaining Unit
August 4, 2010	Town non-union employees
July 1, 2011	DPW Laborers / Parks / WPC Bargaining Unit
July 1, 2013	Police Civilian's Bargaining Unit
June 4, 2014	Board of Education non-union employees
July 1, 2014	Board of Education Cafeteria
July 1, 2015	Board of Education Supervisors
July 1, 2016	Board of Education Nurses
July 1, 2016	Board of Education Librarians

For further discussion on the plans, see Appendix A, "Notes to Financial Statements".

### Other Post-Employment Benefits

The Town administers a single-employer, post-retirement healthcare plans for Town, Police and Board of Education employees. The plans provide medical, dental and prescription benefits for eligible retirees and their spouses. Benefits and contributions are established by contract and may be amended by union negotiations. The Town's contribution is actuarially determined on an annual basis using the projected unit credit method. Currently, employees do not contribute to the plans but pay a portion of the cost of the benefits. The Town established an irrevocable trust for OPEB effective June 2011.

For fiscal year 2016-17, the Town implemented Government Accounting Standards Board's (GASB) Statement No. 74. In accordance with GASB Statement 74, the net position is based on fair market value as of June 30th and OPEB Liability is

based on the actuarial assumptions as of the prior valuation date updated to the end of the fiscal year. The components of the net OPEB liability of the Town were as follows:

	June 30, 2017
Total OPEB liability	\$ 8,202,469
Plan fiduciary net position	893,686
Net OPEB liability	<u>\$ 7,308,783</u>
Plan fiduciary net position as a % of total OPEB liability	10.90%

The following represents the net OPEB liability of the Town, calculated using the discount rate of 6.5%, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
	5.5%	6.5%	7.5%
Town's Net OPEB Liability	\$ 8,279,131	\$ 7,308,783	\$ 6,475,428

The following represents the net OPEB liability of the Town, calculated using the current healthcare cost trend rates, as well as what the Town's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
	(4.7% decreasing to 3.7%)	(5.7% decreasing to 4.0%)	(6.7% increasing to 5.7%)
Town's Net OPEB Liability	\$ 6,283,951	\$ 7,308,783	\$ 8,535,306

The following presents historical information regarding the post-employment benefit funding. The Town's most recent valuation was July 1, 2016. According to the July 1, 2016 valuation, the overall membership in the plan decreased from 925 to 818. In connection with the valuation, the Town's actuaries changed the actuarial cost method from Project Unit Credit to Entry Age Normal as required for financial reporting purposes under GASB Statement No. 74, and reduced the discount rate from 7.00% to 6.5%. As a result the changes in actuarial assumptions, the total liability increased by approximately \$1.13 million. Additionally, the Actuarial Determined Contribution increased from \$719,304 in Fiscal Year 2016-17 to \$770,427 in Fiscal Year 2017-18.

The following represents historic trend information of the Town's Plans:

#### Schedule of Funding Progress

Summary (Town, Police BOE Plans)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Over (Unfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(a) - (b) / (c)]
2016	\$ 684,481	\$ 7,847,638	\$(7,163,157)	8.72%	\$52,602,048	-13.62%
2014	237,033	6,451,198	(6,214,165)	3.67%	\$43,490,526	-14.29%
2012	77,009	8,200,976	(8,123,967)	0.94%	\$42,162,309	-19.27%
2010	60,000	10,355,000	(10,295,000)	0.58%	\$41,661,617	-24.71%
2008	-	13,393,000	(13,393,000)	0.00%	\$40,619,262	-32.97%

## Schedule of Employer Contributions

### Summary (Town, Police, BOE Plans)

<b>Fiscal Year</b>	<b>Actuarial Required Contribution</b>	<b>Actual Contribution</b>	<b>Percentage Contributed</b>
2017	719,304	660,185	91.8%
2016	684,579	642,059	93.8%
2015	896,019	821,913	91.7%
2014	852,522	640,029	75.1%
2013	1,074,000	791,000	73.6%

### Investment Policies and Procedures

Under the Town Charter and under Connecticut General Statutes Sections 7-400, 7-401 and 7-402, and under an Investment Policy implemented by the finance office, the Town may invest in certificates of deposit, repurchase agreements, municipal notes and bonds, obligations of the United States of America, including joint and several obligations of the Federal Home Loan Mortgage Association, the Federal Savings and Loan Insurance Corporation, obligations of the United States Postal Service, all the Federal Home Loan Banks, all Federal Land Banks, the Tennessee Valley Authority, or any other agency of the United States government, mutual funds and money market mutual funds.

The Town's investment practices have been to invest only in certificate of deposits, repurchase agreements, the State of Connecticut Short-Term Investment Fund (STIF), and the State of Connecticut Tax-Exempt Proceeds Fund. All investments are to be approved by the Finance Officer. The Finance Officer has followed these investment practices and the Town's operating funds and capital funds are currently invested in the following short-term investments: (1) the State of Connecticut STIF; (2) overnight repurchase agreements with specified banks collateralized by U. S. government agency obligations such as the Federal Home Loan Mortgage Corporation which are valued daily; (3) overnight U. S. Treasury obligations. Under the Investment Policy, there are set investment limits for each bank named as a public depository, depending on each bank's financial performance. Quarterly financial statements (Quarterly Public Depository) are reviewed to insure the Risk-Based Capital Ratio does not fall below 4%.

All Town pension funds are invested in mutual funds and securities as determined by pension fund administrators. Board of Education pension funds are invested in a cost sharing, multiple employer public employees retirement system established by the State of Connecticut and administered by the State of Connecticut Retirement Commission to provide pension benefits for the employees of participating municipalities. For further description of the Town's Pension Plans, see Note IV, to the Town's audited financial statements in "Appendix A" herein.

### Assessment Practices

The Town's most recent general revaluation was for the grand list dated October 1, 2016, effective fiscal year 2017-18. Under Section 12-62 of the Connecticut General Statutes, the Town must do a revaluation every five years based on generally accepted mass appraisal methods and a revaluation by physical inspection no later than ten years from the preceding physical inspection. Prior to the completion of each revaluation, the Assessor shall conduct a field review.

The maintenance of an equitable tax base and the location and appraisal of all real and personal property within the Town for inclusion onto the Grand List is the responsibility of the Assessor's Office. The Grand List represents the total of assessed value for all taxable real and personal property located within the Town on October 1, in accordance with Section 12-62a of the Connecticut General Statutes. A Board of Assessment Appeals determines whether adjustments to the Assessor's list on assessments under appeal are warranted. Assessments for real property are computed at 70 percent of the estimated market value at the time of the last general revaluation.

When a new structure, or modification to an existing structure, is undertaken, the Assessor's Office receives a copy of the permit issued by the Building Inspector. A physical appraisal is then completed and the structure classified and priced from a schedule developed at the time of the revaluation. The property depreciation and obsolescence factors are also considered when arriving at an equitable value.

Motor vehicle lists are furnished to the Town by the State of Connecticut and appraisals of motor vehicles are accomplished in accordance with an automobile price schedule recommended by the Office of Policy and Management.

All personal property (furniture, fixtures, equipment, machinery and leased equipment) is assessed annually with manufacturers and businesses completing and returning to the Assessor's Office standard worksheets for computing value. An assessor's check and audit is completed periodically. Assessments for both personal property and motor vehicles are computed at 70 percent of present market value.

### **Tax Collection Procedure**

Property taxes are levied on all taxable assessed property on the grand list of October 1 prior to the beginning of the fiscal year. Real, personal property and motor vehicle taxes are billed in the following June and, except for motor vehicle taxes, are payable in two installments on July 1 and January 1, except any tax under \$100 which is payable in full on July 1. Motor vehicle taxes are payable on July 1. Motor vehicle supplemental bills are payable on January 1. A significant estimate for outstanding interest and lien fees anticipated to be collected during the fiscal year is normally included as a revenue item in the budget. Payments not received within one month after the due date become delinquent, with interest charged at the rate of one and one-half percent per month from the due date on the tax. In accordance with State law, the oldest outstanding tax is collected first. Outstanding real estate tax accounts are liened each year prior to June 30 with legal demands and alias tax warrants used in the collection of personal property and motor vehicle tax bills.

Delinquent motor vehicle and personal property accounts are transferred to a suspense account after three years at which time they cease to be carried as receivables. Real estate accounts are considered uncollectible fifteen years after the due date in accordance with Connecticut General Statutes Section 12-164.

Property tax revenues are recognized when they become measurable and available. Available taxes due or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days of the close of the fiscal year) are to be used to pay liabilities of the current period. Property taxes receivable not expected to be collected during the available period are reflected as deferred revenue on the Town's financial statements.

Section 12-165 of the Connecticut General Statutes, as amended, requires each municipality to write off, on an annual basis, the property taxes which are deemed to be uncollectible.

### **Motor Vehicle Property Tax Rate**

Connecticut General Statutes Section 12-71e creates a cap on the local property tax mill rate for motor vehicles. The State of Connecticut's 2017-2019 biennium budget legislation, adopted after the beginning of the Town's fiscal year ending June 30, 2018, amended that statute to provide that (1) for the assessment year October 1, 2016 (the fiscal year ending June 30, 2018), the mill rate for motor vehicles shall not exceed 39 mills, and (2) for the assessment year October 1, 2017 (the fiscal year ending June 30, 2019), and each assessment year thereafter, the mill rate for motor vehicles shall not exceed 45 mills. No district or borough may set a motor vehicle mill rate that if combined with the motor vehicle mill rate of the town or city in which such district or borough is located would result in a combined motor vehicle mill rate in excess of these mill rate caps.

For the fiscal year ending June 30, 2018, motor vehicle property tax grants to municipalities that impose mill rates on real property and personal property other than motor vehicles greater than 39 mills or that, when combined with the mill rate of any district located within the municipality, impose mill rates greater than 39 mills, shall be made in an amount equal to the difference between the amount of property taxes levied by the municipality and any district located within the municipality on motor vehicles for the assessment year October 1, 2013 (the fiscal year ending June 30, 2015), and the amount such levy would have been if the mill rate on motor vehicles for that assessment year was 39 mills. For the fiscal year ending June 30, 2019, and each fiscal year thereafter, motor vehicle property tax grants to municipalities that impose mill rates on real property and personal property other than motor vehicles greater than 45 mills or that, when combined with the mill rate of any district located within the municipality, impose mill rates greater than 45 mills, shall be made in an amount equal to the difference between the amount of property taxes levied by the municipality and any district located within the municipality on motor vehicles for the assessment year October 1, 2013, and the amount such levy would have been if the mill rate on motor vehicles for that assessment year was 45 mills.

## Real Property Tax Levies and Collections

Fiscal Year Ending 30-Jun	Net Taxable Grand List	Tax Rate (In Mills)	Total Adjusted Tax Levy	Percent Collected of Each FY	Uncollected Taxes	
					End of Each FY	As of 6/30/18 <sup>2</sup>
2019 <sup>1</sup>	\$1,820,225,893	39.63	\$71,869,174	In process	In process	In process
2018 <sup>3</sup>	1,794,830,542	38.55	70,394,722	98.6%	\$1,000,554	\$1,000,554
2017	1,768,696,503	37.93	67,778,045	98.8%	841,535	315,088
2016	1,767,082,528	36.91	65,758,703	98.9%	737,489	96,227
2015	1,762,050,886	36.11	63,997,909	98.7%	839,835	46,800
2014	1,734,380,865	35.40	62,210,620	98.6%	883,316	34,658
2013 <sup>3</sup>	1,738,439,714	33.63	58,684,540	98.5%	872,240	28,635
2012	1,914,573,272	29.90	57,407,016	98.6%	803,778	33,049
2011	1,894,638,804	30.02	57,184,120	98.8%	699,198	32,974
2010 <sup>4</sup>	1,890,669,101	28.42	53,909,593	98.8%	641,526	30,669

<sup>1</sup> Adopted Budget.

<sup>2</sup> Unaudited estimate.

<sup>3</sup> Revaluation.

<sup>4</sup> Revaluation, phased-in over 3 years.

Source: Town of Vernon, Tax Collector, Finance Department.

## Taxable Grand List

(Thousands of Dollars)

Grand List Dated	Real Property	Personal Property	Motor Vehicle Property	Gross Taxable Grand List	Less Exemption	Net Taxable Grand List
10/01/17 <sup>1</sup>	\$1,554,092	\$ 99,541	\$ 186,780	\$1,840,413	\$ 20,187	\$ 1,820,226
10/01/16 <sup>2</sup>	1,542,988	86,312	183,244	1,812,544	17,713	1,794,831
10/01/15	1,521,759	82,321	180,716	1,784,796	16,099	1,768,697
10/01/14	1,516,179	89,335	180,314	1,785,828	18,745	1,767,083
10/01/13	1,509,734	85,341	184,647	1,779,722	17,671	1,762,051
10/01/12	1,500,008	75,767	176,322	1,752,097	17,716	1,734,381
10/01/11 <sup>2</sup>	1,494,414	82,581	181,538	1,758,533	20,093	1,738,440
10/01/10	1,682,235	84,559	165,126	1,931,920	17,347	1,914,573
10/01/09	1,673,775	81,908	157,390	1,913,073	18,434	1,894,639
10/01/08 <sup>3</sup>	1,671,701	77,116	157,558	1,906,375	15,676	1,890,699

<sup>1</sup> Adopted Budget.

<sup>2</sup> Revaluation.

<sup>3</sup> Revaluation, phased-in over 3 years.

Source: Town of Vernon Assessor's Office.

## Real Property Breakdown by Category

(Thousands of Dollars)

<b>Grand List Dated</b>	<b>Residential Property</b>	<b>Comm./Indus Property</b>	<b>All Other</b>	<b>Total Real Property</b>
10/01/17 <sup>1</sup>	\$ 1,085,330	\$ 457,723	\$ 11,039	\$1,554,092
10/01/16 <sup>2</sup>	1,083,608	447,502	11,878	1,542,988
10/01/15	1,146,488	368,921	6,350	1,521,759
10/01/14	1,142,602	367,152	6,425	1,516,179
10/01/13	1,137,949	364,583	7,202	1,509,734
10/01/12	1,133,280	359,258	7,470	1,500,008
10/01/11 <sup>2</sup>	1,130,299	355,469	8,646	1,494,414
10/01/10	1,270,682	402,280	9,273	1,682,235
10/01/09	1,262,353	402,533	8,889	1,673,775
10/01/08 <sup>3</sup>	1,254,849	404,763	12,089	1,671,701

<sup>1</sup> Adopted Budget.

<sup>2</sup> Revaluation.

<sup>3</sup> Revaluation, phased-in over 3 years.

Source: Town of Vernon Assessor's Office.

## Largest Taxpayers

The following table sets forth the ten largest taxpayers in the Town per the Grand List dated October 1, 2017:

<b>Name of Taxpayer</b>	<b>Nature of Business</b>	<b>Assessment</b>	<b>Rank</b>	<b>Percent of Total</b>
Chapman and The Mansions, LLC	Land and Apartments	\$ 76,185,800	1	4.19%
Evandro Santini & Woodbrook LLC	Land and Apartments	49,702,670	2	2.73%
Connecticut Water Company	Utility	28,575,489	3	1.57%
Tri City Improvements, LLC	Shopping center	26,605,970	4	1.46%
Prospect Rockville Hospital & ECHN	Healthcare	21,564,350	5	1.18%
Connecticut Light & Power / Yankee Gas Co.	Utility	18,968,810	6	1.04%
CE Vernon II LLC	Shopping center	16,379,790	7	0.90%
Boston Rockville / Boston Vernon	Shopping centers / Land	10,545,810	8	0.58%
Briar Knoll Apartments	Apartments	7,919,300	9	0.44%
New Park West Apartments	Apartments	6,801,750	10	0.37%
<b>Total</b>		<b>\$ 263,249,739</b>		<b>14.46%</b>

Source: Town of Vernon, Assessor's Office.

## Revenues

The Town derives its revenues from a direct tax levy on property, State and Federal aid, various fees and charges, and certain miscellaneous sources. Town revenues are summarized for fiscal years ended 2013-2017 in "Statement of Revenues, Expenditures and Changes in Fund Balance (GAAP Basis) - General Fund" herein.

## Property Tax Revenues

<b>Fiscal</b>	<b>Total Revenues &amp; Transfers In</b>	<b>Property Tax Revenues</b>	<b>Property Tax as a % of Total Revenues &amp; Transfers Out</b>
2019 <sup>1</sup>	\$ 92,171,450	\$71,961,747	78.1%
2018 <sup>2</sup>	92,431,702	70,118,515	75.9%
2017	96,399,470	67,962,636	70.5%
2016	95,480,987	66,502,928	69.7%
2015	92,908,740	64,116,182	69.0%
2014	91,052,450	62,683,962	68.8%
2013	87,047,424	58,939,088	67.7%
2012	88,002,442	57,327,038	65.1%
2011	84,898,068	57,387,268	67.6%
2010	80,857,245	54,241,727	67.1%

<sup>1</sup> Adopted Budget, budgetary basis, excludes on-behalf payments to the Connecticut State Teachers' Retirement System.

<sup>2</sup> Unaudited estimate, budgetary basis, excludes on-behalf payments to the Connecticut State Teachers' Retirement System.

Source: Annual audited financial statements; fiscal year 2017-18 unaudited estimate and 2018-19 adopted budgets.

## Intergovernmental Revenues

<b>Fiscal Year</b>	<b>Total Revenues &amp; Transfers In</b>	<b>Intergovernmental Revenue</b>	<b>Intergovernmental Revenue as a % of Total Revenue &amp; Transfers In</b>
2019 <sup>1</sup>	\$ 92,171,450	\$ 18,098,485	19.6%
2018 <sup>2</sup>	92,431,702	19,078,656	20.6%
2017	96,399,470	25,589,647	26.5%
2016	95,480,987	25,120,365	26.3%
2015	92,908,740	25,776,430	27.7%
2014	91,052,450	25,613,730	28.1%
2013	87,047,424	25,275,405	29.0%
2012	88,002,442	27,838,711	31.6%
2011	84,898,068	24,575,878	28.9%
2010	80,857,245	23,875,558	29.5%

<sup>1</sup> Adopted Budget, budgetary basis, excludes on-behalf payments to the Connecticut State Teachers' Retirement System.

<sup>2</sup> Unaudited estimate, budgetary basis, excludes on-behalf payments to the Connecticut State Teachers' Retirement System.

Source: Annual audited financial statements; fiscal year 2017-18 unaudited estimate and 2018-19 adopted budgets.



## Municipal Budget Expenditures Cap

Connecticut General Statutes Section 4-661 creates a cap on adopted general budget expenditures for municipalities in Connecticut in order for municipalities to be eligible to receive the full amount of the State's municipal revenue sharing grant. Beginning in fiscal year ending June 30, 2018, and in each fiscal year thereafter, the Office of Policy and Management ("OPM") must reduce the municipal revenue sharing grant amount for those municipalities whose adopted general budget expenditures (with certain exceptions including but not limited to debt service, special education, implementation of court orders or arbitration awards, budgeting for an audited deficit, nonrecurring grants, capital expenditures of \$100,000 or more, or payments on unfunded pension liabilities, and certain major disaster or emergency expenditures) exceeds the spending limits specified in the statute. For each applicable fiscal year, OPM must determine the municipality's percentage growth in general budget expenditures over the prior fiscal year and reduce the grant if the growth rate is equal to or greater than 2.5% or the inflation rate, whichever is greater, each of those amounts adjusted by an amount proportionate to any increase in the municipality's population from the previous fiscal year. The reduction is generally equal to 50 cents for every dollar the municipality spends over this cap. Each municipality must annually certify to the Secretary of the OPM whether such municipality has exceeded the cap set forth in the statute and if so the amount by which the cap was exceeded. The 2017-2019 biennium budget legislation does not provide funding for the municipal revenue sharing grant in the fiscal years ending June 30, 2018 and June 30, 2019, but provides that such funding will resume following July 1, 2019.

### Expenditures

<b>Fiscal Year</b>	<b>Education</b>	<b>General Government</b>	<b>Public Safety</b>	<b>Town Wide</b>	<b>Debt Service</b>
2019 <sup>1</sup>	57.7%	3.9%	9.7%	10.2%	8.3%
2018 <sup>2</sup>	58.3%	4.4%	9.4%	9.3%	7.6%
2017	61.7%	3.9%	9.1%	8.5%	5.2%
2016	61.0%	4.0%	9.2%	8.5%	4.7%
2015	62.4%	3.9%	9.3%	8.2%	4.4%
2014	63.3%	3.8%	8.9%	7.9%	4.6%
2013	62.7%	3.7%	9.4%	8.1%	5.0%
2012	59.5%	3.7%	13.0%	7.7%	5.3%
2011	61.8%	3.6%	9.2%	8.7%	4.8%
2010	61.4%	3.7%	9.6%	7.6%	3.8%

<sup>1</sup> Adopted Budget, budgetary basis, excludes on-behalf payments to the Connecticut State Teachers' Retirement System.

<sup>2</sup> Unaudited estimate, budgetary basis, excludes on-behalf payments to the Connecticut State Teachers' Retirement System.

Source: Annual audited financial statements; fiscal year 2017-18 unaudited estimate and 2018-19 adopted budgets.

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**Comparative General Fund Operating Statement – FY 2016-17**  
Budget and Actual (Budgetary Basis)

	<b>Fiscal Year 2016-17</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>			
Property taxes	\$66,788,008	\$67,962,636	\$ 1,174,628
Intergovernmental	19,433,279	19,688,630	255,351
Charges for services	908,226	1,337,058	428,832
Licenses and permits	644,900	800,744	155,844
Fines and penalties	43,000	21,716	(21,284)
Investment income	20,010	28,277	8,267
Other	506,611	456,813	(49,798)
<b>Total revenues</b>	<b>88,344,034</b>	<b>90,295,874</b>	<b>1,951,840</b>
<b>EXPENDITURES</b>			
Current:			
General government	4,114,051	4,055,053	58,998
Community development	274,997	273,900	1,097
Public safety	8,904,713	8,743,984	160,729
Maintenance and development	5,939,332	5,746,575	192,757
Human services	988,388	928,336	60,052
Parks, recreation and culture	1,594,281	1,543,073	51,208
Town-wide	8,329,509	8,208,862	120,647
Education	5,729,186	5,423,313	305,873
Capital outlay	437,615	427,845	9,770
Debt service	53,102,408	53,102,536	(128)
<b>Total expenditures</b>	<b>89,414,480</b>	<b>88,453,477</b>	<b>961,003</b>
<b>Excess of revenue over expenditures</b>	<b>(1,070,446)</b>	<b>1,842,397</b>	<b>2,912,843</b>
<b>Other Financing Sources (Uses)</b>			
Appropriation of Fund Balance	1,269,654	-	(1,269,654)
Appropriation of Prior Years			-
Encumbrances	2,206,390	-	(2,206,390)
Operating transfer in	144,700	73,286	(71,414)
Operating transfers out	(2,550,298)	(2,547,509)	2,789
<b>Total other financing sources (uses)</b>	<b>1,070,446</b>	<b>(2,474,223)</b>	<b>(3,544,669)</b>
Liquidation of Prior Year			
Encumbrances	-	2,407,466	2,407,466
Prepaid Expenses	-	(595,918)	(595,918)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,179,722</u>	<u>\$ 1,179,722</u>

Sources: Audited financial statements.

**Comparative General Fund Operating Statement – FY 2017-18 & 2018-19**  
 Budget and Actual (Budgetary Basis)

	<b>Fiscal Year 2017-18 (Unaudited Estimate)</b>			<b>Fiscal Year 2018-19</b>
	<b>Revised</b>	<b>Actual w/</b>	<b>Variance</b>	<b>2018-19</b>
	<b>Budget</b>	<b>Encumbrances</b>	<b>Favorable</b>	<b>Adopted</b>
			<b>(Unfavorable)</b>	<b>Budget</b>
<b>REVENUES</b>				
Property taxes	\$69,196,466	\$ 70,118,515	\$ 922,049	\$71,961,747
Intergovernmental	18,028,791	19,078,656	1,049,865	18,098,485
Charges for services	872,285	1,386,684	514,399	834,105
Licenses and permits	696,100	980,735	284,635	494,700
Fines and penalties	32,000	101,309	69,309	30,000
Investment income	28,000	62,936	34,936	52,000
Other	452,650	533,174	80,524	518,913
<b>Total Revenues</b>	<b>89,306,292</b>	<b>92,262,009</b>	<b>2,955,717</b>	<b>91,989,950</b>
<b>OTHER FINANCING SOURCES</b>				
Operating transfer in	188,540	169,693	(18,847)	181,500
<b>Total revenues and other financing sources</b>	<b>89,494,832</b>	<b>92,431,702</b>	<b>2,936,870</b>	<b>\$92,171,450</b>
<b>EXPENDITURES</b>				
Current:				
General government	4,231,710	4,064,558	167,152	\$ 3,554,133
Community development	374,881	358,723	16,158	310,062
Public safety	9,191,674	8,703,169	488,505	8,967,381
Maintenance and development	6,082,623	5,923,625	158,998	5,762,045
Human services	991,740	941,923	49,817	1,149,297
Parks, recreation and culture	1,700,688	1,654,137	46,551	1,601,394
Town-wide	8,858,977	8,598,469	260,508	9,359,913
Education	53,708,157	53,697,934	10,223	53,144,204
Capital improvements	1,139,599	1,139,475	124	660,172
Debt service	7,042,738	7,035,541	7,197	7,662,849
<b>Total expenditures</b>	<b>93,322,787</b>	<b>92,117,554</b>	<b>1,205,233</b>	<b>92,171,450</b>
<b>OTHER FINANCING USES</b>				
Operating transfers out	-	-	-	-
<b>Total expenditures and other financing uses</b>	<b>93,322,787</b>	<b>92,117,554</b>	<b>1,205,233</b>	<b>92,171,450</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u><b>\$(3,827,955)</b></u>	314,148	<u><b>\$ 4,142,103</b></u>	<u><b>\$ -</b></u>
June 30, 2017 encumbrances liquidated		<u>2,879,676</u>		
Increase (decrease) in Unassigned Fund Balance		<u><b>\$ 3,193,824</b></u>		

Sources: Fiscal year 2017-18 unaudited estimate; fiscal year 2018-19 adopted budget.

# **Comparative Balance Sheets - General Fund**

Fiscal Years Ended:	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,700,066	\$12,127,690	\$ 8,645,128	\$ 9,838,339	\$15,394,454
Investments	3,368,016	554,897	4,010,873	4,023,332	-
Receivables:					
Property taxes	1,754,356	1,819,045	1,736,071	1,491,096	1,285,423
Intergovernmental	680,736	4,227	122,667	28,005	20,537
Other	187,458	99,631	79,891	41,488	25,159
Due from other funds	3,746,953	3,359,412	8,326,930	5,417,912	5,309,418
Advance to other funds	-	-	129,500	-	-
Prepaid items					595,917
<b>TOTAL ASSETS</b>	<u>\$15,437,585</u>	<u>\$17,964,902</u>	<u>\$23,051,060</u>	<u>\$20,840,172</u>	<u>\$22,630,908</u>
<b>LIABILITIES</b>					
Accounts and other payables	\$ 1,225,307	\$ 1,537,095	\$ 1,431,312	\$ 1,374,472	\$ 958,331
Accrued wages and benefits	326,395	438,418	525,010	672,962	341,339
Due to other funds	844,442	234,446	501,580	667,277	767,767
Deferred revenues	-	-	-	-	-
Unearned revenue	-	-	-	-	311,535
<b>TOTAL LIABILITIES</b>	<u>2,396,144</u>	<u>2,209,959</u>	<u>2,457,902</u>	<u>2,714,711</u>	<u>2,378,972</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenues:					
Property taxes	1,498,156	1,441,980	1,507,581	1,165,205	1,043,830
Advance property tax collections	109,695	1,629,621	4,800,790	-	-
Grants	29,400	-	-	-	-
Total deferred inflows of resources	<u>1,637,251</u>	<u>3,071,601</u>	<u>6,308,371</u>	<u>1,165,205</u>	<u>1,043,830</u>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	-	595,917
Restricted	-	-	129,500	-	-
Committed	-	-	-	-	-
Assigned	1,388,542	1,540,633	2,003,342	2,729,466	3,201,676
Unassigned	10,015,648	11,142,709	12,151,945	14,230,790	15,410,513
<b>TOTAL FUND BALANCES</b>	<u>11,404,190</u>	<u>12,683,342</u>	<u>14,284,787</u>	<u>16,960,256</u>	<u>19,208,106</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$15,437,585</u>	<u>\$17,964,902</u>	<u>\$23,051,060</u>	<u>\$20,840,172</u>	<u>\$22,630,908</u>

Source: Annual audited financial statements.

**Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund**

Fiscal Years Ended:	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>REVENUES</b>					
Property taxes	\$58,939,088	\$62,683,962	\$64,116,182	\$66,502,928	\$67,962,636
Intergovernmental	25,275,405	25,613,730	25,776,430	25,120,365	25,589,647
Charges for service	1,842,617	2,051,631	2,356,912	3,095,638	2,288,811
Investment income	1,054	136	1,369	14,060	28,277
Other local revenues	<u>416,345</u>	<u>480,030</u>	<u>490,685</u>	<u>510,816</u>	<u>456,813</u>
<b>TOTAL REVENUES</b>	<u>86,474,509</u>	<u>90,829,489</u>	<u>92,741,578</u>	<u>95,243,807</u>	<u>96,326,184</u>
<b>EXPENDITURES</b>					
Current:					
General government	3,230,952	3,428,718	3,590,896	3,694,679	3,645,882
Community development	241,139	221,149	235,770	248,607	259,219
Public safety	8,169,618	7,995,555	8,525,361	8,561,323	8,533,042
Maintenance and development	5,222,913	5,431,695	5,550,883	5,408,134	5,504,582
Human services	974,251	936,012	962,959	938,018	915,790
Parks, recreation and culture	1,358,243	1,329,070	1,369,686	1,430,950	1,496,064
Town-wide	7,054,780	7,107,547	7,469,937	7,933,163	8,017,224
Education	54,365,055	56,788,058	57,008,315	56,591,613	58,063,599
Debt service	4,365,302	4,143,846	4,046,497	4,399,190	4,910,864
Capital outlay	<u>57,787</u>	<u>130,174</u>	<u>363,926</u>	<u>740,131</u>	<u>257,845</u>
<b>TOTAL EXPENDITURES</b>	<u>85,040,040</u>	<u>87,511,824</u>	<u>89,124,230</u>	<u>89,945,808</u>	<u>91,604,111</u>
Excess (deficiency) of revenues over expenditures	<u>1,434,469</u>	<u>3,317,665</u>	<u>3,617,348</u>	<u>5,297,999</u>	<u>4,722,073</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of assets	44,830	-	-	-	-
Operating transfers in	528,085	222,961	167,162	237,180	73,286
Operating transfers out	<u>(1,717,721)</u>	<u>(2,261,474)</u>	<u>(2,183,065)</u>	<u>(2,859,710)</u>	<u>(2,547,509)</u>
Net other financing sources (uses)	<u>(1,144,806)</u>	<u>(2,038,513)</u>	<u>(2,015,903)</u>	<u>(2,622,530)</u>	<u>(2,474,223)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<u>289,663</u>	<u>1,279,152</u>	<u>1,601,445</u>	<u>2,675,469</u>	<u>2,247,850</u>
Fund Balance - Beginning of year	<u>11,114,527</u>	<u>11,404,190</u>	<u>12,683,342</u>	<u>14,284,787</u>	<u>16,960,256</u>
Fund Balance - End of year	<u>\$11,404,190</u>	<u>\$12,683,342</u>	<u>\$14,284,787</u>	<u>\$16,960,256</u>	<u>\$19,208,106</u>

Source: Annual audited financial statements.

## **SECTION VI - ADDITIONAL INFORMATION**

### **Litigation**

The Town of Vernon, its officers, employees, boards and commissions are named defendants in a number of lawsuits, tax appeals, administrative proceedings and other miscellaneous claims. It is the Town Attorney's opinion that such pending litigation will not be finally determined, individually or in aggregate, so as to result in final judgments against the Town which would have a material adverse effect on the Town's financial position.

### **Availability of Continuing Disclosure Information**

The Town prepares, in accordance with State law, annual audited financial statements and operating statements and files such annual audits with the State Office of Policy and Management within six months of the end of its fiscal year. The Town provides, and will continue to provide Moody's ongoing disclosure in the form of independent annual financial reports, adopted budgets, and other materials relating to its management and financial condition, as may be necessary or requested from time to time.

The Town will enter into Continuing Disclosure Agreements with respect to the Bonds, substantially in the form attached as Appendix C to this Official Statement (the "Continuing Disclosure Agreement"), to provide, or cause to be provided (i) annual financial information and operating data within eight months of the end of the fiscal year, (ii) timely notice of the occurrence of certain material events not in excess of ten (10) business days of the occurrence of such event; and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement. The winning bidder's obligation to purchase the Bonds shall be conditioned upon its receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement for the Bonds.

The Town has previously undertaken in Continuing Disclosure Agreements entered into for the benefit of holders of certain of its general obligation bonds to provide certain annual financial information and event notices pursuant to Rule 15c2-12(b)(5). In the last five years, the Town has not failed to meet in all material respects, any of its undertakings under such agreements, with the exception of a failure to file certain financial and operating data for the fiscal year ending June 30, 2013. In February 2015, it was brought to the Town's attention that it had inadvertently filed the percentage of the tax levy collected rather than uncollected and ratios of total and net direct debt to estimated actual grand list (assessed value) rather than to the net taxable grand list (full value) as required by its prior continuing disclosure agreements. On February 23, 2015, the Town filed an event notice for failure to file and filed the proper information for the fiscal year in question. All other required financial information and operating data was included in the Town's Comprehensive Annual Financial Report for the fiscal year in question.

### **Municipal Advisor**

The Town has retained Independent Bond and Investment Consultants LLC of Madison, Connecticut, as municipal advisor in connection with the issuance and sale of the Bonds. Although Independent Bond and Investment Consultants LLC has assisted in the preparation of the Official Statement, Independent Bond and Investment Consultants LLC is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. Independent Bond and Investment Consultants LLC is an independent municipal advisory firm and is not engaged in the business of providing investment advice, underwriting, trading or distributing municipal securities or other public securities.

### **Documents Accompanying Delivery of the Bonds**

Upon the delivery of the Bonds, the winning bidder will be furnished with the following:

1. Signature and No Litigation Certificates, signed by the Mayor, the Town Administrator and the Finance Officer, or any two of them, stating that at the time of delivery no litigation is pending or threatened affecting the validity of the Bonds or the levy or collection of taxes to pay them;
2. A certificate on behalf of the Town, signed by the Mayor, the Town Administrator and the Finance Officer, or any two of them, which will be dated the date of delivery and attached to a signed copy of the Official Statement, certifying that to the best of said officials' knowledge and belief, as of the date the bids were accepted on the Bonds, the descriptions and statements in the Official Statement (with such supplemental information concerning ratings, interest rates, and corrections) relating to the Town and its finances were true and correct in all material respects, and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and that there has been no material adverse change in the financial condition of the Town from that set forth in or contemplated by the Official Statement;

3. The approving opinion of Day Piney LLP, Bond Counsel, of Hartford, Connecticut in substantially the form attached hereto as Appendix B to the Official Statement; and
4. Executed Continuing Disclosure Agreement for the Bonds in substantially the form attached hereto as Appendix C to the Official Statement.

The Town of Vernon has prepared an Official Statement for the Bonds which is dated July 25, 2018. The Town deems such Official Statement final as of its date for the purposes of SEC Rule 15c2-12(b)(1), but is subject to revision or amendment. Within seven business days of the bid openings, the Town will furnish the purchaser of the Bonds with fifty (50) copies of the Official Statement, as prepared for this issue at the Town's expense.

A record of the proceedings taken by the Town in authorizing the Bonds will be kept on file at the offices of U.S. Bank, National Association of Hartford, Connecticut.

### **Concluding Statement**

This Official Statement is not to be construed as a contract or agreement between the Town and the winning bidders or holders of any of the Bonds. Any statement made in this Official Statement involving matters of opinions or estimates are not intended to be representations of fact, and no representation is made that any such opinion or estimate will be realized.

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be constructed as a contract or agreement between the Town and the winning bidders or holders of any of the Bonds.

This Official Statement is submitted only in connection with the sale of the Bonds by the Town and may not be reproduced or used in whole or part for any other purpose.

Day Pitney LLP, Bond Counsel, is not passing upon and does not assume responsibility for the accuracy or completeness of the statements made in this Official Statement, other than as set forth in Appendix B - "Opinion of Bond Counsel and Tax Status", and they make no representation that they have independently verified the same.

Independent Bond and Investment Consultants LLC, the Town's Municipal Advisor, has assisted the Town in the preparation of this Official Statement from information supplied by Town officials and other sources. Independent Bond and Investment Consultants LLC does not assume responsibility for the adequacy or accuracy of the statements made herein and makes no representation that it has independently verified the same.

Additional information may be obtained upon request from the Finance Office at (860) 870-3690 or from Independent Bond and Investment Consultants LLC at (203) 245-9603.

## **TOWN OF VERNON, CONNECTICUT**

BY: /s/ DANIEL A. CHAMPAGNE  
**Daniel A. Champagne**  
*Mayor*

BY: /s/ MICHAEL J. PURCARO  
**Michael J. Purcaro**  
*Town Administrator*

BY: /s/ JEFFREY A. O'NEILL  
**Jeffrey A. O'Neill**  
*Finance Officer*

**Dated: July 25, 2018**

## APPENDIX A - AUDITED FINANCIAL STATEMENTS

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June 30, 2017

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Appendix A - Financial Statements - is taken from the Comprehensive Annual Report of the Town of Vernon for the Fiscal Year ending June 30, 2017 as presented by the Auditors. This appendix does not include all schedules or the management transmittal letter made in such report. A copy of the complete report is available upon request to the Finance Officer, Town of Vernon, Connecticut.



## INDEPENDENT AUDITOR'S REPORT

To the Town Council  
Town of Vernon, Connecticut

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Vernon, Connecticut (the "Town") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town'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 Town of Vernon, 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 on pages 3 through 20 and the schedules on the Town's pension and other post-employment benefit plans on pages 82 through 91 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 Town's basic financial statements. The introductory section on pages i through xxvi, the combining and individual fund statements and schedules on pages 92 through 118, and the statistical section and trend data section on pages 119 through 148 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and 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 fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Glastonbury, Connecticut  
February 23, 2018

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited**

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The management of the Town of Vernon, Connecticut (the "Town") offers the readers of its financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i - xxiii of this Comprehensive Annual Financial Report ("Report").

**Financial Highlights**

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$109.028 million (net position). Of this amount, \$26.001 million represents a deficit in the Town's unrestricted net position. This deficit is attributed to the Town's net pension liabilities, which are being funded by the Town over time based on actuarially determined contributions.
- The Town's total net position increased as a result of this year's operations. Net position of the Town's governmental activities totaled \$90.058 million, an increase of \$3.930 million, or 4.56% over the prior year. Net position of the Town's business-type activities totaled \$18.970 million, an increase of \$622 thousand, or 3.39% over the prior year.
- As of the close of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$27.351 million, a decrease of \$70 thousand in comparison with the prior year. Of this amount, 83.40% or \$22.810 million is available for spending at the Town's discretion (committed, assigned, and unassigned fund balance).
- The fund balance of the Town's General Fund increased by \$2.248 million from \$16.960 million to \$19.208 million. The current year increase was accomplished by effectively managing appropriations by means of spending and hiring controls, and increased collections of current and prior taxes, charges for services and other revenue sources.
- At the close of the current fiscal year, unassigned fund balance of the General Fund was \$15.411 million or 16.38% of total General Fund expenditures and other financing uses. Expressed another way, unassigned fund balance for the General Fund was sufficient to cover approximately 2.0 months of General Fund operating expenditures.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town'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 other 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 Town's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Town's assets, deferred outflows and inflows of resources, and liabilities, with net position as the residual of these other elements. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

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**Overview of the Financial Statements (Continued)**

**Government-wide Financial Statements (Continued)**

The statement of activities presents information showing how the Town'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 result in cash flows in future fiscal periods.

Both of the government-wide financial statements are intended to distinguish functions of the Town 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 Town include activities such as: education, public safety, maintenance and development of streets and buildings, sanitation, human services, recreation, public improvements, community planning and development, and general administration. The business-type activities of the Town include activities of the Town's wastewater treatment facility and rentals at Center 375.

The government-wide financial statements can be found on pages 21 and 22 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 Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town 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 the Town'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 Town'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 Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Road Improvements Bond Fund, the School Roof Replacements and Renovations Fund and the Senior Center Acquisition and Renovations Fund, all of which are considered to be major funds. Data from the other 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 Town adopts an annual 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 23 through 28 of this report.

**TOWN OF VERNON, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited *(Continued)*

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**Overview of the Financial Statements (Continued)**

**Fund Financial Statements (Continued)**

***Proprietary Funds***

Enterprise funds are used to report the same functions presented as business type activities in the government-wide financial statements. The Town uses an enterprise fund to account for the Town's wastewater operations and property rentals at Center 375. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for activities that provide supplies and services to the Town's governmental and business-type functions.

The basic proprietary fund financial statements can be found on pages 29 through 31 of this report.

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the Town government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to the Town's own programs. All of the Town's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. 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 32 and 33 of this report.

**Notes to the Financial Statements**

The notes to the financial statements 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 34 through 81 of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information, combining and individual fund statements and schedules, and a statistical section that can be found on pages 119 through 148 of this report.

**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

**Government-wide Financial Analysis**

**Net Position**

Over time, net position may serve as one measure of a government's financial position. The Town's total net position (governmental and business-type activities combined) totaled \$109.028 million and \$104.476 million as of June 30, 2017 and 2016 and are summarized as follows:

**Net Position  
June 30, 2017**

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 34,471,914	\$ 13,141,743	\$ 47,613,657
Capital assets	166,891,530	9,567,003	176,458,533
Total assets	201,363,444	22,708,746	224,072,190
Deferred outflows of resources	8,809,574	367,139	9,176,713
Other liabilities	5,883,283	167,604	6,050,887
Long-term liabilities	111,570,965	3,836,047	115,407,012
Total liabilities	117,454,248	4,003,651	121,457,899
Deferred inflows of resources	2,660,580	102,109	2,762,689
Net position:			
Net investment in capital assets	121,663,258	9,567,003	131,230,261
Restricted	3,799,389	-	3,799,389
Unrestricted	(35,404,457)	9,403,122	(26,001,335)
Total net position	\$ 90,058,190	\$ 18,970,125	\$ 109,028,315

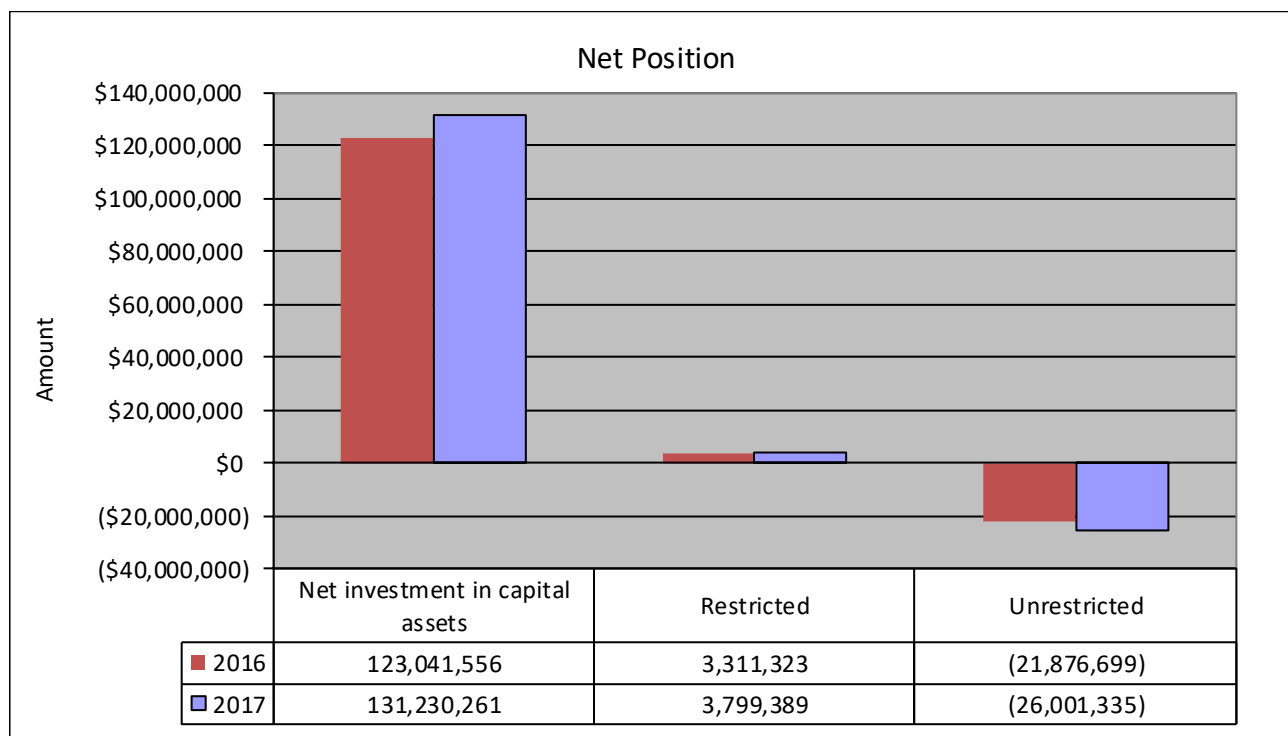
**Net Position  
June 30, 2016**

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 37,425,248	\$ 11,970,633	\$ 49,395,881
Capital assets	160,441,589	9,804,653	170,246,242
Total assets	197,866,837	21,775,286	219,642,123
Deferred outflows of resources	9,320,815	473,592	9,794,407
Other liabilities	13,502,086	158,986	13,661,072
Long-term liabilities	104,711,953	3,606,182	108,318,135
Total liabilities	118,214,039	3,765,168	121,979,207
Deferred inflows of resources	2,845,801	135,342	2,981,143
Net position:			
Net investment in capital assets	113,236,903	9,804,653	123,041,556
Restricted	3,311,323	-	3,311,323
Unrestricted	(30,420,414)	8,543,715	(21,876,699)
Total net position	\$ 86,127,812	\$ 18,348,368	\$ 104,476,180

**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

**Government-wide Financial Analysis (Continued)**

**Net Position (Continued)**



As of June 30, 2017 and 2016, 120.4% and 117.8%, respectively, of the Town's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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.

As of June 30, 2017 and 2016, 3.5% and 3.2%, respectively, of the Town's net position is subject to restrictions on how it may be used and are, therefore, presented as restricted net position.

The remainder of the Town's net position is considered unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.

Overall, net position increased during the current year by \$4.552 million in comparison with the prior year.



**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

**Government-wide Financial Analysis (Continued)**

**Changes in Net Position**

Changes in net position for the years ended June 30, 2017 and 2016 are as follows.

**Changes in Net Position  
For The Year Ended June 30, 2017**

	Governmental Activities	Business-type Activities	Total
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 6,092,987	\$ 6,155,243	\$ 12,248,230
Operating grants and contributions	35,384,900	17,209	35,402,109
Capital grants and contributions	3,750,012	292,493	4,042,505
General revenues:			
Property taxes, levied for general purposes	68,129,637	-	68,129,637
Grants and contributions not restricted to specific programs	1,532,993	-	1,532,993
Investment earnings	256,856	20,294	277,150
Total revenues	<u>115,147,385</u>	<u>6,485,239</u>	<u>121,632,624</u>
<b>Expenses</b>			
General government	6,076,452	-	6,076,452
Community development	497,261	-	497,261
Public safety	14,975,891	-	14,975,891
Maintenance and development	15,085,714	-	15,085,714
Human services	1,469,554	-	1,469,554
Parks, recreation and culture	3,182,850	-	3,182,850
Education	68,502,574	-	68,502,574
Interest expense	1,426,711	-	1,426,711
Sewer	-	5,657,815	5,657,815
Center 375 (rental)	-	205,667	205,667
Total expenses	<u>111,217,007</u>	<u>5,863,482</u>	<u>117,080,489</u>
Change in net position	3,930,378	621,757	4,552,135
Net position, beginning	86,127,812	18,348,368	104,476,180
Net position, ending	<u>\$ 90,058,190</u>	<u>\$ 18,970,125</u>	<u>\$ 109,028,315</u>

**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

**Government-wide Financial Analysis (Continued)**

**Change in Net Position (Continued)**

**Changes in Net Position  
For The Year Ended June 30, 2016**

	Governmental Activities	Business-type Activities	Total
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 6,611,868	\$ 5,985,198	\$ 12,597,066
Operating grants and contributions	2,103,224	13,799	2,117,023
Capital grants and contributions	33,703,632	360	33,703,992
General revenues:			
Property taxes, levied for general purposes	66,111,585	-	66,111,585
Grants and contributions not restricted to specific programs	898,432	-	898,432
Investment earnings	(3,363)	9,800	6,437
Total revenues	<u>109,425,378</u>	<u>6,009,157</u>	<u>115,434,535</u>
<b>Expenses</b>			
General government	6,397,451	-	6,397,451
Community development	603,740	-	603,740
Public safety	14,550,637	-	14,550,637
Maintenance and development	11,025,727	-	11,025,727
Human services	1,296,978	-	1,296,978
Parks, recreation and culture	2,614,666	-	2,614,666
Education	67,270,471	-	67,270,471
Interest expense	1,792,161	-	1,792,161
Sewer	-	5,240,935	5,240,935
Center 375 (rental)	-	204,593	204,593
Total expenses	<u>105,551,831</u>	<u>5,445,528</u>	<u>110,997,359</u>
Change in net position	3,873,547	563,629	4,437,176
Net position, beginning	82,254,265	17,784,739	100,039,004
Net position, ending	<u>\$ 86,127,812</u>	<u>\$ 18,348,368</u>	<u>\$ 104,476,180</u>

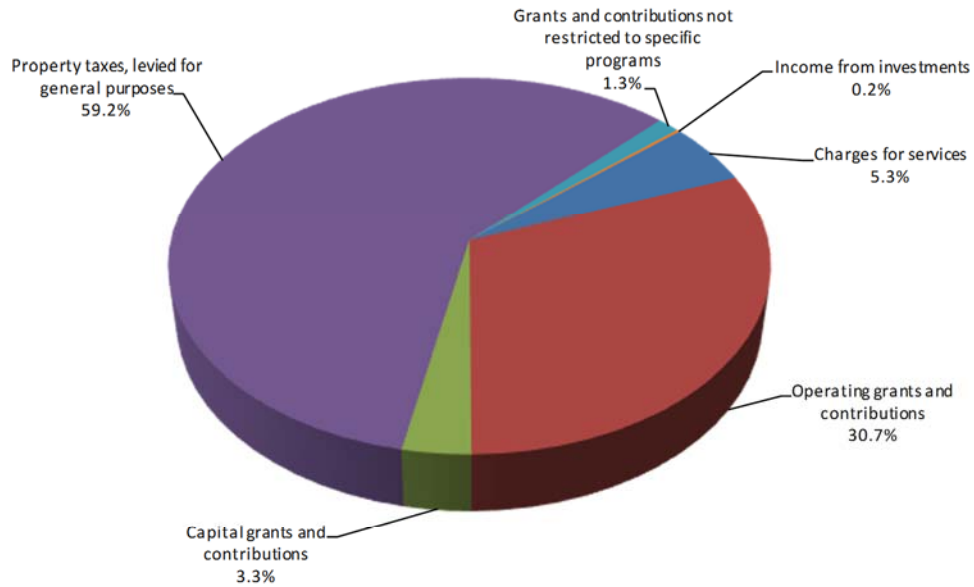
**TOWN OF VERNON, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)

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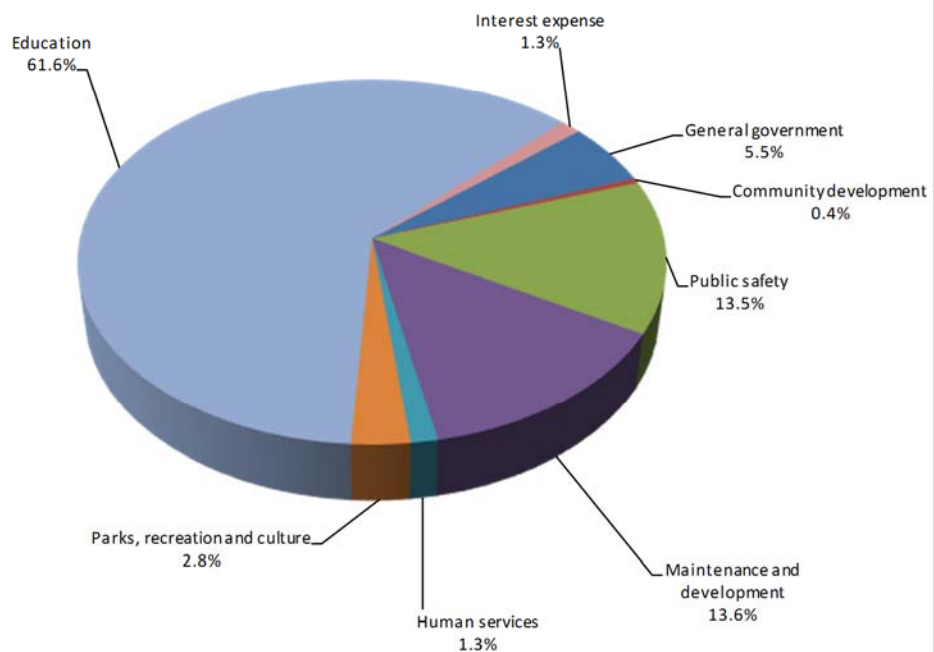
**Government-wide Financial Analysis (Continued)**

**Change in Net Position (Continued)**

**2017 Revenues by Source - Governmental Activities**



**2017 Expenses by Function - Governmental Activities**



**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

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**Government-wide Financial Analysis (Continued)**

**Change in Net Position (Continued)**

**Governmental Activities**

Net position from governmental activities increased \$3.930 million. Since the Town began preparing a statement of net position as of June 30, 2003, this is the twelfth increase in the fifteen year period.

Overall revenues increased by \$5.722 million from the prior year. Key factors in this increase were as follows:

- Property tax revenues, which comprise 59.2% of the Town's governmental activities revenues, increased by \$2.018 million as a result of the increase in the adopted budget and related levy to fund increased appropriations.
- Charges for services decreased by \$519 thousand, due primarily to decreases of \$759 thousand in building permits and \$171 thousand in police special services; offset by increases of \$139 thousand in town clerk recording fees and \$114 thousand in sewer connection charges.
- Operating grants and contributions increased by \$1.681 million, including increases of \$1.836 million in brownfield remediation grants; offset by a reduction of \$126 thousand in community development grants.
- Capital grants and contributions increased by \$1.647 million due primarily to a \$755 thousand increase in school building improvement and equipment grants; a \$656 thousand increase in street improvement grants; a \$442 thousand increase in grants for wastewater treatment plant pre-development costs; a \$317 thousand increase in grant funding for town building renovations; offset by a \$535 thousand decrease in school roof construction grants.
- Non-restrictive grants and contributions increased by \$635 thousand from the prior year due to receipt of a \$641 thousand state grant received to offset a state imposed cap on the taxation of motor vehicles.
- Investment income increased by \$260 thousand from the prior year due to higher interest rates and appreciation in the value of investments.

Overall expenses increased by \$5.665 million, or 5.37% from the prior year. Key factors in this increase were as follows:

- The cost of educational services increased by \$1.232 million due primarily to increased general fund operating costs of \$1.249 million, including significant increases in special education, curriculum development and school building and grounds maintenance costs and an increase in on-behalf retirement costs of \$135 thousand. These increases were offset by a significant reduction in regular education and benefit costs. These increases were offset by decreases of \$554 thousand in special education grant costs and \$105 thousand in education related grant costs. Increases in allocable net pension liability and internal service fund claim costs comprise the remainder of the educational service cost increase.
- General government costs decreased by \$321 thousand, which included a general fund operating cost decrease of \$49 thousand, including a decrease in information technology costs of \$45 thousand, and decreased allocable pension and other post-employee benefits costs from the prior year. These decreases were offset by increases in medical insurance costs of \$62 thousand and allocable internal service fund claim costs of \$275 thousand.

**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

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**Government-wide Financial Analysis (Continued)**

**Change in Net Position (Continued)**

***Governmental Activities (Continued)***

- Community development costs decreased by \$107 thousand due primarily to decreased building rehabilitation grant funded costs.
- Public safety costs increased by \$425 thousand due to increases in general fund operating police service costs of \$40 thousand and firefighting operating service costs of \$116 thousand, offset by decreased building inspection service costs of \$26 thousand. Other increases are attributable to increased medical insurance costs of \$36 thousand and allocation of internal service fund claim costs of \$561 thousand. Offsetting these increases are decreases in ambulance service costs, \$30 thousand, with the remainder of the decrease primarily attributable to reduced allocable pension costs and other post-employee benefit costs.
- Maintenance and development costs increased \$4.060 million due to increased general fund operating costs for snow removal, \$162 thousand, and refuse and recycling services, \$21 thousand, offset by reductions of \$34 thousand in maintenance of buildings, grounds and equipment costs and \$33 thousand for engineering services. Brownfield remediation costs, roadway maintenance costs and sewer connection costs increased by \$1.836 million, \$62 thousand and \$222 thousand, respectively. An increase of \$413 thousand in internal service fund claim costs comprises the remainder increase in maintenance and development service costs. Offsetting these increases is a decrease attributable to reduced allocable pension costs from that of the prior year.
- Interest on long-term debt decreased by \$365 thousand from the prior year based upon scheduled debt service payments.

***Business-type Activities***

Revenues of the Town's business-type activities increased by 7.92%, or \$476 thousand (\$6.485 million in 2017 compared to \$6.009 million in 2016) and expenses increased by \$417 thousand from \$5.446 million in 2016 to \$5.863 million in 2017. The factors influencing revenue results were: increased service charges of \$170 thousand, including an increase in sewer use fees collections of \$116 thousand and septic fees of \$78 thousand; an increase in operating grants and contributions of \$3 thousand; and increased capital contributions of \$293 thousand.

The increase in expenses of \$417 thousand is comprised of an increase in wages and benefits of \$360 thousand, due primarily to increased pension costs, utility costs of \$30 thousand, supply and material costs of \$60 thousand, and depreciation expense of \$13 thousand, offset by a reduction to repairs and maintenance of \$7 thousand and general and administrative costs of \$38 thousand.

**Financial Analysis of the Town's Funds**

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

**TOWN OF VERNON, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (*Continued*)

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**Financial Analysis of the Town's Funds (Continued)**

**Governmental Funds**

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

As of the end of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$27.351 million. Of total fund balance, \$14.014 million is either nonspendable, committed, restricted or assigned because it has been committed for construction contracts or has been set aside for capital purposes, trust fund purposes, special assessment debt service, prepaid items and inventory.

Included in the current year total change in fund balance is an increase of \$2.248 million in the Town's General Fund. The unassigned fund balance, which assigned \$472 thousand for encumbrances more than the prior year, reflects an overall increase of \$1.180 million. The unassigned fund balance of the General Fund at June 30, 2017 is \$15.411 million, which represents 17.22% of estimated revenues for the ensuing year. Maintaining adequate fund balance reserves allows the Town flexibility when budgets are restricted, emergency funds are needed, and prevents cash flow problems and the related costs that can result. It is essential to have reserves available to provide funding support for major capital projects that await reimbursement from grant or bond proceeds and for debt avoidance when applying internal financing for capital equipment. Also, income earned by keeping the funds invested assists in limiting the need for future tax increases. The primary reasons for the General Fund's increase include some of the areas discussed in the governmental funds' highlights on the following page.

The Town's other major governmental funds are the Road Improvements Bond Fund, the School Roof Replacements and Renovations Fund and the Senior Center Acquisition and Renovations Fund. The Road Improvements Bond Fund incurred \$4.199 million on roadway improvements costs during the current year resulting in a \$114 thousand fund balance at year-end. The Town issued \$3.130 million in general obligation bonds in August 2017 to fund on-going road improvement costs and to retire the \$2.200 million bond anticipation notes outstanding as of year-end. The School Roof Replacements and Renovation Fund incurred project costs of \$1.238 million offset by state grant proceeds of \$830 thousand. Available fund balance at June 30, 2017 is \$146 thousand. The Senior Center Acquisition and Renovations Fund incurred costs of \$1.211 million in the current year resulting in a temporary fund balance deficit of the same amount. The Town issued \$1.270 in general obligation bonds in August 2017 to fund these incurred costs.

Changes in fund balances of Nonmajor Governmental Funds include the following:

*Nonmajor Special Revenue Funds* - there was an increase of \$552 thousand, with gains of \$170 thousand in the Town Aid Road Fund, \$124 thousand in the Miscellaneous Grants Fund, \$80 thousand in the Public Safety Complex Fund, \$56 thousand in the Insurance Exchange Fund, \$54 thousand in the Ambulance Medical Services Fund, \$51 thousand in the Miscellaneous Special Revenue Fund, \$50 thousand in the Special Education Grants Fund and \$24 thousand in the Adult Education Tuition Fund. Fund balance decreases include \$23 thousand in the Special Education Excess Cost Reserve Fund, \$20 thousand in the Vernon Cemetery Commission Fund and \$19 thousand in the Sewer Connections Fund. The prior year-end fund balance of Debt Service Fund, \$180 thousand, was fully utilized during the current year.

*Nonmajor Capital Projects Funds* - there was an increase of \$304 thousand including fund balance increases of \$470 thousand increase in the Town Capital and Nonrecurring Fund, \$250 thousand in the Education Capital Nonrecurring Fund and \$61 thousand in the South Street Reconstruction Fund. Decreases include \$496 thousand in the Town and School Improvement Projects Fund and \$16 thousand in the Main Street Bridge Reconstruction Fund. The Permanent Trust Fund increased by \$180 thousand due to an increase in the fair value of investments.

**TOWN OF VERNON, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited *(Continued)*

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**Financial Analysis of the Town's Funds (Continued)**

**Proprietary Funds**

The Town accounts for five proprietary funds, two as business-type activities and three as internal service funds. The Sewer User Fund and the Center 375 Fund are established as self-supporting business-type activities that reported a change in net position of \$595 thousand for the year.

The Sewer User Fund is established for the operation and maintenance of the wastewater treatment plant. Quarterly bills for sewer usage and interest earned on investments generate its resources. The net increase to the Sewer User Fund net position was \$629 thousand compared to an increase of \$568 thousand in the prior year. The fiscal year 2016-2017 increase is attributable to operating revenues exceeding operating expenses by \$305 thousand. The October 1, 2016 sewer rate was increased to \$5.99/1,000 gallons from the October 1, 2015 rate of \$5.86. This represents a percentage increase of 2.22%. The level of treated flow from the prior year was approximately the same resulting in an increase in user fee collections of \$116 thousand. There was a \$78 thousand increase in septic fees and a \$9 thousand increase in delinquent interest revenue. Other revenue, non-operating revenue and capital contributions were \$302 thousand higher than prior year. Operating expenses increased \$443 thousand from the prior year primarily due to a \$188 thousand increase in the Fund's net pension liability, \$195 thousand in wages and other benefits and \$60 thousand in other operating costs. The plant is in the twentieth year of operation since major renovations, and the facility itself is reported in the Governmental Activities.

Center 375 is a former elementary school renovated for the rental of office space to private firms and to Town departments. The renovation was conducted in a manner that would enable the Town to restore the building back to a school if enrollments so demanded. The result of the year's activity decreased net position by \$34 thousand.

The Internal Service Funds are supported by department budgets. The Data Processing Fund serves both the Town and school administrations, which equally support its operating expenses. Net position increased by \$50 thousand as contributions from the General Fund increased by \$47 thousand. An increase in the Fund's net pension liability of \$44 thousand accounted for the majority of the \$78 thousand increase in operating costs. The future needs of the department require continual upgrades to the various computer systems as well as maintaining a network for sharing common software and databases.

The Workers' Compensation Fund provides for self-insurance of workers' compensation and is supported by contributions from the General Fund and Sewer User Fund, as well as investment income. At fiscal year-end, expenses exceeded revenues by \$1.091 million, increasing the prior year net position deficit from \$659 thousand to \$1.750 million. Contributions to the Fund decreased by \$168 thousand from the prior year and claims incurred increased from \$452 thousand in the prior year to \$1.931 million in the current year. The allocation of adequate contributions in the next year to meet financial demands is based on actual experience. The Medical Self-Insurance Fund, which became effective January 1, 2006, provides medical prescription coverage for employees and retirees. Effective July 1, 2007, dental coverage for general government employees and retirees became self-insured. The fund is supported by contributions from all covered participants and employer contributions. Contribution amounts are based upon historical experience of claims incurred and paid, and third-party administrators process the claims. Net position was \$813 thousand, an increase of \$42 thousand from the prior year, primarily due to changes in prescription plan provisions and favorable dental claims. Effective July 1, 2017, dental coverage for education employees and retirees became self-insured.

**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

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**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget amounted to an increase of \$3.054 million. Included in this amount is \$2.206 million of encumbrances carried forward from the previous fiscal year (net of \$201 thousand of liquidated encumbrances), of which \$1.967 million were expended and \$239 thousand re-appropriated and \$848 thousand of current year budget amendments that can be classified as either pass-through additional appropriations or other additional appropriations.

*Pass-through additional appropriations* are those supported by revenue and other sources and amounted to \$342 thousand during the year, including \$16 thousand for capital improvements; \$204 thousand for collections remitted to the State of Connecticut by the Town Clerk for the community investment and historic preservation acts; \$24 thousand for youth service part-time wages; \$83 thousand in police special services pay; and \$15 thousand for other items. Although these additional appropriations had revenue and other funding sources, they were legally appropriated from fund balance.

*Other additional appropriations* taken from fund balance amounted to \$506, including \$183 thousand for snow removal; \$173 thousand for payments of compensated absences; \$30 thousand for attorney costs; \$29 thousand for Town Hall boilers; and \$91 thousand for other costs. These additional appropriations include funds for property tax refunds, personal property audit services, insurance claims deductibles, invasive species management and funding for blighted property demolition.

Actual final expenditures totaled \$88.453 million and can be summarized as follows. The budgetary unexpended, unencumbered resulted in a favorable amount of \$961 thousand. Contained within this amount are favorable variances of \$59 thousand in general government spending; \$1 thousand in community development; \$161 thousand for police and firefighting services and other public safety expenditures; \$9 thousand in refuse and recycling collection; \$136 thousand in public works maintenance; and \$48 thousand in engineering services; \$60 thousand in human services expenditures; \$51 thousand for parks recreation administration and maintenance; \$33 thousand for FICA, \$24 thousand in group and municipal insurance; and \$63 thousand in contingency. As the fiscal year progresses, financial measures are taken to manage areas where additional costs are required, as well as projecting revenue shortfalls. One example is a hiring deferral to cover additional costs associated with the payment of compensated absences. Another is seeking out alternative revenue sources such as excess special education grants and Medicaid reimbursements to help offset the decrease in special education tuitions.

On the revenue side, final actual revenues exceeded the original budget by \$1.952 million due to favorable variances in the following categories: \$1.175 million in total tax collections including \$610 thousand in current taxes and \$228 thousand of prior years' taxes as a tax sale helped boost prior years' tax collections; intergovernmental revenues were \$255 thousand above estimates including \$239 thousand from excess special education and state agency placement grants. Charges for services were above estimates by \$429 thousand due in most part to the farmland preservation surcharge of \$122 thousand; police special services, \$169 thousand; and MERS receipts, \$60 thousand, which in turn are appropriated to cover respective costs. Education tuition receipts were below projections by \$84 thousand. Licenses and permits were above projections by \$156 thousand due primarily to a favorable building permits variance of \$149 thousand. Fines and penalties were \$21 thousand below projections including a zoning citations unfavorable variance of \$18 thousand. An increase in interest rates produced a surplus of \$8 thousand in investment income. Other financing sources were below original estimates by \$71 thousand and other revenue, which includes items such as education, insurance and gasoline reimbursements, were below estimates by \$50 thousand.



**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

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**Capital Asset and Debt Administration**

**Capital Assets**

The Town's investment in capital assets for its governmental and business type activities as of June 30, 2017 totaled \$176.459 million (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings, park facilities, vehicles and equipment, roads, bridges, storm water drainage and sewer lines. This amount represents a net increase (including additions and deductions) of \$6.212 million, or 3.65%, more than last year.

The following are tables of the investment in capital assets presented for both governmental and business-type activities:

**Capital Assets, Net  
June 30, 2017**

	Governmental Activities	Business-type Activities	Total
Land	\$ 9,866,728	\$ 1,267,840	\$ 11,134,568
Construction in progress	18,807,529	-	18,807,529
Intangibles	-	18,400	18,400
Buildings and system	79,270,197	1,242,986	80,513,183
Land improvements	2,665,207	22,716	2,687,923
Machinery and equipment	9,484,017	1,529,329	11,013,346
Infrastructure	46,797,852	5,485,732	52,283,584
Totals	<u>\$ 166,891,530</u>	<u>\$ 9,567,003</u>	<u>\$ 176,458,533</u>

**Capital Assets, Net  
June 30, 2016**

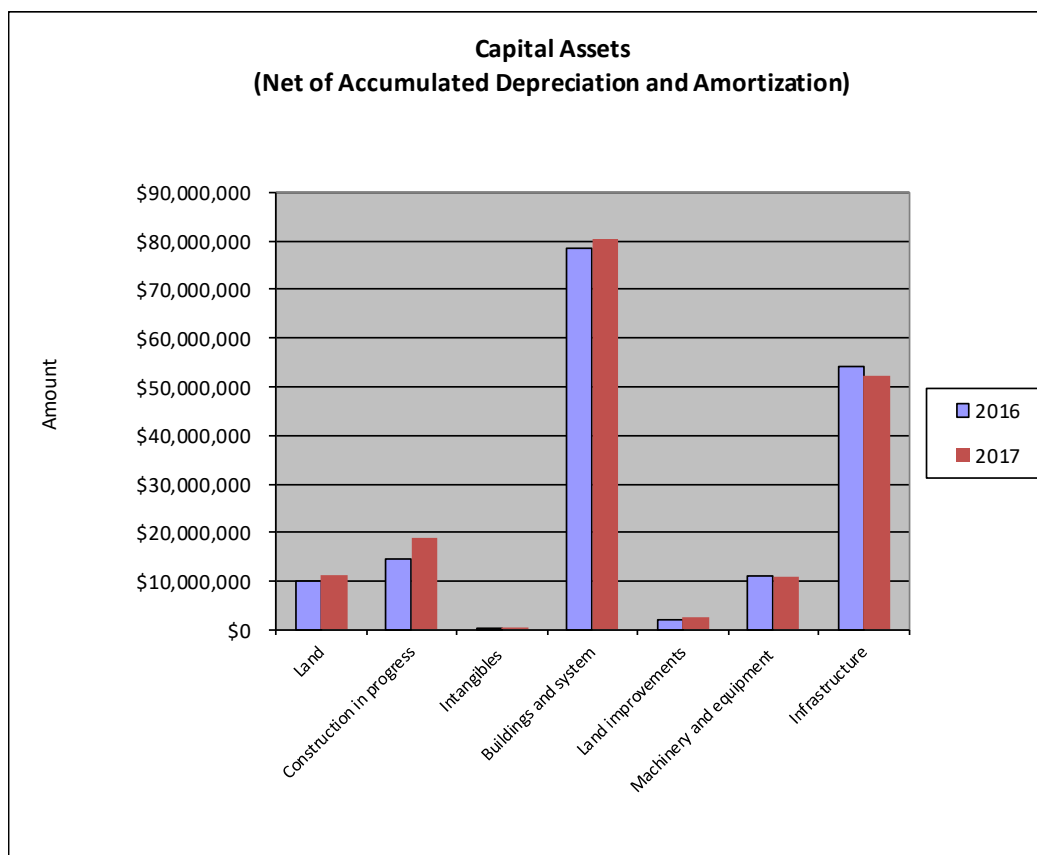
	Governmental Activities	Business-type Activities	Total
Land	\$ 8,666,728	\$ 1,267,840	\$ 9,934,568
Construction in progress	14,550,371	-	14,550,371
Intangibles	-	29,260	29,260
Buildings and system	77,235,371	1,340,901	78,576,272
Land improvements	1,938,794	26,257	1,965,051
Machinery and equipment	9,547,745	1,491,997	11,039,742
Infrastructure	48,502,580	5,648,398	54,150,978
Totals	<u>\$ 160,441,589</u>	<u>\$ 9,804,653</u>	<u>\$ 170,246,242</u>

**TOWN OF VERNON, CONNECTICUT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited *(Continued)*

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**Capital Asset and Debt Administration (Continued)**

**Capital Assets (Continued)**



Major capital asset additions during the current fiscal year included the following:

- \$1.2 million in land acquisition costs acquired for the purpose of constructing a new Senior Citizen Center;
- approximately \$531 thousand in streetlight acquisitions;
- approximately \$5.097 million in road reconstruction and improvements;
- approximately \$496 thousand in upgrades to the Town's communications system;
- approximately \$981 thousand in minor capital improvements to the Town's educational facilities;
- approximately \$1.276 million in roof improvements at the Town's educational facilities; and
- approximately \$804 thousand in engineering costs associated with future development of the Town's wastewater treatment plant.

Additional information on the Town's capital assets can be found in the notes to the financial statements.

**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

**Capital Asset and Debt Administration (Continued)**

**Debt Administration**

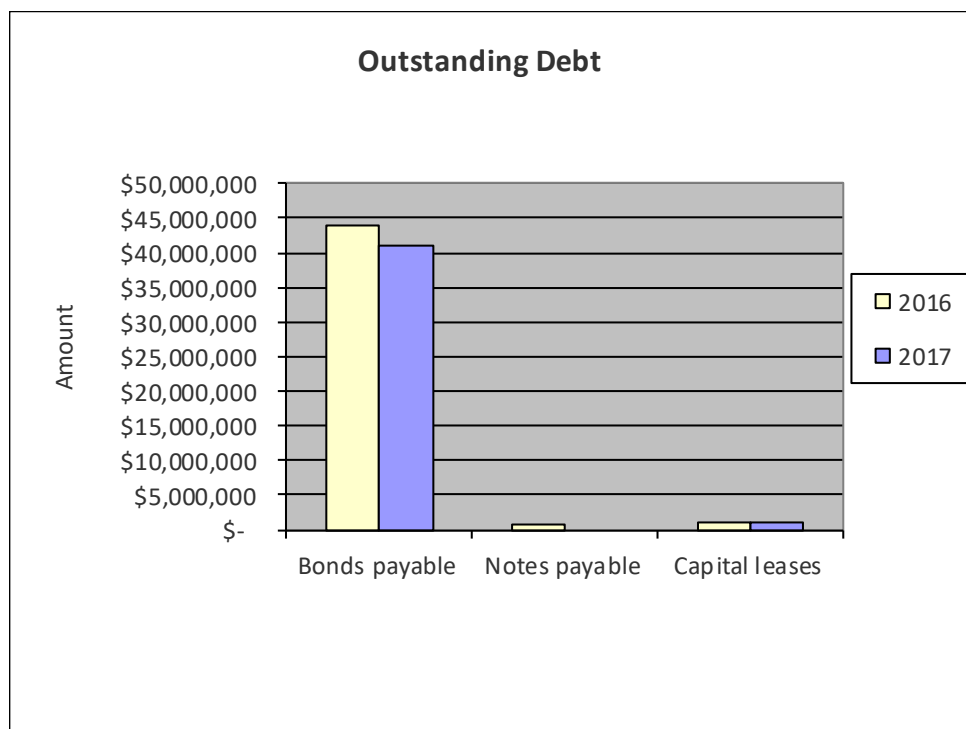
At the end of the current fiscal year, the Town had \$41.879 million in bonds, notes and lease purchase obligations outstanding compared to \$46.076 million at the end of the prior fiscal year, a decrease of \$4.197 million. The following is a two year comparison of long-term debt:

**Long-term Debt  
June 30, 2017**

	Governmental Activities	Business-type Activities	Total
Bonds payable	\$ 40,960,000	\$ -	\$ 40,960,000
Notes payable	-	-	-
Capital leases	918,516	-	918,516
Totals	<u>\$ 41,878,516</u>	<u>\$ -</u>	<u>\$ 41,878,516</u>

**Long-term Debt  
June 30, 2016**

	Governmental Activities	Business-type Activities	Total
Bonds payable	\$ 44,110,000	\$ -	\$ 44,110,000
Notes payable	826,194	-	826,194
Capital leases	1,139,748	-	1,139,748
Totals	<u>\$ 46,075,942</u>	<u>\$ -</u>	<u>\$ 46,075,942</u>



**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

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**Capital Asset and Debt Administration (Continued)**

**Debt Administration (Continued)**

During the fiscal year long-term debt principal payments of \$4.197 million were made. In August 2017, the Town issued general obligation bonds and bond anticipation notes of \$3.130 million and \$1.525 million, respectively, to fund road reconstruction and improvement projects that commenced in fiscal year 2013-2014. Also in August 2017, the Town issued general obligation bonds and bond anticipation notes of \$1.270 million and \$1.800 million, respectively, to fund the acquisition of and improvements to property to be used for a new Senior Citizen Center.

The Town's Aa2 general obligation bond rating was reviewed and reaffirmed by Moody's Investors on July 24, 2017. The Town's prior ratings, from July 19, 2016, July 15, 2015 and March 26, 2012, were also Aa2. Moody's most recent rating, when considering recalibrations, is in essence, an equivalent rating that has been assigned to the Town's debt since 1994.

The State limits the amount of general obligation debt that cities can issue, utilizing a formula determined under State Statutes based on type of debt and tax base. The Town's outstanding general obligation debt is significantly below this \$477.2 million state-imposed limit.

Additional information on the Town's long-term debt can be found in the notes to the financial statements.

**Economic Factors and Next Year's Budget and Rates**

The Town's elected and appointed officials considered many factors when setting the fiscal year 2017-2018 budget tax rates and fees that will be charged for the business-type activities. One of those factors is the economy. The unemployment rate for the Town at year-end was 4.9%, 1.0% less than the prior year-end. This compares with the State's unemployment rate of 5.1% and the national rate of 4.5%.

Although inflation in the Northeast Urban area has consistently been more than the national Consumer Price Index (CPI) for all urban consumers - U.S. towns' rate, the Town's CPI increase was 1.51% for fiscal year 2017 compared with the average U.S. town rate of 1.63%.

These indicators were taken into account when adopting the General Fund budget for fiscal year 2017-2018. Total appropriations in the General Fund budget are \$89.495 million, an increase of \$584 thousand over the original 2017 budget. Property taxes total \$69.196 million, a revenue increase of \$2.408 million from 2017 levels. In the next fiscal year, the estimated aid from the State of Connecticut is expected to decrease by \$1.404 million to \$18.029 million, which represents 20.15% of total revenue in the General Fund.

The Town will use the increases in revenues to finance programs currently offered and to offset expected inflationary increases on program costs. Increased funding for education, \$553 thousand; public safety, \$120 thousand; community development, \$6 thousand; maintenance and development, \$66 thousand; parks and recreation, \$32 thousand; group insurance, \$381 thousand; and pension contributions, \$95 thousand, constitute the major increases in the fiscal year 2017-2018 budget. Decreases in the fiscal year 2017-2018 budget include \$5 thousand in debt service and \$728 thousand in capital improvements.

**TOWN OF VERNON, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Continued)**

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**Economic Factors and Next Year's Budget and Rates (Continued)**

There was little in the way of new programs or services in the General Fund, but rather a continued pursuit to deliver current town and school services in a cost effective manner. Examples include a collaborative risk management program with the town and school system that is helping to stabilize and reduce general liability insurances; along with combining competitive bidding for health insurance, reducing premiums for fiscal year 2016-2017; and redesigning health plans for current and future budgetary relief. This includes carving out areas for self-insurance. Also, the continued transition from a defined benefit to a defined contribution retirement plan for new employees has been broadened to several bargaining groups, including the school system, focusing on budget relief in the long-term. The Town has recently purchased all of the streetlights, and the projection of net budgetary savings over a twenty-year period is \$3.4 million. Another capital investment that is near completion is the creation of the Town's own telephone system, which will generate savings for both the general government and school system. This venture is made possible by the commitment to advancing our technology, most notably the completion of a town-wide connectivity infrastructure, for all town entities, including proprietary departments and the Rockville Public Library. That project is expected to improve departmental operations and provide internal and public access to information. In a continued effort to lower energy costs, the Town has entered into an agreement to buy solar credits, which in turn will reduce electricity costs by fifteen percent. That program commenced in March of 2017. The \$27 million road improvement initiative, approved by voters in January of 2014 began at the end of fiscal year 2014, and the fourth and fifth year of construction costs, and the associated debt service for bonding those outlays, will be in the fiscal year 2019 budget.

From a financial perspective and as detailed in this annual financial report, the Town successfully addressed the many financial obstacles of 2016-2017 through prudent, conservative fiscal management without a serious interruption of services. The 2017-2018 Town budget experienced an overall 0.66% increase in appropriations with a blended increase of 0.62 mills in the tax rate from 37.93 to 38.55.

With an understanding of surrounding economic conditions, and considering the factor of a slight increase in the grand list, the most immediate obstacle faced by the Town is the budgetary instability occurring at the State level. The Town anticipates \$18.0 million of grants from the State in fiscal year 2017-2018 or approximately 20% of the General Fund budget. This is coupled with a cap on the motor vehicle tax, and the ability of the State to impose spending caps on municipalities. Vernon will continue to address the difficult budgetary and economic times through sound management, well-managed fund balances and an active attention to its economic development program.

Concerning the Town's business-type activities, much attention has been given in the past and will continue in the future to preserve a favorable unrestricted net position. As in all areas, most especially the waste treatment facility, the volatile rates of energy resources is carefully examined, and the purchasing of solar credits is one practice the Town will employ to offset the impact of energy costs.

**Contacting the Town's Financial Management**

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, Town of Vernon, 14 Park Place, Vernon, Connecticut 06066.

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## **BASIC FINANCIAL STATEMENTS**

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**TOWN OF VERNON, CONNECTICUT**

STATEMENTS OF NET POSITION

JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 26,754,653	\$ 10,491,423	\$ 37,246,076
Investments	1,731,413	-	1,731,413
Receivables:			
Property taxes and interest, net	1,670,729	-	1,670,729
User charges and interest, net	-	2,379,123	2,379,123
Grants and contracts	2,373,769	-	2,373,769
Other	743,637	6,772	750,409
Internal balances	(234,425)	234,425	-
Other	695,538	30,000	725,538
Noncurrent assets:			
Receivables:			
Net pension asset	127,841	-	127,841
Loans	608,759	-	608,759
Capital assets:			
Non-depreciable	28,674,257	1,267,840	29,942,097
Depreciable, net	138,217,273	8,299,163	146,516,436
Total assets	<u>201,363,444</u>	<u>22,708,746</u>	<u>224,072,190</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charges on pension	<u>8,809,574</u>	<u>367,139</u>	<u>9,176,713</u>
<b>LIABILITIES</b>			
Accounts payable	2,427,426	167,604	2,595,030
Accrued interest payable	598,377	-	598,377
Accrued liabilities	345,945	-	345,945
Bond anticipation notes payable	2,200,000	-	2,200,000
Unearned revenue	311,535	-	311,535
Noncurrent liabilities:			
Due in one year	6,133,370	111,002	6,244,372
Due in more than one year	105,437,595	3,725,045	109,162,640
Total liabilities	<u>117,454,248</u>	<u>4,003,651</u>	<u>121,457,899</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred charges on pension	1,625,900	102,109	1,728,009
Deferred charge on refunding	1,034,680	-	1,034,680
Total deferred inflows of resources	<u>2,660,580</u>	<u>102,109</u>	<u>2,762,689</u>
<b>NET POSITION</b>			
Net investment in capital assets	121,663,258	9,567,003	131,230,261
Restricted for:			
Endowments:			
Nonexpendable	1,743,985	-	1,743,985
Expendable	712,370	-	712,370
Grants and other programs	1,343,034	-	1,343,034
Unrestricted	(35,404,457)	9,403,122	(26,001,335)
Total net position	<u>\$ 90,058,190</u>	<u>\$ 18,970,125</u>	<u>\$ 109,028,315</u>

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

**TOWN OF VERNON, CONNECTICUT**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 6,076,452	\$ 1,250,953	\$ 1,039	\$ -	\$ (4,824,460)	\$ -	\$ (4,824,460)
Community development	497,261	94,311	155,205	-	(247,745)	-	(247,745)
Public safety	14,975,891	2,053,102	93,484	-	(12,829,305)	-	(12,829,305)
Maintenance and development	15,085,714	528,937	3,540,524	1,924,241	(9,092,012)	-	(9,092,012)
Human services	1,469,554	79,352	14,400	-	(1,375,802)	-	(1,375,802)
Parks, recreation and culture	3,182,850	919,706	88,097	-	(2,175,047)	-	(2,175,047)
Education	68,502,574	1,166,626	31,492,151	1,825,771	(34,018,026)	-	(34,018,026)
Interest expense	1,426,711	-	-	-	(1,426,711)	-	(1,426,711)
Total governmental activities	111,217,007	6,092,987	35,384,900	3,750,012	(65,989,108)	-	(65,989,108)
Business-type activities:							
Sewer	5,657,815	5,989,522	17,209	292,493	-	641,409	641,409
Center 375 (building rental)	205,667	165,721	-	-	-	(39,946)	(39,946)
Total business-type activities	5,863,482	6,155,243	17,209	292,493	-	601,463	601,463
Total primary government	\$ 117,080,489	\$ 12,248,230	\$ 35,402,109	\$ 4,042,505	(65,989,108)	601,463	(65,387,645)
General revenues:							
Property taxes, levied for general purposes					68,129,637	-	68,129,637
Grants and contributions not restricted to specific programs					1,532,993	-	1,532,993
Investment earnings					256,856	20,294	277,150
Total general revenues					69,919,486	20,294	69,939,780
		Change in net position			3,930,378	621,757	4,552,135
		Net position - beginning			86,127,812	18,348,368	104,476,180
		Net position - ending			\$ 90,058,190	\$ 18,970,125	\$ 109,028,315

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



**TOWN OF VERNON, CONNECTICUT**  
BALANCE SHEETS  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

	General Fund	Road Improvements Bond Fund	School Roof Replacements and Renovations Fund	Senior Center Acquisition and Renovations Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 15,394,454	\$ 791,724	\$ -	\$ -	\$ 7,851,522	\$ 24,037,700
Investments	-	-	-	-	1,731,413	1,731,413
Receivables:						
Property taxes, net	1,285,423	-	-	-	-	1,285,423
Grants and contracts	20,537	-	395,420	-	1,957,812	2,373,769
Loans	-	-	-	-	608,759	608,759
Assessments	-	-	-	-	508	508
Other	25,159	-	-	-	587,886	613,045
Due from other funds	5,309,418	-	-	-	1,137,713	6,447,131
Inventories	-	-	-	-	31,507	31,507
Prepaid items	595,917	-	-	-	21,270	617,187
Total assets	<u>\$ 22,630,908</u>	<u>\$ 791,724</u>	<u>\$ 395,420</u>	<u>\$ -</u>	<u>\$ 13,928,390</u>	<u>\$ 37,746,442</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 958,331	\$ 166,885	\$ 2,067	\$ 1,194	\$ 1,196,660	\$ 2,325,137
Accrued liabilities	341,339	40,206	-	-	4,606	386,151
Due to other funds	767,767	470,776	247,204	1,209,917	2,576,420	5,272,084
Unearned revenue	311,535	-	-	-	-	311,535
Total liabilities	<u>2,378,972</u>	<u>677,867</u>	<u>249,271</u>	<u>1,211,111</u>	<u>3,777,686</u>	<u>8,294,907</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenues	<u>1,043,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,056,549</u>	<u>2,100,379</u>
<b>FUND BALANCES</b>						
Nonspendable	595,917	-	-	-	1,775,492	2,371,409
Restricted	-	113,857	-	-	2,055,404	2,169,261
Committed	-	-	146,149	-	6,125,224	6,271,373
Assigned	3,201,676	-	-	-	-	3,201,676
Unassigned	<u>15,410,513</u>	<u>-</u>	<u>-</u>	<u>(1,211,111)</u>	<u>(861,965)</u>	<u>13,337,437</u>
Total fund balances	<u>19,208,106</u>	<u>113,857</u>	<u>146,149</u>	<u>(1,211,111)</u>	<u>9,094,155</u>	<u>27,351,156</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 22,630,908</u>	<u>\$ 791,724</u>	<u>\$ 395,420</u>	<u>\$ -</u>	<u>\$ 13,928,390</u>	<u>\$ 37,746,442</u>

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

**TOWN OF VERNON, CONNECTICUT**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

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Total fund balances for governmental funds	\$	27,351,156
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Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		165,701,054
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Net pension assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.		127,841
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Deferred outflows and inflows of resources resulting from changes in the components of the Town's net pension liabilities are reported in the statement of net position.		7,116,348
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Some of the Town's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenues in the funds.		2,100,379
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Long-term receivables are not available soon enough to pay for the current period's expenditures and, therefore, are not reported in the funds:

Interest on property taxes receivables	\$	644,306	
Less allowance for uncollectible accounts		(259,000)	
			385,306

Long-term liabilities and related amounts applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities and related amounts - both current and long-term - are reported in the statement of net position.

Accrued interest payable		(558,171)	
Bond anticipation notes payable		(2,200,000)	
Long-term debt:			
Bonds and notes payable		(40,960,000)	
Unamortized bond premium		(228,933)	
Deferred charges on refunding		(1,034,680)	
Other long-term liabilities:			
Capital lease obligations		(918,516)	
Compensated absences		(3,735,595)	
Termination benefits		(2,203,207)	
Claims payable		(422,848)	
Net pension liability		(57,208,124)	
Net OPEB obligation		(2,465,825)	
Total long-term liabilities			(111,935,899)

An internal service fund is used by the Town to charge the cost of risk management activities to individual funds. A portion of the assets and liabilities of the internal service funds are included in the governmental activities statement of net position.

		(787,995)
Net position of governmental activities	\$	90,058,190

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

**TOWN OF VERNON, CONNECTICUT**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Road Improvements Bond Fund	School Roof Replacements and Renovations Fund	Senior Center Acquisition and Renovations Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 67,962,636	\$ -	\$ -	\$ -	\$ -	\$ 67,962,636
Intergovernmental	25,589,647	-	829,860	-	13,503,397	39,922,904
Charges for services	2,288,811	-	-	-	3,041,112	5,329,923
Contributions	-	-	-	-	190,596	190,596
Interest and dividend income	28,277	11,919	-	-	52,756	92,952
Net appreciation in the fair value of investments	-	-	-	-	163,904	163,904
Other	456,813	177,000	-	-	781,611	1,415,424
Total revenues	<u>96,326,184</u>	<u>188,919</u>	<u>829,860</u>	<u>-</u>	<u>17,733,376</u>	<u>115,078,339</u>
<b>EXPENDITURES</b>						
Current:						
General government	3,645,882	-	-	-	5,356	3,651,238
Community development	259,219	-	-	-	93,158	352,377
Public safety	8,533,042	-	-	-	1,122,102	9,655,144
Maintenance and development	5,504,582	-	-	-	3,184,099	8,688,681
Human services	915,790	-	-	-	112,942	1,028,732
Parks, recreation and culture	1,496,064	-	-	-	855,855	2,351,919
Townwide	8,017,224	-	-	-	-	8,017,224
Education	58,063,599	-	-	-	7,997,118	66,060,717
Debt service	4,910,864	111,402	-	-	831,020	5,853,286
Capital outlays	257,845	4,087,523	1,238,475	1,211,111	5,150,109	11,945,063
Total expenditures	<u>91,604,111</u>	<u>4,198,925</u>	<u>1,238,475</u>	<u>1,211,111</u>	<u>19,351,759</u>	<u>117,604,381</u>
Excess (deficiency) of revenues over expenditures	4,722,073	(4,010,006)	(408,615)	(1,211,111)	(1,618,383)	(2,526,042)
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from issuance of notes	-	2,200,000	-	-	-	2,200,000
Premium on issuance of notes	-	26,884	-	-	-	26,884
Proceeds from issuance of bonds	-	6,350,000	-	-	-	6,350,000
Premium on issuance of bonds	-	228,933	-	-	-	228,933
Repayment of notes	-	(6,350,000)	-	-	-	(6,350,000)
Transfers in	73,286	-	-	-	3,058,506	3,131,792
Transfers out	(2,547,509)	-	-	-	(584,283)	(3,131,792)
Total other financing sources (uses)	<u>(2,474,223)</u>	<u>2,455,817</u>	<u>-</u>	<u>-</u>	<u>2,474,223</u>	<u>2,455,817</u>
Net change in fund balances	2,247,850	(1,554,189)	(408,615)	(1,211,111)	855,840	(70,225)
Fund balances - beginning	<u>16,960,256</u>	<u>1,668,046</u>	<u>554,764</u>	<u>-</u>	<u>8,238,315</u>	<u>27,421,381</u>
Fund balances - ending	<u>\$ 19,208,106</u>	<u>\$ 113,857</u>	<u>\$ 146,149</u>	<u>\$ (1,211,111)</u>	<u>\$ 9,094,155</u>	<u>\$ 27,351,156</u>

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

**TOWN OF VERNON, CONNECTICUT**  
**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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Net change in fund balances - total governmental funds	\$	(70,225)
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Total change in net position reported for governmental activities in the statement of activities is different because:

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 amount by which capital additions exceeded depreciation and amortization in the current period is as follows:

Expenditures for capital assets	\$ 12,305,323	
Depreciation and amortization expense	(5,794,043)	
Net adjustment		6,511,280

Certain revenues are not susceptible to accrual and, therefore, are only reported as revenue in the funds when the cash is received by the Town. In the government-wide financial statements, the cash received reduces the receivable recognized in the government-wide statement of net position.	63,376
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of long-term obligations is as follows:

Debt issued or incurred:		
Bond anticipation notes issued	(2,200,000)	
Premium on bonds issued	(228,933)	
Principal repayments:		
Bonds and notes payable	3,976,194	
Capital lease financing	221,232	
Net adjustment		1,768,493

Deferred outflows and inflows of resources resulting from changes in the components of the net pension liability are amortized as a component of pension expense in the statement of activities.	(319,888)
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*(Continued)*

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

**TOWN OF VERNON, CONNECTICUT**  
**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES *(Concluded)***  
**FOR THE YEAR ENDED JUNE 30, 2017**

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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The net effect of such items is as follows:

Accrued interest	\$ (26,863)	
Amortization of deferred charges on refunding	94,064	
Compensated absences	80,463	
Termination benefits	114,950	
Claims payable	(98,601)	
Net OPEB obligation	(71,955)	
Net pension liability	<u>(3,094,628)</u>	
		\$ (3,002,570)

Certain revenues reported in the statement of activities do not provide current financial resources and therefore are reported as deferred inflows of resources in the governmental funds. This amount represents the change in unavailable revenues. 5,670

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported within the governmental activities. (1,025,758)

Change in net position of governmental activities	\$	<u>3,930,378</u>
		<i>Concluded</i>

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

**TOWN OF VERNON, CONNECTICUT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -**  
**BUDGETARY BASIS - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Budgeted Amounts</b>			<b>Outstanding</b>	<b>Actual with</b>	<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Encumbrances</b>	<b>Outstanding</b>	<b>Final Budget</b>
					<b>Encumbrances</b>	<b>Over (Under)</b>
<b>REVENUES</b>						
Property taxes	\$ 66,788,008	\$ 66,788,008	\$ 67,962,636	\$ -	\$ 67,962,636	\$ 1,174,628
Intergovernmental	19,433,279	19,433,279	19,688,630	-	19,688,630	255,351
Charges for services	908,226	908,226	1,337,058	-	1,337,058	428,832
Licenses and permits	644,900	644,900	800,744	-	800,744	155,844
Fines and penalties	43,000	43,000	21,716	-	21,716	(21,284)
Investment income	20,010	20,010	28,277	-	28,277	8,267
Other	506,611	506,611	456,813	-	456,813	(49,798)
Total revenues	88,344,034	88,344,034	90,295,874	-	90,295,874	1,951,840
<b>EXPENDITURES</b>						
Current:						
General government	3,407,600	4,114,051	3,645,882	409,171	4,055,053	(58,998)
Community development	257,066	274,997	259,219	14,681	273,900	(1,097)
Public safety	8,476,702	8,904,713	8,533,042	210,942	8,743,984	(160,729)
Maintenance and development	5,527,482	5,939,332	5,504,582	241,993	5,746,575	(192,757)
Human services	961,935	988,388	915,790	12,546	928,336	(60,052)
Parks, recreation and culture	1,554,221	1,594,281	1,496,065	47,008	1,543,073	(51,208)
Townwide	8,403,973	8,329,509	8,017,224	191,638	8,208,862	(120,647)
Debt Service	5,467,036	5,729,186	4,910,864	512,449	5,423,313	(305,873)
Capital outlay	308,475	437,615	257,845	170,000	427,845	(9,770)
Education	52,119,265	53,102,408	52,033,288	1,069,248	53,102,536	128
Total expenditures	86,483,755	89,414,480	85,573,801	2,879,676	88,453,477	(961,003)
Excess of revenues over expenditures	1,860,279	(1,070,446)	4,722,073	(2,879,676)	1,842,397	2,912,843
<b>OTHER FINANCING SOURCES (USES)</b>						
Appropriation of Fund Balance	422,225	1,269,654	-	-	-	(1,269,654)
Appropriation of Prior Year Encumbrances	-	2,206,390	-	-	-	(2,206,390)
Transfers in	144,700	144,700	73,286	-	73,286	(71,414)
Transfers out	(2,427,204)	(2,550,298)	(2,547,509)	-	(2,547,509)	2,789
Total other financing sources (uses)	(1,860,279)	1,070,446	(2,474,223)	-	(2,474,223)	(3,544,669)
Net change in fund balances	\$ -	\$ -	\$ 2,247,850	\$ (2,879,676)	\$ (631,826)	\$ (631,826)

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

**TOWN OF VERNON, CONNECTICUT**  
**STATEMENTS OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
	<b>Sewer User Fund</b>	<b>Nonmajor Center 375 Fund</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 9,450,853	\$ 1,040,570	\$ 10,491,423	\$ 2,716,953
Receivables:				
User charges and interest, net	2,379,123	-	2,379,123	-
Other	-	6,772	6,772	69,341
Prepaid expenses	30,000	-	30,000	46,844
Total current assets	<u>11,859,976</u>	<u>1,047,342</u>	<u>12,907,318</u>	<u>2,833,138</u>
Capital assets:				
Non-depreciable	707,160	560,680	1,267,840	-
Depreciable, net	7,761,131	538,032	8,299,163	1,190,476
Total noncurrent assets	<u>8,468,291</u>	<u>1,098,712</u>	<u>9,567,003</u>	<u>1,190,476</u>
Total assets	<u>20,328,267</u>	<u>2,146,054</u>	<u>22,474,321</u>	<u>4,023,614</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charges on pension	<u>367,139</u>	<u>-</u>	<u>367,139</u>	<u>93,354</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	155,112	12,492	167,604	85,495
Claims payable	-	-	-	775,364
Compensated absences	111,002	-	111,002	43,886
Due to other funds	305,875	14,282	320,157	810,941
Total current liabilities	<u>571,989</u>	<u>26,774</u>	<u>598,763</u>	<u>1,715,686</u>
Noncurrent liabilities:				
Compensated absences	279,385	-	279,385	20,271
Claims payable	-	-	-	1,905,475
Net pension liability	3,397,963	-	3,397,963	682,921
Net OPEB obligation	47,697	-	47,697	-
Total non-current liabilities	<u>3,725,045</u>	<u>-</u>	<u>3,725,045</u>	<u>2,608,667</u>
Total liabilities	<u>4,297,034</u>	<u>26,774</u>	<u>4,323,808</u>	<u>4,324,353</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred charges on pension	<u>102,109</u>	<u>-</u>	<u>102,109</u>	<u>26,028</u>
<b>NET POSITION</b>				
Net investment in capital assets	8,468,291	1,098,712	9,567,003	1,190,476
Unrestricted	7,827,972	1,020,568	8,848,540	(1,423,889)
Total net position	<u>\$ 16,296,263</u>	<u>\$ 2,119,280</u>	<u>18,415,543</u>	<u>\$ (233,413)</u>
Cumulative adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>554,582</u>	
Net position of business-type activities			<u>\$ 18,970,125</u>	

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

**TOWN OF VERNON, CONNECTICUT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
	<b>Sewer User Fund</b>	<b>Nonmajor Center 375 Fund</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 5,524,274	\$ 165,721	\$ 5,689,995	\$ 2,821,986
Intergovernmental	-	-	-	4,473
Other	465,248	-	465,248	131,295
Total operating revenues	5,989,522	165,721	6,155,243	2,957,754
<b>OPERATING EXPENSES</b>				
Wages and benefits	2,520,598	6,324	2,526,922	1,048,371
Repairs, maintenance and rentals	216,175	27,296	243,471	431,864
Utilities	1,471,516	56,955	1,528,471	15,057
Supplies and materials	545,807	15,259	561,066	2,923
General and administrative	364,762	56,885	421,647	163,467
Claims incurred	-	-	-	2,147,903
Depreciation	565,364	42,948	608,312	154,326
Total operating expenses	5,684,222	205,667	5,889,889	3,963,911
Operating income (loss)	305,300	(39,946)	265,354	(1,006,157)
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Loss in disposal of asset	-	-	-	(3,868)
Interest income	14,356	5,938	20,294	2,394
Insurance and other reimbursements	17,209	-	17,209	-
Total non-operating revenues (expenses), net	31,565	5,938	37,503	(1,474)
Change in net position before capital contributions	336,865	(34,008)	302,857	(1,007,631)
Capital contributions	292,493	-	292,493	8,280
Change in net position	629,358	(34,008)	595,350	(999,351)
Net position - beginning	15,666,905	2,153,288		765,938
Net position - ending	\$ 16,296,263	\$ 2,119,280		\$ (233,413)
Net current year adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			26,407	
Net change in net position of business-type activiteis			\$ 621,757	

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



**TOWN OF VENRON, CONNECTICUT**  
**STATEMENTS OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
	<b>Sewer User Fund</b>	<b>Nonmajor Center 375 Fund</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received for the following:				
Charges for services	\$ 5,704,694	\$ 158,976	\$ 5,863,670	\$ 2,794,344
Other operating revenues received	254,098	-	254,098	45,037
Cash paid for the following:				
Claims incurred	-	-	-	(798,247)
Employee wages and benefits	(2,200,945)	-	(2,200,945)	(939,008)
Goods and services	(2,355,469)	(218,478)	(2,573,947)	(472,488)
Net cash provided by (used in) operating activities	<u>1,402,378</u>	<u>(59,502)</u>	<u>1,342,876</u>	<u>629,638</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Insurance and other reimbursements	17,209	-	17,209	-
Interfund activity	(7,539)	-	(7,539)	49,120
Net cash provided by noncapital financing activities	<u>9,670</u>	<u>-</u>	<u>9,670</u>	<u>49,120</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	(63,498)	(14,672)	(78,170)	(88,572)
Net cash used in capital and related financial activities	<u>(63,498)</u>	<u>(14,672)</u>	<u>(78,170)</u>	<u>(88,572)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment income	<u>14,357</u>	<u>5,938</u>	<u>20,295</u>	<u>2,394</u>
Net increase (decrease) in cash and cash equivalents	1,362,907	(68,236)	1,294,671	592,580
Cash and cash equivalents, beginning of year	<u>8,087,946</u>	<u>1,108,806</u>	<u>9,196,752</u>	<u>2,124,373</u>
Cash and cash equivalents, end of year	<u>\$ 9,450,853</u>	<u>\$ 1,040,570</u>	<u>\$ 10,491,423</u>	<u>\$ 2,716,953</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 305,300	\$ (39,946)	\$ 265,354	\$ (1,006,157)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	565,364	42,948	608,312	154,326
Changes in assets and liabilities:				
Increase in receivables	(34,650)	(6,772)	(41,422)	(42,350)
Increase in accounts payable	2,811	5,807	8,618	1,423,383
Increase (decrease) in accrued liabilities	40,957	-	40,957	(40)
Increase in net pension liability	188,332	-	188,332	43,580
Increase in net OPEB liability	576	-	576	-
Increase in prepaid expense	(30,000)	-	(30,000)	(40,607)
Decrease in deferred outflows	106,453	-	106,453	24,634
Decrease in deferred inflows	(33,233)	-	(33,233)	(7,690)
Increase (decrease) in due from/to other funds	290,468	(61,539)	228,929	80,559
Net cash provided by (used in) operating activities	<u>\$ 1,402,378</u>	<u>\$ (59,502)</u>	<u>\$ 1,342,876</u>	<u>\$ 629,638</u>

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

**TOWN OF VERNON, CONNECTICUT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2016 AND JUNE 30, 2017**

	<u>December 31, 2016</u>		<u>June 30, 2017</u>	
	<u>Pension</u>	<u>Other Post-</u>	<u>Private</u>	<u>Agency</u>
	<u>Trust Funds</u>	<u>Employment Benefit</u>	<u>Purpose</u>	<u>Funds</u>
		<u>Trust Fund</u>	<u>Trust Fund</u>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 67,554	\$ 931,165	\$ 241,024	\$ 738,925
Investments:				
Certificates of deposit	-	-	96,931	-
U.S. Treasury securities	106,810	-	-	-
Corporate bonds	102,300	-	-	-
Fixed insurance contracts	17,833,720	-	-	-
Variable insurance contracts	42,717,003	-	-	-
Common stock	726,950	-	-	-
Mutual funds	604,393	-	124,364	-
Receivables	-	17,492	33,548	8,039
Other assets	-	8,755	-	-
Total assets	<u>62,158,730</u>	<u>957,412</u>	<u>495,867</u>	<u>\$ 746,964</u>
<b>LIABILITIES</b>				
Due to others	-	-	-	\$ 745,376
Payables	20,650	59,155	-	1,588
Unearned revenue	-	4,571	-	-
Total liabilities	<u>20,650</u>	<u>63,726</u>	<u>-</u>	<u>\$ 746,964</u>
<b>NET POSITION</b>				
Restricted for pension, other post-				
employment benefits and other purposes	62,138,080	893,686	495,867	
Total net position	<u>\$ 62,138,080</u>	<u>\$ 893,686</u>	<u>\$ 495,867</u>	

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

**TOWN OF VERNON, CONNECTICUT**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND JUNE 30, 2017

	<u>December 31, 2016</u>	<u>June 30, 2017</u>	
	<u>Pension</u>	<u>Other Post-</u>	<u>Private</u>
	<u>Trust Funds</u>	<u>Employment Benefit</u>	<u>Purpose</u>
		<u>Trust Fund</u>	<u>Trust Fund</u>
<b>ADDITIONS</b>			
Contributions:			
Employer	\$ 4,358,821	\$ 660,185	\$ -
Employee	1,295,754	-	-
Retirees	-	687,811	-
State	-	99,950	-
Private	-	-	11,205
Other	-	5,717	-
Total contributions	<u>5,654,575</u>	<u>1,453,663</u>	<u>11,205</u>
Investment earnings:			
Net investment income	4,197,132	4,205	9,205
Less investment expenses	(251,524)	-	-
Total investment earnings	<u>3,945,608</u>	<u>4,205</u>	<u>9,205</u>
Total additions	<u>9,600,183</u>	<u>1,457,868</u>	<u>20,410</u>
<b>DEDUCTIONS</b>			
Benefit payments	6,295,600	1,248,663	-
Refunds of contributions	30,299	-	-
Awards expense	-	-	28,564
Administrative expenses	203,643	-	-
Total deductions	<u>6,529,542</u>	<u>1,248,663</u>	<u>28,564</u>
Change in net position	3,070,641	209,205	(8,154)
Net position - beginning	<u>59,067,439</u>	<u>684,481</u>	<u>504,021</u>
Net position - ending	<u><u>\$ 62,138,080</u></u>	<u><u>\$ 893,686</u></u>	<u><u>\$ 495,867</u></u>

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

**TOWN OF VERNON, CONNECTICUT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of Vernon, Connecticut (the "Town") conform to accounting principles generally accepted in the United States of America, as applicable to governmental organizations. The following is a summary of significant accounting policies:

**Financial Reporting Entity**

The Town of Vernon was incorporated in 1808. The Town has operated under a Mayor-Town Council form of government, with a full-time Town Administrator, since 1970 as prescribed by the Connecticut General Statutes and its charter, which was adopted October 13, 1964 and last revised November 6, 1990. The Town provides the following services: public safety (police, fire and ambulance), public works (public facility, street and infrastructure maintenance and solid waste disposal), parks and recreation, youth and social services, wastewater treatment, and education encompassing grades PreK-12.

The Town has considered all agencies, departments, commissions, boards (including the Board of Education), authorities and funds to determine the "financial reporting entity" of the Town. The "financial reporting entity" includes all the significant funds of the Town.

**Government-wide and Fund Financial Statements**

**Government-wide Financial Statements**

The statement of net position and the statement of activities display information about the Town and include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. The statements are intended to distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

**Fund Financial Statements**

The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds and enterprise funds, each displayed in a separate column. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor funds.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Government-wide and Fund Financial Statements *(Continued)***

**Fund Financial Statements *(Continued)***

The Town reports the following major governmental funds:

**General Fund** – This fund is the Town’s primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

**Road Improvements Bond Fund** – This fund is used to account for the financial activity of reconstruction and improvements to certain town roads, as authorized by Town referendum and financed with debt proceeds.

**School Roof Replacements and Renovations Fund** – This fund is used to account for the financial activity to replace roofs at three Vernon schools, as authorized by Town Council and financed through school construction grants.

**Senior Center Acquisition and Renovations Fund** – This fund is used to account for the financial activity for the acquisition and construction of a new Senior Citizen Center, as authorized by Town referendum and financed with debt proceeds.

The Town reports the following major proprietary fund:

**Sewer User Fund** – This fund is used to account for the operations of the Town’s wastewater treatment facility.

In addition, the Town reports the following fund types:

**Special Revenue Funds** – These funds account for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities.

**Debt Service Fund** – This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt.

**Capital Project Funds** – These funds account for all financial resources used for the acquisition or construction of major capital facilities not being financed by proprietary funds.

**Permanent Funds** – These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town’s programs.

**Enterprise Fund** – This fund accounts for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Internal Service Funds** – These funds accounts for activities that provide goods or services to other funds, departments, or agencies of the Town on a cost-reimbursement basis.

**Pension Trust Funds** – These funds are used to account for resources held in trust for the members and beneficiaries of the Town’s retirement and other post-employment benefit plans.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Government-wide and Fund Financial Statements *(Continued)***

**Fund Financial Statements *(Continued)***

**Private Purpose Trust Funds** - These funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

**Agency Funds** – These funds are used to account for resources held by the Town in a purely custodial capacity.

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital lease are reported as other financing sources.

Property taxes, expenditure reimbursement grants, certain intergovernmental revenues, charges for services, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues when available. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal year. For expenditure reimbursement grants, the Town considers revenues to be available if they are collected within one year of the end of the current fiscal year. All other revenue items are considered to be measurable and available only when the cash is received.

The proprietary, pension trust and private-purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds and of the Town's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Equity**

**Cash Equivalents**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Investments**

Investments are measured by the Town at fair value (generally based on quoted market prices), except for investments in certain external investment pools and insurance contracts as described below.

Investments in certain external investment pools consist of money market mutual funds and the Short-Term Investment Fund (STIF), which is managed by the State of Connecticut Treasurer's Office. Investments in these types of funds, which are permitted to measure their investment holdings at amortized costs, are measured by the Town at the net asset value per share as determined by the pool/fund.

Investments in pooled separate accounts consist of insurance contracts. Investments in these types of contracts are measured by the Town at contract value, which approximate fair value.

**Property Taxes**

Property taxes are assessed as of October 1. Real estate and personal property taxes are billed in the following July and are due in two installments, July 1 and January 1. Motor vehicle taxes are billed in July and are due in one installment, July 1, and supplemental motor vehicle taxes are due in full January 1. Taxes become delinquent thirty days after the installment is due. Liens are effective on the assessment date and are continued by filing before the end of the year following the due date. Based on historical collection experience and other factors, the Town has established an allowance for uncollectible taxes and interest as of June 30, 2017 of \$169,000 and \$259,000, respectively.

**Sewer Assessments**

Sewer assessments levied by the Town are billed in installments annually on March 1. An installment lien is filed and is effective until the assessment is paid. Sewer assessment installments become delinquent 30 days after the installment is due at which time a delinquent lien is effective. Delinquent liens are continued by filing annually.

**Loans**

The Town administers a federally funded rehabilitation loan program for eligible applicants. The loans do not accrue interest and repayment of the loans is deferred. The loans become due and payable upon sale or transfer of the property, the owner's demise, or when the subject property is no longer the applicant's principal place of residence/business. The loans may be paid in full or in part by the borrower at any time without penalty. As of June 30, 2017, loans receivable totaled \$608,759 under this program.

**Inventories and Prepaid Items**

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

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

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Equity *(Continued)***

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$300 for the Town and \$1,000 for the Board of Education 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 acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is not included as part of the capitalized value of the assets constructed.

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	15-20
Buildings	45
Building improvements	10-30
Machinery and equipment	5-25
Computer software	5-10
Computer equipment	5-10
Vehicles	4-25
Infrastructure	15-50

Capital assets acquired under capital lease are amortized over the life of the lease term or estimated useful life of the asset, as applicable.

**Unearned Revenue**

This liability represents resources that have been received but not yet earned.

**Deferred Outflows/Inflows of Resources**

Deferred outflows and inflows of resources represent either an acquisition or consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources until that time.

Deferred outflows and inflows of resources include deferred charges on pensions in the government-wide financial statements. Deferred charges on pensions relate to changes in assumptions and differences between expected and actual plan experience and between projected and actual earnings on plan investments. Deferred charges on pensions resulting from differences between projected and actual earnings on plan investments are amortized as a component of pension expense over a 5 year period. All other deferred charges on pensions are amortized as a component of pension expense on a systematic and rational basis.



**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Equity *(Continued)***

**Deferred Outflows/Inflows of Resources *(Continued)***

Deferred inflows of resources also include deferred charges on refundings in the government-wide financial statements and unavailable revenues in the governmental funds financial statements. Deferred charges on refundings resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount has been deferred and is being amortized as a component of interest expense over the life of the related debt. Unavailable revenue is deferred and recognized as an inflow of resources in the period that the amounts become available.

**Compensated Absences**

Certain employees are compensated by a prescribed formula for absence due to vacation or sickness. The eligibility for vacation pay vests, and unused sick leave may only be accumulated to be used for future absences, although unused sick leave may be paid upon termination, death or retirement. The liability at June 30, 2017 is calculated by multiplying the current accumulated vacation and sick days earned and payable by the employees' current daily rate of pay. The Town's share of social security and medicare payroll taxes has also been estimated and added to the compensated absences accrual. The General Fund is the primary source of funding for compensated absences. Compensated absences are only reported in governmental funds if they are due and payable to an employee who has resigned or retired before or at fiscal yearend.

**Long-term Obligations**

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

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Position and Fund Balance**

The government-wide statement of net position presents the Town's assets, deferred outflows and inflows of resources and liabilities, with net position as the residual of these other elements. Net position is reported in three categories:

***Net investment in capital assets*** – This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of capital assets.

***Restricted net position*** – This component of net position consists of amounts restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Equity *(Continued)***

**Net Position and Fund Balance *(Continued)***

***Unrestricted net position*** – This component of net position is the net amount of the assets, liabilities, and deferred outflows/inflows of resources that do not meet the definition of the two preceding categories.

The Town's governmental funds report the following fund balance categories:

***Nonspendable*** – Amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be maintained intact.

***Restricted*** – Constraints are placed on the use of resources that are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through enabling legislation.

***Committed*** – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision making authority of the Town and cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same formal action. Commitments may be established, modified, or rescinded through resolutions approved by the Town Council.

***Assigned*** – Amounts are constrained by the government's intent to be used for specific purposes, but are not restricted or committed. Amounts may be constrained to be used for a specific purpose by a governing board or body or official that has been delegated authority to assign amounts. Intent is expressed by the passing of a resolution by the Town Council or from a properly approved purchase order.

***Unassigned*** - Residual classification for the General Fund or amounts necessary in other governmental funds to eliminate otherwise negative fund balance amounts in the other four categories.

***Net Position Flow Assumption***

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

***Fund Balance Flow Assumption***

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy, when committed, assigned and unassigned resources are available for use, that the Town will use committed resources first, then assigned resources and then unassigned resources as they are needed.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**Interfund Activities**

Interfund activities are reported as follows:

**Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

**Interfund Services Provided and Used**

Sales and purchases of goods and services between funds for a price approximating their external exchange value are reported as revenues and expenditures, or expenses, in the applicable funds.

**Interfund Transfers**

Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

**Interfund Reimbursements**

Interfund reimbursements represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.

**Use of 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 and disclosures in the financial statements. Actual results could differ from those estimates.

**Implementation of Accounting Standards**

Effective July 1, 2016, the Town adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple Employer Defined Benefit Pension Plans*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, GASB Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*, and GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The implementation of GASB Statement No. 74 resulted in changes to the disclosures and required supplementary information relating to the Town’s other post-employment benefit plan. The implementation of GASB Statement No. 74 had no impact on the Town’s financial position or on the financial position of the Town’s other post-employment benefit trust fund. The adoption of GASB Statement No. 77 resulted in additional disclosures relating to certain tax abatements provided by the Town. The adoption of the other statements did not have a material effect on the Town’s financial statements.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 2 - BUDGETARY INFORMATION, COMPLIANCE AND DEFICIT FUND EQUITY**

**Budgetary Information**

The Town adheres to the following procedures in establishing the budgetary data included in the General Fund statement of revenues, expenditures and changes in fund balance on a budgetary basis:

- No later than March 15, the Mayor must submit an appropriated budget to the Town Council for review. The Town Council must hold two or more public hearings, the last of which shall be the annual Town Meeting, not later than April 30. The Town Council shall approve a budget to be presented at the Annual Town Meeting. The budget becomes effective only after it has been approved by a majority vote of qualified voters present and voting at the annual Town Meeting. The vote may neither increase nor decrease the budget as approved by Town Council. Within five days after the adoption of the budget, the Council must set the mill rate for the coming fiscal year.
- The Town Council is authorized to transfer any unencumbered appropriation balance or portion thereof from one department to another; however, such transfers must occur subsequent to March 31. Transfers within account classifications of a single department are approved by the Town's Finance Officer. Individual additional appropriations of less than 1/10 of 1% of the total budgeted expenditures are approved by Town Council.
- The Board of Education is authorized, under State law, to make any transfers necessary within the education budget at their discretion. Authorization for additional appropriations exceeding 1/10 of 1% of total budgeted expenditures requires a public hearing followed by Town Council approval in a special Town meeting. Revised budget amounts are reported as amended by the Town Council during the course of the year.
- Additional appropriations of \$847,429 were authorized during the fiscal year along with re-appropriations of \$2,206,390. The legal level of control, the level at which expenditures may not legally exceed appropriations, is at the department level.
- Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 2 - BUDGETARY INFORMATION, COMPLIANCE AND DEFICIT FUND EQUITY *(Continued)***

**Budgetary Information *(Continued)***

As described above, accounting principles applied for purposes of developing data on a budgetary basis differ from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP basis"). A reconciliation of General Fund amounts presented on the budgetary basis to amounts presented on the GAAP basis is as follows for the year ended June 30, 2017:

	<b>Total Revenues</b>	<b>Total Expenditures</b>	<b>Other Financing Sources (Uses), Net</b>	<b>Net Change in Fund Balance</b>
Budgetary basis	\$ 90,295,874	\$ 88,453,477	\$ (2,474,223)	\$ (631,826)
"On-behalf" payments - State Teachers Retirement Fund	6,030,310	6,030,310	-	-
Encumbrances outstanding as of June 30, 2017	-	(2,879,676)	-	2,879,676
GAAP basis	<u>\$ 96,326,184</u>	<u>\$ 91,604,111</u>	<u>\$ (2,474,223)</u>	<u>\$ 2,247,850</u>

**Donor-Restricted Endowments**

The Town has received certain endowments for perpetual care of the cemetery maintenance. The amounts are reflected in net position as restricted for endowments. Investment income, including appreciation of \$169,358 for the Cemetery Fund is approved for expenditure by the Cemetery Committee.

**Deficit Fund Balances**

The following funds have deficit equity balances as of June 30, 2017, which do not constitute a violation of statutory provisions:

<b>Fund</b>	<b>Amount</b>
Workers' Compensation Fund	\$ (1,750,082)
Senior Center Acquisition and Renovations Fund	(1,211,111)
Public Safety Complex Grant-In-Aid Fund	(780,500)
Cafeteria Fund	(42,498)
West Main Street Bridge Renovations Fund	(7,460)

The deficit in the Cafeteria Fund will be funded by future increases in food sale prices, other revenue and reducing operating costs. The deficit in the Public Safety Complex Grant-in-Aid Fund will be eliminated through future charges for services. The deficit in the West Main Street Bridge Reconstruction Fund will be funded with available current resources from other funds. The deficit in the Senior Center Acquisition and Renovations Fund will be funded by the issuance of general obligation bonds. The deficit in the Workers' Compensation Fund will be eliminated by future charges to other funds.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 2 - BUDGETARY INFORMATION, COMPLIANCE AND DEFICIT FUND EQUITY *(Continued)***

**Expenditures which exceed appropriations**

The legal level of control at which expenditures may not legally exceed appropriations is at the department level. During the year ended June 30, 2017, expenditures exceeded appropriations in the following amounts.

<u>Department</u>	<u>Amount</u>
Education	\$ 128

**Capital Project Authorizations**

The following is a summary of authorized capital projects:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended To Date</u>	<u>Remaining Authorization</u>
<b>General Government:</b>			
ADA Building and Grounds Improvements	\$ 64,519	\$ -	\$ 64,519
Town Hall Renovations	1,293,402	643,546	649,856
<b>Planning and Community Development:</b>			
Citizens Block Building Renovations	749,098	442,098	307,000
<b>Public Safety:</b>			
Animal Control Shelter Renovations	123,100	104,633	18,467
Fox Hill Tower Communication Center Renovations	225,000	1,250	223,750
Firehouse Building Renovations	91,018	47,736	43,282
Police Station Parking Lot Paving	99,083	99,083	-
Streetlight Acquisition	912,462	850,051	62,411
Prospect Street Firehouse Roof Replacement	50,000	-	50,000
<b>Maintenance and Development:</b>			
Road Reconstruction	30,107,238	16,102,821	14,004,417
Storm Drainage	66,000	-	66,000
Bridges	3,323,200	106,495	3,216,705
Sidewalk Reconstruction	370,000	23,950	346,050
Land Improvements	84,367	46,566	37,801
Waste Treatment Plant Facilities Studies	882,020	803,999	78,021
<b>Parks and Recreation:</b>			
Valley Falls Park Dam Design and Reconstruction	844,500	34,558	809,942
Walkers Reservoir Dam Design and Reconstruction	115,000	-	115,000
Fox Hill Tower Renovations	16,000	15,348	652
Camp Newhoca / Lodge Roof Replacements	21,247	21,246	1
Valley Falls Barn Improvements	25,000	-	25,000
Fitness Trail	45,000	40,572	4,428

*Continued*

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 2 - BUDGETARY INFORMATION, COMPLIANCE AND DEFICIT FUND EQUITY *(Continued)***

**Capital Project Authorizations *(Continued)***

<u>Project</u>	<u>Project Authorization</u>	<u>Expended To Date</u>	<u>Remaining Authorization</u>
<b>Human Services:</b>			
Senior Center Parking Lot Improvements	\$ 139,975	\$ -	\$ 139,975
Senior Center Acquisition and Renovations	3,245,000	1,211,111	2,033,889
<b>Education:</b>			
School Security Enhancements	651,694	651,391	303
Safe Routes to Schools	541,470	-	541,470
VCMS Parking Lot Paving *	332,000	320,661	11,339
School Roof Replacements	3,761,100	3,256,326	504,774
RHS Athletic Area Ventilation Improvements	15,000	15,000	-
RHS Remediation	20,000	6,773	13,227
Alliance 20 School Improvements and Equipment	1,225,000	1,200,438	24,562
Alliance 30 School Improvements and Equipment	580,000	6,438	573,562
RHS Erosion and Sediment Control Improvements	100,000	400	99,600
Total	<u>\$ 50,118,493</u>	<u>\$ 26,052,490</u>	<u>\$ 24,066,003</u>
			<i>Concluded</i>

\* Project completed during the fiscal year.

**NOTE 3 - CASH DEPOSITS AND INVESTMENTS**

**Cash Deposits**

A reconciliation of the Town's cash deposits as of June 30, 2017 is as follows:

**Government-wide statement of net position:**

Cash and cash equivalents \$ 37,246,076

**Statement of fiduciary net position:**

Cash and cash equivalents 1,978,668  
39,224,744

Add: certificates of deposit presented as investments 125,660

Less: investments presented as cash equivalents (10,642,131)

\$ 28,708,273

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 3 - CASH DEPOSITS AND INVESTMENTS *(Continued)***

**Cash Deposits *(Continued)***

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the Town will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$31,006,460 of the Town's bank balance of \$31,518,095 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 27,905,814
Uninsured and collateralized with securities held by the pledging bank's trust department or agent but not in the Town's name	<u>3,100,646</u>
	<u><u>\$ 31,006,460</u></u>

All of the Town's deposits were in qualified public institutions as defined by Connecticut state statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio. The amount of public deposits is determined based on either the public deposits reported on the most recent quarterly call report, or the average of the public deposits reported on the four most recent quarterly call reports, whichever is greater. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

**Investments**

A reconciliation of the Town's investments as of June 30, 2017 is as follows:

<b>Government-wide statement of net position:</b>	
Investments	\$ 1,731,413
<b>Statement of fiduciary net position:</b>	
Investments	<u>62,312,471</u>
	64,043,884
Less: certificates of deposit presented as investments	(125,660)
Add: investments presented as cash equivalents	<u>10,642,131</u>
	<u><u>\$ 74,560,355</u></u>



**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 3 - CASH DEPOSITS AND INVESTMENTS *(Continued)***

**Investments *(Continued)***

As of June 30, 2017, the Town's investments consist of the following:

Investment Type	Valuation Basis	Value	Investment Maturities (In Years)		
			Less Than 1	1 to 5	6 to 10
Debt Securities:					
Governmental Activities:					
Short-Term Investment Fund	Net asset value	\$ 6,381,634	\$ 6,381,634	\$ -	\$ -
Money market mutual funds	Net asset value	33,965	33,965	-	-
Corporate bonds	Fair value	86,643	-	14,653	71,990
U.S. Treasury securities	Fair value	174,955	-	73,427	101,528
Business-Type Activities:					
Short-Term Investment Fund	Fair value	3,333,410	3,333,410	-	-
Fiduciary Funds:					
Short-Term Investment Fund	Net asset value	893,686	893,686	-	-
Money market mutual funds	Net asset value	33,401	33,401	-	-
Corporate bonds	Fair value	102,300	-	29,351	72,949
U.S. Treasury securities	Fair value	106,810	-	63,260	43,550
		11,146,804	\$ 10,676,096	\$ 180,691	\$ 290,017
Other Investments:					
Governmental Activities:					
Common stock	Fair value	623,044			
Mutual funds	Fair value	784,076			
Fiduciary Funds:					
Common stock	Fair value	727,950			
Mutual funds	Fair value	728,757			
Variable insurance contracts	Contract value	42,716,004			
Fixed insurance contracts	Contract value	17,833,720			
		\$ 74,560,355			

**Interest Rate Risk**

The Town does not have a formal investment policy that limits Town investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, its practice is to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

**Credit Risk**

The Town has no investment policy that would further limit its investment choices beyond those limited by Connecticut state statutes. Connecticut state statutes permit the Town to invest in obligations of the United States, including its instrumentalities and agencies; in obligations of any state or of any political subdivision, authority or agency thereof, provided 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.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 3 - CASH DEPOSITS AND INVESTMENTS *(Continued)***

**Investments *(Continued)***

The Town's investments in debt securities, whose ratings are required to be disclosed, were rated by Standard & Poor's as follows:

Investment Type	AAA	AA	A	BBB	Unrated
<b>Debt Securities:</b>					
<b><i>Governmental Activities:</i></b>					
Short-Term Investment Fund	\$ 6,381,634	\$ -	\$ -	\$ -	\$ -
Money market mutual funds	-	-	-	-	33,965
Corporate bonds	14,828	14,653	28,668	28,494	-
<b><i>Business-Type Activities:</i></b>					
Short-Term Investment Fund	3,333,410	-	-	-	-
<b><i>Fiduciary Funds:</i></b>					
Short-Term Investment Fund	893,686	-	-	-	-
Money market mutual funds	-	-	-	-	33,401
Corporate bonds	14,708	14,484	43,955	29,153	-

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's investments in external investment pools and mutual funds are not evidenced by securities and are therefore not exposed to custodial credit risk. The Town's other investments are held in book entry form in the name of the Town and are therefore also not exposed to custodial credit risk.

**Concentrations of Credit Risk**

The Town's policy states credit risk will be minimized by limiting investments to the safest types of securities and pre-qualifying the financial institution with which the Town will do business. The Town is only allowed to invest in those types of investments that are covered by the state of Connecticut Municipal Investment Act. The investment portfolio must be diversified so that potential losses on individual securities will be minimized. As of June 30, 2017, more than 10% of the Town's investments within its governmental activities, business-type activities and fiduciary funds were invested in the following:

Issuer	Investment	Value	% of Investments
<b><i>Governmental Activities:</i></b>			
State of CT Treasurer	Short-Term Investment Fund	\$ 6,381,634	78.9%
<b><i>Business-type Activities:</i></b>			
State of CT Treasurer	Short-Term Investment Fund	3,333,410	100.0%
<b><i>Fiduciary Funds:</i></b>			
Prudential Retirement Insurance and Annuity Company	Variable Separate Accounts	42,716,004	67.7%
Prudential Retirement Insurance and Annuity Company	Guaranteed Deposit Accounts	17,833,720	28.2%

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 4 - FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as of the measurement date. Authoritative guidance establishes a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (also referred to as observable inputs). The Town classifies its assets and liabilities measured at fair value into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which market inputs are observable, either directly or indirectly, and Level 3 (securities valued based on unobservable inputs). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Town's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2017, by level within the fair value hierarchy are presented in the table below.

Financial Assets Measured at Fair Value	Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b><i>Governmental Activities:</i></b>			
Common stock	\$ 623,044	\$ -	\$ -
Mutual funds	784,076	-	-
Corporate bonds	-	86,643	-
U.S. Treasury securities	174,955	-	-
<b><i>Fiduciary Funds:</i></b>			
Common stock	727,950	-	-
Mutual funds	728,757	-	-
Corporate bonds	-	102,300	-
U.S. Treasury securities	106,810	-	-
	<u>\$ 3,145,592</u>	<u>\$ 188,943</u>	<u>\$ -</u>

**TOWN OF VERNON, CONNECTICUT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for governmental activities for the year ended June 30, 2017 consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 8,666,728	\$ 1,200,000	\$ -	\$ 9,866,728
Construction in progress	14,550,371	11,182,264	(6,925,106)	18,807,529
Total capital assets, not being depreciated	<u>23,217,099</u>	<u>12,382,264</u>	<u>(6,925,106)</u>	<u>28,674,257</u>
Capital assets, being depreciated:				
Land improvements	6,552,311	944,292	-	7,496,603
Buildings and improvements	111,743,566	4,328,005	-	116,071,571
Machinery and equipment	44,409,530	1,569,922	(58,452)	45,921,000
Intangibles - computer software	387,279	-	-	387,279
Infrastructure	79,801,736	98,381	-	79,900,117
Total capital assets, being depreciated	<u>242,894,422</u>	<u>6,940,600</u>	<u>(58,452)</u>	<u>249,776,570</u>
Less accumulated depreciation and amortization for:				
Land improvements	4,613,517	217,879	-	4,831,396
Buildings and improvements	34,508,195	2,293,179	-	36,801,374
Machinery and equipment	34,861,785	1,633,650	(58,452)	36,436,983
Intangibles - computer software	387,279	-	-	387,279
Infrastructure	31,299,156	1,803,109	-	33,102,265
Total accumulated depreciation and amortization	<u>105,669,932</u>	<u>5,947,817</u>	<u>(58,452)</u>	<u>111,559,297</u>
Total capital assets, being depreciated, net	<u>137,224,490</u>	<u>992,783</u>	<u>-</u>	<u>138,217,273</u>
Governmental activities capital assets, net	<u>\$ 160,441,589</u>	<u>\$ 13,375,047</u>	<u>\$ (6,925,106)</u>	<u>\$ 166,891,530</u>

Depreciation and amortization expense was charged to functions of the Town as follows:

<b>Governmental Activities:</b>	
General government	\$ 222,477
Community development	7,202
Public safety	853,959
Maintenance and development	2,406,557
Human services	28,417
Parks, recreation and culture	293,666
Education	2,135,539
Total depreciation and amortization expense - governmental activities	<u>\$ 5,947,817</u>

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for business-type activities for the year ended June 30, 2017 consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 1,267,840	\$ -	\$ -	\$ 1,267,840
Total capital assets, not being depreciated	<u>1,267,840</u>	<u>-</u>	<u>-</u>	<u>1,267,840</u>
Capital assets, being depreciated:				
Buildings and system	6,464,561	43,257	-	6,507,818
Improvements other than building	217,871	-	-	217,871
Machinery and equipment	8,807,332	276,319	-	9,083,651
Intangibles - computer software	85,800	-	-	85,800
Infrastructure	11,342,466	51,086	-	11,393,552
Total capital assets, being depreciated	<u>26,918,030</u>	<u>370,662</u>	<u>-</u>	<u>27,288,692</u>
Less accumulated depreciation and amortization for:				
Buildings and system	5,123,660	141,172	-	5,264,832
Improvements other than building	191,614	3,541	-	195,155
Machinery and equipment	7,315,335	238,987	-	7,554,322
Intangibles - computer software	56,540	10,860	-	67,400
Infrastructure	5,694,068	213,752	-	5,907,820
Total accumulated depreciation and amortization	<u>18,381,217</u>	<u>608,312</u>	<u>-</u>	<u>18,989,529</u>
Total capital assets, being depreciated, net	<u>8,536,813</u>	<u>(237,650)</u>	<u>-</u>	<u>8,299,163</u>
Business-type activities capital assets, net	<u>\$ 9,804,653</u>	<u>\$ (237,650)</u>	<u>\$ -</u>	<u>\$ 9,567,003</u>

Depreciation and amortization expense was charged to the enterprise funds of the Town as follows:

<b>Business-Type Activities:</b>	
Sewer Use	\$ 565,364
Rental of building	<u>42,948</u>
Total depreciation and amortization expense - business-type activities	<u>\$ 608,312</u>

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivable and payable balances at June 30, 2017 are as follows:

Receivable Fund	Payable Fund	Amount
<b>Governmental Funds:</b>		
General Fund	Sewer User Fund	\$ 305,875
	Center 375	14,282
	Internal Service Funds	810,941
	Road Improvements Bond Fund	470,776
	Senior Center Acquisitions and Renovations Fund	1,209,917
	School Roof Replacements and Renovations Fund	247,204
	Other Governmental Funds	2,206,474
	Fiduciary Funds	43,949
		<u>5,309,418</u>
Other Governmental Funds	General Fund	767,767
	Other Governmental Funds	369,946
		<u>1,137,713</u>
		<u>\$ 6,447,131</u>

Except as discussed below, the above balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**NOTE 7 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2017 consisted of the following:

Transfers In	Transfers Out	Amount
<b>Governmental Funds:</b>		
General Fund	Other Governmental Funds	\$ 73,286
Other Governmental Funds	General Fund	2,547,509
	Other Governmental Funds	510,997
		<u>3,058,506</u>
		<u>\$ 3,131,792</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**TOWN OF VERNON, CONNECTICUT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 8 - BOND ANTICIPATION NOTES PAYABLE**

The following is a summary of terms and changes in bond anticipation notes payable for the year ended June 30, 2017:

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities</b>						
Bond anticipation notes payable	1.0%	August 2016	\$ 6,350,000	\$ -	\$ (6,350,000)	\$ -
Bond anticipation notes payable	1.0%	August 2017	-	2,200,000	-	2,200,000
			<u>\$ -</u>	<u>\$ 2,200,000</u>	<u>\$ -</u>	<u>\$ 2,200,000</u>

In August 2016, the Town retired \$6,350,000 in previously outstanding bond anticipation notes through proceeds from the issuance of general obligation bonds (see Note 9). In addition, the Town issued \$2,200,000 in bond anticipation notes that matured in August 2017. The \$2,200,000 in bond anticipation notes were subsequently retired through proceeds from the issuance of general obligation bonds (see Note 9). Accordingly, this amount has been recognized as an other financing source in the governmental funds statement of revenues, expenditures and changes in fund balances. The purpose of the notes were to provide short-term financing to fund authorized capital projects.

**NOTE 9 - LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental Activities</b>					
<b><i>Bonds and notes payable:</i></b>					
General obligation bonds	\$ 37,760,000	\$ 6,350,000	\$ (3,150,000)	\$ 40,960,000	\$ 3,715,000
Unamortized premiums	-	228,933	-	228,933	-
Total bonds payable	37,760,000	6,578,933	(3,150,000)	41,188,933	3,715,000
Note payable	826,194	-	(826,194)	-	-
Total bonds and note payable	38,586,194	6,578,933	(3,976,194)	41,188,933	3,715,000
<b><i>Other liabilities:</i></b>					
<b>Capital lease obligations:</b>					
Fire trucks	907,915	-	(145,087)	762,828	147,525
Asphalt box reclaimers	231,833	-	(76,145)	155,688	77,272
Total capital lease obligations	1,139,748	-	(221,232)	918,516	224,797
<b>Compensated absences:</b>					
Town	2,750,284	548,255	(360,901)	2,937,638	712,281
Board of Education ("BOE")	1,065,773	-	(267,816)	797,957	282,631
Internal Service Fund	64,197	618	(658)	64,157	43,886
Total compensated absences	3,880,254	548,873	(629,375)	3,799,752	1,038,798
<b>Termination benefits:</b>					
BOE estimated retirement pay	1,825,364	145,837	(220,019)	1,751,182	196,600
BOE early retirement pay	487,470	218,492	(256,548)	449,414	170,000
BOE healthcare termination	5,323	-	(2,712)	2,611	2,611
Total termination benefits	2,318,157	364,329	(479,279)	2,203,207	369,211
<b>Risk management:</b>					
Claims payable	1,316,647	2,147,903	(783,711)	2,680,839	775,364
Heart and hypertension	324,247	111,824	(13,223)	422,848	10,200
Total risk management	1,640,894	2,259,727	(796,934)	3,103,687	785,564
Net pension liability	54,752,836	12,156,940	(9,018,731)	57,891,045	-
Net OPEB obligation	2,393,870	712,140	(640,185)	2,465,825	-
Total long-term liabilities	<u>\$ 104,711,953</u>	<u>\$ 22,620,942</u>	<u>\$ (15,761,930)</u>	<u>\$ 111,570,965</u>	<u>\$ 6,133,370</u>

**TOWN OF VERNON, CONNECTICUT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 9 - LONG-TERM LIABILITIES (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Business-type Activities</b>					
<i>Other liabilities:</i>					
Compensated absences	\$ 349,430	\$ 40,956	\$ -	\$ 390,386	\$ 111,001
Net pension liability	3,209,631	396,703	(208,371)	3,397,963	-
Net OPEB liability	47,121	20,576	(20,000)	47,697	-
	<u>\$ 3,606,182</u>	<u>\$ 458,235</u>	<u>\$ (228,371)</u>	<u>\$ 3,836,046</u>	<u>\$ 111,001</u>

Long-term liabilities above typically have been liquidated by the General Fund for governmental activities and the Sewer and Water Fund for business-type activities.

**General Obligation Bonds**

A summary of general obligation bonds outstanding at June 30, 2017 is as follows:

Purpose of Bonds	Fiscal Date of Issue	Original Issue	Interest Rates	Fiscal Maturity Date	Amount Outstanding
<b>Governmental Activities:</b>					
Bonds Payable:					
General Obligation Bonds	2011	\$ 3,755,000	2.00% - 3.75%	2026	\$ 2,295,000
General Obligation Refunding Bonds	2012	33,892,000	2.00% - 4.50%	2028	26,072,000
General Obligation Refunding Bonds	2012	793,000	2.00% - 4.50%	2028	523,000
General Obligation Bonds	2016	6,130,000	2.00% - 3.13%	3031	5,720,000
General Obligation Bonds	2017	6,350,000	2.00% - 4.00%	3032	6,350,000
					<u>\$ 40,960,000</u>

Annual debt service requirements to maturity on general obligation bonds and the notes payable are as follows as of June 30, 2017:

Year ending June 30:	Governmental Activities		
	Bonds Payable		
	Principal	Interest	Total
2018	\$ 3,715,000	\$ 1,326,083	\$ 5,041,083
2019	3,875,000	1,219,684	5,094,684
2020	3,865,000	1,093,833	4,958,833
2021	3,875,000	947,095	4,822,095
2022	3,880,000	798,619	4,678,619
2023-2027	16,755,000	1,956,580	18,711,580
2028-2032	4,995,000	229,351	5,224,351
	<u>\$ 40,960,000</u>	<u>\$ 7,571,245</u>	<u>\$ 48,531,245</u>



**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 9 - LONG-TERM LIABILITIES *(Continued)***

**General Obligation Bonds *(Continued)***

**Legal Debt Limit**

Connecticut General Statutes Section 7-374(b) provides that debt of the Town shall not exceed seven times base receipts, as defined in the Statute. Further, the Statute limits the amount of debt that may be authorized by the Town for general purposes, schools, sewers, urban renewal and pension deficit. The Town did not exceed any of the statutory debt limitations at June 30, 2017.

**Advanced Debt Refunding**

In prior years, the Town defeased general obligation bonds by creating separate irrevocable trusts. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trusts. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, is no longer counted in computing the Town's debt for statutory debt limit purposes. As year end, the amount of defeased debt outstanding amounted to \$20,500,000 (net of \$7,500,000 called debt).

**Authorized/Unissued Debt**

The amount of authorized, unissued bonds at June 30, 2017 totaled to \$16,766,690 for general purposes, \$5,051,504 for schools and \$57,946 for sewers as disclosed below.

At a referendum held on November 4, 2004, Public Bond Improvements of \$21,609,000 were authorized to fund \$19,103,000 of roads, sidewalk and bridge reconstruction projects, \$1,295,000 of waste treatment plant improvements and \$1,211,000 of sewer system improvements. Of the \$21,609,000 authorization, the remaining unissued Public Bond Improvements authorization as of June 30, 2017 is \$741,690 for general purposes and \$57,946 for sewers.

At a referendum held on March 29, 2005, School Bond Improvements of \$68,322,000 were authorized to fund \$34,657,000 of additions and renovations to Rockville High School, \$11,519,000 of renovations to Vernon Center Middle School and \$22,146,000 of additions and renovations to the Town's five elementary schools. Of the \$68,322,000 authorization, the remaining unissued School Bond Improvements authorization as of June 30, 2017 is \$5,051,504 for schools.

On January 28, 2014, a referendum was held that appropriated \$27,637,000 for Road Reconstruction and Improvements. Of the \$27,637,000 authorization, the remaining unissued Road Reconstruction and Improvements authorization as of June 30, 2017 is \$12,780,000 for general purposes.

On February 21, 2017, a referendum was held that appropriated \$3,245,000 for the acquisition of property known as 135 Bolton Road and for design, reconstruction and improvements to such property for use as a Senior Center. No bonds have been issued against this appropriation and, therefore, the remaining unissued Public Bond Improvements authorization as of June 30, 2017 is \$3,245,000 for general purposes.

**Overlapping Debt**

A Bolton Lakes Regional Water Pollution Control Authority (BLRWPCA) sewer project was completed in 2016 with approximately \$6,291,000, or 29% of project costs attributable to the Town of Vernon. This proportionate cost was reduced by BLRWPCA grants and benefit assessments to \$2,701,277. In June 2016, the BLRWPCA issued a State of Connecticut Clean Water Fund loan obligation to finance project costs, allocating \$2,701,277 to Vernon, considered overlapping debt. At June 30, 2017, the overlapping debt balance is \$2,431,149.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 9 - LONG-TERM LIABILITIES *(Continued)***

**Capital Leases**

A summary of assets acquired through capital leases is as follows as of June 30, 2017:

	<b>Governmental Activities</b>
Equipment	\$ 1,972,354
Less: accumulated amortization	1,067,442
	<u>\$ 904,912</u>

Amortization expense relative to leased property under capital leases totaled \$230,914 for the year ended June 30, 2017 and is included in depreciation and amortization expense disclosed in Note 5.

Future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2017 is as follows:

	<b>Governmental Activities</b>
Year Ending June 30:	
2018	\$ 239,917
2019	239,917
2020	160,340
2021	160,340
2022	160,340
Total minimum lease payments	960,854
Less: amount representing interest	42,338
Present value of minimum lease payments	<u>\$ 918,516</u>

**Heart and Hypertension Claims**

Heart and hypertension outstanding claims, including an estimated \$164,280 of incurred, but not reported claims, totaled \$422,848 as of June 30, 2017. There are three heart and hypertension claims outstanding at year-end. Medical claims of \$13,223 of were made during the year ended June 30, 2017.

**Termination Benefits**

A termination benefit is an incentive for the early termination of services and includes cash payments or healthcare provided by the Town that would otherwise not be provided. Expenditures are recognized in governmental funds when due and payable and recognized as an expense in government-wide financial statements when the employee accepts the early retirement offer.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 9 - LONG-TERM LIABILITIES *(Continued)***

**Termination Benefits *(Continued)***

**School Administrators**

As part of the early retirement incentive plan for school administrators, the Town offers to pay a percentage of the early retiree's health insurance premium and a cash payout. Such benefit provisions, included in the school administrators' bargaining agreement with the Vernon Board of Education, require Town Council approval.

Currently, there is 1 former school administrator receiving this benefit. The cost to the Town, net of participant contributions, for the fiscal year is \$2,323. A liability of \$2,611, presented in government-wide financial statements, for this benefit is calculated based upon the discounted present value of future unadjusted premiums and includes a healthcare cost trend of 8.96% and an investment yield of 1.00%.

In addition to healthcare termination benefits, cash payments are available to school administrator early retirees. Also, there are 3 former school administrators receiving this benefit. The cost to the Town for the fiscal year is \$46,548. An early retirement liability of \$135,975, presented in government-wide financial statements, for this benefit is calculated based upon the discounted present value of expected future benefits and an .44% yield of investments that are expected to be used to finance such benefit payments.

**School Teachers**

The Town also offers an early retirement incentive plan for certified teachers in the form of cash payments. Benefit provisions, included in the school teachers' bargaining agreement with the Vernon Board of Education, require Town Council approval.

There are 42 former teachers receiving this benefit. The cost to the Town for the fiscal year is \$210,000. An early retirement liability of \$313,440, presented in government-wide financial statements, for this benefit is calculated based upon the discounted present value of expected future benefits and an 1.00% yield of investments that are expected to be used to finance such benefit payments.

**Estimated Retirement Pay**

Upon retirement, members of the School Administrators, Teachers, Librarians, Nurses and Supervisors bargaining units are eligible to receive up to 3 days of compensation for each year of service. Based upon historical evidence, approximately 75% of members of these bargaining units will become eligible for retirement pay. It is estimated that retirement pay liability at year end totaled \$1,751,182. Paid benefits for the current fiscal year were \$220,019.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**Pension Trust Fund**

**Plan Description**

***Plan Administration***

The Town administers three single employer contributory defined benefit plans, the Town of Vernon Pension Plan (Town), the Town of Vernon Police Pension Plan (Police) and the Vernon Length of Service Award Program (LOSAP). These plans substantially cover all full-time employees, except certified employees of the Board of Education who are covered by the State Teachers' Retirement System, and members of the Town's Volunteer Fire Department ("VFD") based upon certain criterion. Although members of the VFD are not Town employees, the Town has recognized the VFD's commitment to protecting the lives and property of Vernon's residents with the establishment of a retirement plan known as the Town of Vernon Length of Service Award Program (LOSAP). The LOSAP provides a financial reward as an incentive for recruiting and retaining fire department volunteers. Plan benefits are established by the Town and may be amended only by the Town Council. The plans are considered to be a part of the Town's financial reporting entity and are included in the Town's financial statements as a pension trust fund. The plans do not issue stand-alone financial statements. The Town may terminate the LOSAP at any time.

Management of each plan is vested in the Board of Trustees (Pension Board), which consists of 4 individuals appointed by the Mayor, including a staff liaison.

***Plan Membership***

As of December 31, 2016, plan membership consisted of the following:

	<u><b>Town</b></u>	<u><b>Police</b></u>	<u><b>LOSAP</b></u>
Retirees and beneficiaries receiving benefits	215	54	17
Terminated plan members entitled to but not yet receiving benefits	232	2	43
Active plan members	348	50	113
	<u>795</u>	<u>106</u>	<u>173</u>

***Benefits Provided***

Plan benefits are established by the Town and may be amended only by the Town Council.

**Police Employees**

The plan provides retirement and death benefits. Police officers receive 2.5% of their monthly average earnings times credited service up to a maximum of 28 years capped at 70%.

The normal retirement date for police officers hired before July 1, 2012 is attained at the completion of 20 years of service. The normal retirement date for police officers hired after July 1, 2012 is 25 years of service and age 50.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)***

**Pension Trust Fund *(Continued)***

**Plan Description *(Continued)***

***Benefits Provided (Continued)***

**Town Employees**

The normal retirement date for members of the Public Works (P.W.) and Parks and Water Pollution Control unions is attained at age 55 and 5 years of service or after 25 years of service. The normal retirement date for P.W. Supervisors is Rule 85 with a minimum retirement age of 58. The normal retirement date for members of the Police Civilian Support union is attained at age 55 and 10 years of service. The normal retirement date for non-bargaining Town Hall employees, Education Librarian and Education Secretarial and Maintenance employees is age 62 and 10 years of service or age 60 and 32 years of service. Professionals, Waste Treatment Plant (WTP) Supervisors, P.W. Clerical, Education Supervisors and Education School Nurse union employees attain normal retirement age at age 62 and 10 years of service. The normal retirement date for all other participants is attained at age 65 and 10 years of service.

Non-bargaining Town employees receive 2.2% of their monthly average earnings times credited service with a maximum of 32 years capped at 70%. Professional, P.W. Supervisors and Water Pollution Control Supervisors receive 2.2% of their monthly average earnings times credited service with a maximum of 35 years capped at 70%. Police civilian employees receive 2% of their monthly average earnings times credited service, with a maximum of 25 years capped at 50%. P.W. and Parks and Water Pollution Control receive 2.0% of their monthly average earnings times credited service with a maximum of 40 years capped at 70%. P.W. clerical and Education School Nurses receive 2.0% of their monthly average earnings times credited service, with a maximum of 30 years. Education Supervisors, Education Library and Education Secretarial and Maintenance receive 2.0% of their monthly average earnings times credited service with a maximum of 35 years capped at 70%. Education Cafeteria and Education Paraprofessionals receive 1.5% of their monthly average earnings times credited service for a maximum of 20 years.

**LOSAP**

The normal retirement date for volunteer firefighters is attained at age 65 with 10 years of credited service. A year of credited service is achieved based upon a point system established by the Fire Chief. A volunteer shall not be credited with more than 30 years of service. The benefit at normal retirement is equal to \$8 per month for each year of credited service to a maximum of \$240 per month. Effective July 1, 2017, the maximum years of credited service will increase to 35 years. Also effective July 1, 2017, the normal retirement benefit will be as follows: Years of service under 20 years, the benefit will be \$8 per month for each year of service; years of service from 20 to 29 years, the benefit will be \$10 per month for each year of service; years of service from 30 to 35 years, the benefit will be \$12 per month for each year of service.

**Early Retirement**

Participants of the Town and Police Pension Plans may, upon 10 years of service, elect early retirement on a date which shall be within 10 years of normal retirement age. For the P.W. and Parks and the Water Pollution Control unions, this means a minimum age 55 or 25 years of credited service. The early retirement benefit is determined as for normal retirement, based on earnings and service to date of early retirement. Members of the Police Civilian Support union are ineligible for this benefit.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)***

**Pension Trust Fund *(Continued)***

**Plan Description *(Continued)***

***Benefits Provided (Continued)***

**Death Benefits**

Death benefits are payable to beneficiaries as determined by death before retirement or death after retirement provisions. For Police and Town participants, upon the death of a non-vested participant, there shall be payable to the beneficiary, a death benefit equal to the participant's contributions plus interest. A preretirement spousal death benefit is payable to vested participants who have been married five full years prior to death. The preretirement spousal death benefit is determined as for early retirement, based on earnings and credited service to the date of participant death. For volunteer firefighter department members, a preretirement spousal death benefit is payable to a member's surviving spouse in case of Death in the Line of Duty and is equal to the benefit the member would have received if the member had reached his normal retirement date and had elected to receive a 50% Joint and Survivor Annuity.

**Disability Benefits**

In the event of participant disability in the line of duty, volunteer fire department members may elect payment of an actuarial reduced retirement benefit commencing any time prior to the date of normal retirement.

***Contributions***

Contributions rates are established by the Town and may be amended only with Town Council approval. The Town is required to contribute the amount determined by the actuary, considering the member contributions.

*Town of Vernon Police Officers' Pension Plan* - Effective July 1, 2012, Police officers hired before July 1, 2012 are required to contribute 7.5% of their W-2 earnings to the plan and police officers hired after July 1, 2012 are required to contribute 8.5% of such earnings. Such contributions are credited with interest at a rate of 5.5% per annum. Effective July 1, 2017, new hires will be required to contribute 9.5% of earnings.

For the year ended June 30, 2017, the average active member contribution rate was 8.50% of annual base compensation, and the Town's average contribution rate was 35.57% of annual payroll.

*Town of Vernon Pension Plan* - Non-bargaining Town Hall employees, P.W. Supervisors, School Librarians, School Supervisors, and Education Custodial, Secretarial and Maintenance and the Water Pollution Control nonunion members are required to contribute 7.0% of their earnings (pre-tax). The Professional, P.W. and Parks union, Public Works Clerical, and the Water Pollution Control Supervisors are required to contribute 7.5% of their earnings (pre-tax). Police Civilian Support union members are required to contribute 7.9% of their earnings (pre-tax). Members of the Education Nurses unions are required to contribute 6.5% of earnings (pre-tax). All other participants are required to contribute 4% of their earnings (post-tax). Such contributions are credited with interest at a rate of 6% per annum.

For the current fiscal year, the average active member contribution rate was 6.98% of annual base compensation, and the Town's average contribution rate was 16.39% of annual payroll.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**Pension Trust Fund (Continued)**

**Plan Description (Continued)**

**Contributions (Continued)**

*Town of Vernon LOSAP Pension Plan* - Members of the volunteer fire department are not required to contribute to the plan.

**Summary of Significant Accounting Policies**

The Town Plan is accounted for using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Town Plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Town Plan.

*Investments* - Investments are generally reported at fair value, except for investments in external investment pools and insurance contracts. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investment income is recognized when earned and gains and losses on sales or exchanges are recognized on the transaction date. Investments in external investment pools, which are permitted to measure their investment holdings at amortized costs, are measured by the Plan at the net asset value per share as determined by the pools. Investments in pooled separate accounts consist of insurance contracts. Investments in these types of contracts are measured by the Town at contract value, which approximate fair value.

*Investment policy* - The Town and Police pension plans' policy in regard to the allocation of invested assets is established and may be amended by the Pension Board by a majority vote of its members. The allocation for the LOSAP plan is developed by Town management and the investment advisor. It is the policy of the Town's Pension Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

*Concentrations* - There were no investments in any one organization that represent 5% or more of the pension plans' net position.

*Rate of return* - For the year ended December 31, 2016, the annual money-weighted rate of return on the pension plan investments was as follows:

<b>Plan</b>	<b>Money-Weighted Rate of Return</b>
Police Plan	6.80%
Town Plan	6.20%
LOSAP Plan	8.10%

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**TOWN OF VERNON, CONNECTICUT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**Pension Trust Fund (Continued)**

**Plan Statements**

The following presents the statement of fiduciary net position and the statement of changes in fiduciary net position for each of the Town's plans as of and for the year ended December 31, 2016:

	<b>Town Plan</b>	<b>Police Plan</b>	<b>Volunteer Firefighters LOSAP</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 27,610	\$ 6,543	\$ 33,401	\$ 67,554
Investments	40,414,692	20,135,031	1,541,453	62,091,176
Total assets	40,442,302	20,141,574	1,574,854	62,158,730
<b>LIABILITIES</b>				
Payables	12,062	8,588	-	20,650
Total liabilities	12,062	8,588	-	20,650
<b>NET POSITION</b>				
Held in trust for pension benefits	40,430,240	20,132,986	1,574,854	62,138,080
	<u>\$ 40,430,240</u>	<u>\$ 20,132,986</u>	<u>\$ 1,574,854</u>	<u>\$ 62,138,080</u>
<b>ADDITIONS</b>				
Contributions:				
Employer	\$ 2,575,719	\$ 1,730,812	\$ 52,290	\$ 4,358,821
Plan members	930,892	364,862	-	1,295,754
Total contributions	3,506,611	2,095,674	52,290	5,654,575
Investment earnings:				
Net investment income	2,622,187	1,439,252	135,693	4,197,132
Less: value of investments	(165,149)	(86,375)	-	(251,524)
Total investment earnings	2,457,038	1,352,877	135,693	3,945,608
Total additions	5,963,649	3,448,551	187,983	9,600,183
<b>DEDUCTIONS</b>				
Benefit payments	3,751,057	2,508,006	36,537	6,295,600
Refund of contributions	30,299	-	-	30,299
Administrative expenses	114,432	70,666	18,545	203,643
Total deductions	3,895,788	2,578,672	55,082	6,529,542
Change in net position	2,067,861	869,879	132,901	3,070,641
Net position - beginning	38,362,379	19,263,107	1,441,953	59,067,439
Net position - ending	<u>\$ 40,430,240</u>	<u>\$ 20,132,986</u>	<u>\$ 1,574,854</u>	<u>\$ 62,138,080</u>



**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**Pension Trust Fund (Continued)**

**Net Pension Liability**

The components of the net pension liability for each of the Town's plans were as follows:

	<b>Town</b>	<b>Police</b>	<b>LOSAP</b>
Total pension liability	\$ 78,820,895	\$ 43,031,339	\$ 1,447,013
Plan fiduciary net position	40,430,240	20,132,986	1,574,854
Net pension liability (asset)	<u>\$ 38,390,655</u>	<u>\$ 22,898,353</u>	<u>\$ (127,841)</u>

Plan fiduciary net position as a percentage of the total pension liability	51.29%	46.79%	108.83%
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The Town's net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The changes in net pension liability for each of the Town's plans were as follows:

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
<b>Town Plan</b>			
Balance as of January 1, 2016	\$ 74,529,518	\$ 38,362,379	\$ 36,167,139
<b>Changes for the year:</b>			
Service cost	1,510,406	-	1,510,406
Interest	5,055,024	-	5,055,024
Differences between expected and actual experience	1,507,303	-	1,507,303
Change in assumption	-	-	-
Contributions - employer	-	2,575,719	(2,575,719)
Contributions - employee	-	930,892	(930,892)
Net investment income	-	2,457,038	(2,457,038)
Benefit payments, including refunds	(3,781,356)	(3,781,356)	-
Administrative expense	-	(114,432)	114,432
<b>Net changes</b>	<u>4,291,377</u>	<u>2,067,861</u>	<u>2,223,516</u>
Balance as of December 31, 2016	<u>\$ 78,820,895</u>	<u>\$ 40,430,240</u>	<u>\$ 38,390,655</u>

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**Pension Trust Fund (Continued)**

**Net Pension Liability (Continued)**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Police Plan</b>			
Balance as of January 1, 2016	\$ 41,058,435	\$ 19,263,107	\$ 21,795,328
<b>Changes for the year:</b>			
Service cost	812,060	-	812,060
Interest	2,790,349	-	2,790,349
Differences between expected and actual experience	878,501	-	878,501
Change in assumption	-	-	-
Contributions - employer	-	1,730,812	(1,730,812)
Contributions - employee	-	364,862	(364,862)
Net investment income	-	1,352,877	(1,352,877)
Benefit payments, including refunds	(2,508,006)	(2,508,006)	-
Administrative expense	-	(70,666)	70,666
<b>Net changes</b>	<u>1,972,904</u>	<u>869,879</u>	<u>1,103,025</u>
Balance as of December 31, 2016	<u>\$ 43,031,339</u>	<u>\$ 20,132,986</u>	<u>\$ 22,898,353</u>

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>LOSAP Plan</b>			
Balance as of January 1, 2016	\$ 1,397,364	\$ 1,441,953	\$ (44,589)
<b>Changes for the year:</b>			
Service cost	21,190	-	21,190
Interest	92,540	-	92,540
Differences between expected and actual experience	(27,545)	-	(27,545)
Change in assumption	-	-	-
Contributions - employer	-	52,289	(52,289)
Contributions - employee	-	-	-
Net investment income	-	135,693	(135,693)
Benefit payments, including refunds	(36,536)	(36,536)	-
Administrative expense	-	(18,545)	18,545
<b>Net changes</b>	<u>49,649</u>	<u>132,901</u>	<u>(83,252)</u>
Balance as of December 31, 2016	<u>\$ 1,447,013</u>	<u>\$ 1,574,854</u>	<u>\$ (127,841)</u>

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**Pension Trust Fund (Continued)**

**Net Pension Liability (Continued)**

*Actuarial assumptions* - The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

	<b>Town</b>	<b>Police</b>	<b>LOSAP</b>
Inflation	1.50%	1.50%	N/A
Salary increases, including inflation	3.00%	2.50%	N/A
Investment rate of return, including inflation	7.00%	7.00%	6.50%
Discount rate	7.00%	7.00%	6.50%

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in each plan's target asset allocation as of December 31, 2016 are summarized in the following table:

<b>Asset Class</b>	<b>Town Long-term Expected Real Rate of Return</b>	<b>Police Long-term Expected Real Rate of Return</b>	<b>LOSAP Long-term Expected Real Rate of Return</b>
Large Cap Equity	8.00%	8.00%	8.50%
Mid Cap Equity	8.75%	8.75%	9.00%
Small Cap Equity	8.50%	8.50%	9.25%
International Equity	7.50%	7.50%	8.25%
Fixed Income	5.00%	5.00%	4.90%
Stable Value	4.60%	4.60%	N/A
Real Estate/Commodities	N/A	N/A	3.75%

*Discount rate* - The discount rate used to measure the total pension liability was 7.00% for the Town and Police plans and 6.50% for the LOSAP Plan. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Town contributes at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, each plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**Pension Trust Fund (Continued)**

**Net Pension Liability (Continued)**

*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 7.00%, for the Police and Town plans, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	Discount Rate		
	1% Decrease	Current	1% Increase
Town Plan's net pension liability	\$ 46,701,218	\$ 38,390,655	\$ 31,014,134
Police Plan's net pension liability	28,129,505	22,898,353	18,320,707

The following presents the net pension (asset) liability, calculated using the discount rate of 6.50%, for the LOSAP plan, as well as what the net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	Discount Rate		
	1% Decrease	Current	1% Increase
LOSAP Plan's net pension (asset) liability	\$ 72,819	\$ (127,841)	\$ (319,787)

**Pension Expense and Deferred Outflows/Inflows of Resources**

For the year ended June 30, 2017, the Town recognized pension expense of \$7,690,627. The Town reported deferred outflows and inflows of resources as of June 30, 2017 related to all plans from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 2,842,903	\$ 758,604	\$ 2,084,299
Changes of assumptions and demographics	4,546,119	-	4,546,119
Difference between projected and actual earnings on plan investments	1,787,691	969,405	818,286
Total	<u>\$ 9,176,713</u>	<u>\$ 1,728,009</u>	<u>\$ 7,448,704</u>

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**Pension Trust Fund (Continued)**

**Pension Expense and Deferred Outflows/Inflows of Resources *(Continued)***

Amounts reported as deferred outflows and inflows of resources related to all plans will be recognized as a component of pension expense in future years as follows:

	<b>Amortization</b>
Year ended June 30,	<b><u>Pension Expense</u></b>
2018	\$ 3,265,460
2019	2,632,424
2020	1,416,041
2021	170,153
2022	(6,190)
Thereafter	<u>(29,184)</u>
	<u><u>\$ 7,448,704</u></u>

**State of Connecticut Teachers' Retirement System**

The faculty and professional personnel of the Town's Board of Education participate in the Teachers' Retirement System ("TRS"), which is a cost-sharing multiple-employer defined benefit pension plan established under Chapter 167a of the Connecticut General Statutes. The TRS is administered by the Connecticut State Teachers' Retirement Board (the "Board") and is included as a fiduciary pension trust fund in the State of Connecticut's basic financial statements.

Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183ss of the Connecticut General Statutes. The plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

The contribution requirements of plan members and the State are established and may be amended by the State legislature. In accordance with Section 10-183z of the General Statutes, the Town does not and is not legally responsible to contribute to the plan as a special funding situation exists that requires the State to contribute one hundred percent of employer's contributions on-behalf of its participating municipalities at an actuarially determined rate. Plan members are currently required to contribute 7.25% of their annual earnings to the plan. After five years of service, teachers are fully vested in their own contributions. After ten years of service, teachers are fully vested in the monthly pension benefit which is payable at the age of sixty.

The Town has recognized on-behalf payments of \$6,030,310 made by the State of Connecticut into the plan as intergovernmental revenues, and related expenditures of the General Fund in the accompanying statement of revenues, expenditures and changes in fund balances of the governmental funds.

Administrative costs of the plan are funded by the State.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**State of Connecticut Teachers' Retirement System (Continued)**

The total estimated net pension liability of the TRS as of June 30, 2016 was approximately \$14.245 billion, the most recent available reporting provided by the Board. The portion that was associated with the Town totaled approximately \$88.052 million or approximately 0.62% of the total estimated net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The portion of the net pension liability associated with the Town was based on a projection of the long-term share of contributions to the plan related to the Town relative to the projected contributions of all participating employers, actuarially determined. The portion of the pension expense attributed to the Town totaled approximately \$9.602 million for the year ended June 30, 2017.

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

Inflation	2.75%
Salary increases	3.25-6.50%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

For healthy retirees and beneficiaries, the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale.

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Large Cap U.S. Equities	21.0%	8.55%
Developed Non-U.S. Equities	18.0%	9.35%
Private Equity	11.0%	10.35%
Emerging Markets (Non-U.S.)	9.0%	11.05%
Core Fixed Income	7.0%	4.05%
Real Estate	7.0%	7.85%
Alternative investments	8.0%	6.85%
Liquidity fund	6.0%	3.15%
Emerging Market Bonds	5.0%	6.45%
High Yield Bonds	5.0%	6.65%
Inflation Linked Bonds	3.0%	3.75%
	<u>100%</u>	

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**State of Connecticut Teachers' Retirement System (Continued)**

The discount rate used to measure the total pension liability was 8.0%. 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 State contributions will be made at the actuarially determined rates in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

	<b>Discount Rates</b>		
	<b>1% Decrease (7.00%)</b>	<b>Current (8.00%)</b>	<b>1% Increase (9.00%)</b>
Proportionate share of the net pension liability attributed to the Town	\$108.632 million	\$88.052 million	\$70.656 million

Detailed information about the plan's fiduciary net position is included in the State of Connecticut's basic financial statements.

**Defined Contribution Plans**

**Establishment and Amendment**

The Vernon Town Council has authorized the establishment of 12 separate single-employer Defined Contribution Pension Plans for various qualifying bargaining unit members and certain non-affiliated employees. The Town Administrator is responsible for the administration of these plans and only the Town Council may approve amendments to each plan's provisions and contribution requirements.

The effective establishment dates for these twelve plans are as follows:

<b>Effective Date</b>	<b>Plan</b>
July 1, 2009	Department of Public Works Clerical Bargaining Unit
January 1, 2010	Professional Employees Bargaining Unit
January 1, 2010	DPW Supervisors Bargaining Unit
January 1, 2010	Water Pollution Control Supervisors Bargaining Unit
August 4, 2010	Town Non-Union Employees
July 1, 2011	DPW Laborers/Parks/WPC Bargaining Unit
July 1, 2013	Police civilians Bargaining Unit
June 4, 2014	Board of Education No-Union Employees
July 1, 2014	Board of Education Cafeteria Employees
July 1, 2015	Board of Education Supervisors
July 1, 2016	Board of Education Nurses
July 1, 2016	Board of Education Librarians

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)***

**Defined Contribution Plans *(Continued)***

**Contributions**

Employees are not required to contribute to the respective defined contribution plan. The required level of Employer contribution is dependent on the level of the Employee's contribution as follows:

<b>Plan</b>	<b>Employee Contribution</b>	<b>Employer Contribution</b>
DPW Clerical	0% - 7.5% of wages	2% of wages
	7.5% or more of wages	4% of wages
Professionals	0% - 7.5% of wages	2% of wages
	7.5% or more of wages	4% of wages
DPW Supervisors	0% - 7.5% of wages	2% of wages
	7.5% or more of wages	4% of wages
WPC Supervisors	0% - 7.5% of wages	2% of wages
	7.5% or more of wages	4% of wages
Town Non-Union	0% - 6.0% of wages	3% of wages
	6.0% or more of wages	5% of wages
DPW Laborers	0% - 7.5% of wages	2% of wages
	7.5% or more of wages	4% of wages
Police Civilians	0% - 7.5% of wages	2% of wages
	7.5% or more of wages	4% of wages
Education Non-Union	0% - 6.0% of wages	3% of wages
	6.0% or more of wages	5% of wages
Education Cafeteria	0% - 7.5% of wages	2% of wages
	7.5% or more of wages	4% of wages
Education Supervisors	0% - 7.5% of wages	2% of wages
	7.5% or more of wages	4% of wages
Education Nurses	0% - 7.5% of wages	2% of wages
	7.5% or more of wages	4% of wages
Education Librarians	0% - 7.5% of wages	2% of wages
	7.5% or more of wages	4% of wages



**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 10 - EMPLOYEE RETIREMENT PLANS *(Continued)***

**Defined Contribution Plans *(Continued)***

**Contributions *(Continued)***

Employee contributions and pension expense recognized by the employer for the year ended June 30, 2017 are as follows:

<u>Plan</u>	<u>Employee Contribution</u>	<u>Employer Pension Expense</u>
Professionals	\$ 50,641	\$ 33,448
Town Non-Union	41,543	35,384
DPW Laborers/Parks/WPC	81,497	44,048
Police Civilians	12,328	6,769
Education Non-Union	28,532	24,576
Education Cafeteria	1,092	437
Education Supervisors	5,164	4,601
Education Nurses	100	53

**Vesting**

Town non-union and DPW Supervisors become fully vested in the Employer contribution after 5 years of credited service whereas all other eligible employees become fully vested after 10 years of credited service.

**Normal Retirement Age**

DPW Supervisors become eligible to retire upon age 58 and 27 years of service. DPW Laborers / Parks / WPC employees are eligible to retire at age 55 and 5 years of service. All other participants become eligible to retire at age 62 with 10 years of service, with the exception of Cafeteria employees who become eligible to retire at age 65 with 10 years of service.

**Assets**

Employee contributions are held in Trust, with the Town serving as trustee, for the exclusive benefit of Plan participants and their beneficiaries, in a qualified Deferred Compensation Plan. Employer contributions are held in Trust, with the Town serving as trustee, for the exclusive benefit of Plan participants and their beneficiaries, in a qualified 401a Money Purchase Plan.

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**Plan Description**

***Plan Administration***

The Town has established an Other Post-Employment Benefit (OPEB) Trust Fund which incorporates a single-employer, post-retirement healthcare plans for the Town, Police and Board of Education employees. The plans provide medical, dental and prescription benefits for eligible retirees and their spouses. The Trust was established in June 2011. The plan does not issue stand-alone financials.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Plan Description *(Continued)***

***Plan Membership***

At July 1, 2016, plan membership consisted of the following:

	<u>Police</u>	<u>Town</u>	<u>Board of Education</u>	<u>Total</u>
Retired members	14	3	43	60
Spouses of retired members	2	1	10	13
Active employees	38	147	555	740
Beneficiaries	1	1	3	5
Total	<u>55</u>	<u>152</u>	<u>611</u>	<u>818</u>

***Benefits Provided***

The plan provides for medical, dental and prescription benefits for all eligible Town, Police and Board of Education retirees and their spouses. Benefits and contributions are established by contract and may be amended by union agreements.

***Contributions***

Contribution requirements of the plan members and the Town are established in the provisions of the program and in accordance with State Statutes. The Town funds these benefits through contributions to an Other Post-Employment Benefits Trust Fund. Town contributions are based on an actuarially determined amount. Active employees are not required to contribute to the plan, however, retirees are required to contribute a portion of the cost of the benefits. For the year ended June 30, 2017, the Police, Town and Board of Education's contribution totaled \$660,185, which represented 1.26% of covered-employee payroll.

**Summary of Significant Accounting Policies**

The OPEB Plan is accounted for using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the OPEB Plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the OPEB Plan.

*Investments* - Investments are generally reported at fair value, except for investments in external investment pools. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investment income is recognized when earned and gains and losses on sales or exchanges are recognized on the transaction date. Investments in external investment pools, which are permitted to measure their investment holdings at amortized costs, are measured by the OPEB Plan at the net asset value per share as determined by the pools.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Summary of Significant Accounting Policies *(Continued)***

*Investment policy* - The Town's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board. The Town's Pension Board pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes, discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

*Concentrations* - As of June 30, 2017, more than 10% of the OPEB Plan's investments were invested in the Short-term Investment Fund (100%).

*Rate of return* - For the year ended June 30, 2017, the annual money-weighted rate of return on the OPEB Plan's investments, net of pension plan investment expense was 0.61%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Annual OPEB Cost and Net OPEB Obligation**

The Town's annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB liability.

Annual required contribution	\$ 719,304
Interest on net OPEB obligation	170,869
Adjustment to annual required contribution	<u>(157,457)</u>
Annual OPEB cost (expense)	732,716
Contributions made	<u>(660,185)</u>
Increase in net OPEB obligation	72,531
Net OPEB obligation, beginning of year	<u>2,440,991</u>
Net OPEB obligation, end of year	<u><u>\$ 2,513,522</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for the last three years is as follows:

Year Ended June 30	Annual OPEB Cost (A)	Total Contribution (B)	Percentage of Annual OPEB Cost Contributed (B/(A))	Net OPEB Obligation
2017	\$ 732,716	\$ 660,185	90.1%	\$ 2,513,522
2016	702,458	642,059	91.4%	2,440,991
2015	917,389	821,913	89.6%	2,380,592

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Funded Status and Funding Progress**

The funded status of the OPEB Plan as of July 1, 2016 was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded AAL as a % of Covered Payroll [(A-B)/C]
July 1, 2016	\$ 684,481	\$ 7,847,638	\$ (7,163,157)	8.7%	52,602,048	-13.6%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events in 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 Town are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Net OPEB Liability**

The components of the Town's net OPEB liability related to its OPEB Plan as of June 30, 2017, was as follows:

Total OPEB liability	\$ 8,202,469
Plan fiduciary net position	893,686
Net OPEB liability	<u>\$ 7,308,783</u>
Plan fiduciary net position as a percentage of the total pension liability	10.90%

**Actuarial Methods and Assumptions**

Projections of benefits are based on the substantive plan (the plan as understood by the Town and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Town and the plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the Town and plan members in the future. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Actuarial Methods and Assumptions *(Continued)***

The total OPEB liability was determined by an actuarial valuation date as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.50%
Salary increases	3.50%
Healthcare cost trend rate:	
Initial	5.70%
Ultimate	4.70%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table for males and females projected forward 19 year using Scale AA, with a two year age setback, for all teachers and administrators and the RP-2000 Combined Healthy Mortality Table for males and females projected forward using Scale AA for all other employees.

The long-term expected rate of returns on OPEB Plan investments were determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB Plan's target asset allocation as of June 30, 2017 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Arithmetic Rate of Return</b>	<b>Long-Term Expected Real Geometric Rate of Return</b>
U.S. Cash	3.10%	0.59%	0.58%
U.S. Core Bonds	19.80%	2.56%	2.39%
Non-U.S. Bonds	3.40%	1.60%	1.01%
U.S. Large Caps	52.50%	4.86%	3.61%
Non-U.S. Equity	20.30%	6.34%	4.59%
Hedge FOF Conservative	0.90%	1.69%	1.51%

*Discount rate* - The discount rate used to measure the total OPEB liability was 6.5%. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rates and that the Town's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rates of return on the OPEB Plan's investments were applied to all periods of projected benefit payments to determine the OPEB Plan's total OPEB liability.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)***

**Actuarial Methods and Assumptions *(Continued)***

*Sensitivity of the net OPEB asset to changes in the discount rate* - The following presents the Town's net OPEB asset for the OPEB Plan, calculated using the discount rate disclosed above, as well as what the Town's net OPEB liability would be for the OPEB Plan if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Discount Rates		
	1% Decrease (5.50%)	Current (6.50%)	1% Increase (7.50%)
Net OPEB liability as of June 30, 2017	\$ 8,279,131	\$ 7,308,783	\$ 6,475,428

*Sensitivity of the net OPEB asset to changes in the healthcare cost trend rates* - The following presents the Town's net OPEB asset for the OPEB Plan, calculated using the discount rate disclosed above, as well as what the Town's net OPEB liability would be for the OPEB Plan if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Healthcare Cost Trend Rates		
	1% Decrease (4.70% decreasing to 3.70%)	Current (5.70% decreasing to 4.70%)	1% Increase (6.70% decreasing to 5.70%)
Net OPEB liability as of June 30, 2017	\$ 6,283,951	\$ 7,308,783	\$ 8,535,306

**NOTE 12 - RISK MANAGEMENT**

The Town is exposed to various risks of loss including torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disaster. Generally, the Town obtains commercial insurance for these risks, but has chosen to retain the risks for workers' compensation through a Workers' Compensation Fund. The fund, classified as an Internal Service Fund, is supported by contributions from the General and Sewer User Funds. Contribution amounts are based on historical experience of claims incurred and paid. Although the risk is retained by the Town, commercial insurance is purchased for individual claims in excess of \$450,000 for police and fire employees and \$425,000 for all other employees with no aggregate maximum per year. The claim accrual does not include other allocated or unallocated claims adjustment expenses. Settled claims have not exceeded commercial insurance coverage for each of the last three fiscal years. There has been no reduction in insurance coverage from the prior year.

CIRMA administers the claims processing for the Town, for which the Town pays a fee. Claims incurred are estimated by CIRMA by fiscal (contract) year. Claims outstanding at June 30 are based on the requirements of GASB Statements No. 10 and 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the possible loss can be reasonably estimated. The amount of claim accrual is based on the ultimate costs of settling the claim, which include past experience data, inflation and other future economic and societal factors and incremental claim adjustment expenses, net of estimated subrogation recoveries.

**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 12 - RISK MANAGEMENT *(Continued)***

A summary of claims activity for Workers' Compensation claims transactions the years ended June 30, 2017 and 2016 are as follows:

<b>Year Ended June 30</b>	<b>Claims Payable, Beginning of Year</b>	<b>Claims and Changes in Estimates</b>	<b>Claims Paid</b>	<b>Claims Payable, End of Year</b>
2017	\$ 1,312,820	\$ 1,931,050	\$ 574,971	\$ 2,668,899
2016	1,375,645	452,292	515,117	1,312,820

Claims payable at June 30, 2017 includes incurred, but not reported claims of \$669,766. Based on historical payment data, approximately 28.6% of claims payable will be paid during the following fiscal year. Thus, \$763,424 of claims payable is considered as a current liability and the remaining \$1,905,475 is considered as a long-term liability. Claims payable includes \$108,974 of estimated incremental claims adjustment expenses, net of estimated subrogation recoveries.

The Town is also self-insured for the cost of medical prescriptions for its employees and retirees. The Town Council authorized the establishment of the Medical Self-Insurance Fund, an Internal Service Fund, which became effective January 1, 2006. Effective July 1, 2007, the Town became self-insured for the cost of dental for its general government employees and retirees. The fund is supported by contributions from all covered participants with the remaining support provided by the General Fund, Vernon Cemetery Fund (Special Revenue Fund), the Sewer User Fund (Enterprise Fund) and the Data Processing Fund (Internal Service Fund). Contribution amounts are based upon historical experience of claims incurred and paid.

A third party administers the prescription claims processing and the dental claims processing for the Town for which the Town pays a fee. Claims incurred and paid data are provided to the Town, which reimburses Maxor and Anthem for the costs of the claims and administrative expenses. At year end, claims payable represents the cost of claims incurred and paid by Maxor and Anthem that require reimbursement from the Town.

A summary of claims activity for Medical Self-Insurance claims transactions the years ended June 30, 2017 and 2016 are as follows:

<b>Year Ended June 30</b>	<b>Claims Payable, Beginning of Year</b>	<b>Claims and Changes in Estimates</b>	<b>Claims Paid</b>	<b>Claims Payable, End of Year</b>
2017	\$ 3,827	\$ 216,853	\$ 208,740	\$ 11,940
2016	13,311	209,036	218,520	3,827

**TOWN OF VERNON, CONNECTICUT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 13 - FUND BALANCE**

As of June 30, 2017, fund balances have been classified based on the following purposes:

	General Fund	Road Improvements Bond Fund	School Roof Replacements and Renovations Fund	Senior Center Acquisition and Renovations Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:						
Cemetery Trust	\$ -	\$ -	\$ -	\$ -	\$ 1,743,985	\$ 1,743,985
Inventories and prepaid items	595,917	-	-	-	31,507	627,424
	<u>595,917</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,775,492</u>	<u>2,371,409</u>
Restricted for:						
Donor purpose restrictions	-	-	-	-	712,370	712,370
Grant programs	-	-	-	-	550,518	550,518
Sewer assessment	-	-	-	-	28	28
Cemeteries	-	-	-	-	74,513	74,513
Housing and community development	-	-	-	-	119,000	119,000
Education grants	-	-	-	-	557,736	557,736
Adult education	-	-	-	-	41,238	41,238
Capital outlays	-	113,858	-	-	-	113,858
	<u>-</u>	<u>113,858</u>	<u>-</u>	<u>-</u>	<u>2,055,403</u>	<u>2,169,261</u>
Committed to:						
Sewer repairs and maintenance	-	-	-	-	1,821,903	1,821,903
Insurance and medical	-	-	-	-	535,321	535,321
Community development	-	-	-	-	287,712	287,712
Police	-	-	-	-	51,273	51,273
Ambulance	-	-	-	-	251,186	251,186
Animal control	-	-	-	-	47,453	47,453
Human services	-	-	-	-	85,845	85,845
Maintenance for water runoff	-	-	-	-	51,726	51,726
Parks and recreation programs	-	-	-	-	279,233	279,233
Sidewalk development	-	-	-	-	2,701	2,701
Capital outlays	-	-	146,149	-	2,710,871	2,857,020
	<u>-</u>	<u>-</u>	<u>146,149</u>	<u>-</u>	<u>6,125,224</u>	<u>6,271,373</u>
Assigned to:						
General government:						
Administration and finance	231,138	-	-	-	-	231,138
Data processing	178,033	-	-	-	-	178,033
Pension	66,828	-	-	-	-	66,828
Insurance	116,060	-	-	-	-	116,060
Community development:						
Planning	14,681	-	-	-	-	14,681
Public safety:						
Police	50,283	-	-	-	-	50,283
Fire	79,250	-	-	-	-	79,250
Street lights	79,126	-	-	-	-	79,126
Maintenance and development:						
Buildings, streets, grounds	274,707	-	-	-	-	274,707
Refuse and recycling	129,463	-	-	-	-	129,463
Human services:						
Social services	245	-	-	-	-	245
Youth services	2	-	-	-	-	2
Senior services	50	-	-	-	-	50
Health services	12,249	-	-	-	-	12,249
Parks and recreation:						
Parks supervision and maintenance	47,008	-	-	-	-	47,008
Education	1,069,248	-	-	-	-	1,069,248
Compensated absences	322,000	-	-	-	-	322,000
Debt payments	512,449	-	-	-	-	512,449
Miscellaneous	18,856	-	-	-	-	18,856
	<u>3,201,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,201,676</u>
Unassigned	15,410,513	-	-	(1,211,111)	(861,965)	13,337,437
	<u>\$ 19,208,106</u>	<u>\$ 113,858</u>	<u>\$ 146,149</u>	<u>\$ (1,211,111)</u>	<u>\$ 9,094,154</u>	<u>\$ 27,351,156</u>



**TOWN OF VERNON, CONNECTICUT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS *(Continued)*  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

There are several lawsuits pending against the Town. The outcome and eventual liability to the Town, if any, in these cases is not known by management. The Town's management believes it has meritorious defenses against these lawsuits and estimates that potential claims against the Town, not covered by insurance, resulting from such litigation would not have a material adverse effect on the financial condition of the Town.

The Town has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditure disallowed under terms of the grant. Based on prior experience, Town management believes such disallowances, if any, would not have a material adverse effect on the financial condition of the Town.

**NOTE 15 - TAX ABATEMENTS**

By Ordinance, the Town established a Reduction in Assessment Program pursuant to Connecticut General Statute 12-121(e), as amended, authorizing the Town Council to enter into a tax abatement agreement with any party owning or proposing to acquire an interest in real property in town that is on the town's certified vacant buildings list. Applicants to the program are required to provide a business plan for the property to be renovated and submit a fiscal impact study to the Town Administrator who makes a recommendation to the Town Council as to the amount and duration of the tax abatement. The Town Council may approve the abatement recommendation by a majority vote. The abatement becomes effective upon renovation completion and issuance of a certificate of occupancy.

The following table indicates the minimum value of an improvement that qualifies for a reduction and the maximum reduction period. The Town Council shall determine the specific reduction of the tax assessment for each project based upon the benefits to the town.

<u>Cost of Improvements</u>	<u>Assessment Reduction</u>	<u>Term</u>
\$10 million and higher	Up to 100% of increased assessment	Up to 25 years
\$5 million - \$10 million	Up to 75% of increased assessment	Up to 15 years
\$1 million - \$5 million	Up to 50% of increased assessment	Up to 10 years
Less than \$1 million	Up to 25% of increased assessment	Up to 5 years

The Town has entered into the following active tax abatement agreements:

- Loom City Lofts LLC, with a 25-year duration. The amount of abated taxes range from \$7,500 in year 1 to \$15,246 in year 25. The amount of abated taxes for fiscal year 2016/17 were \$7,725. The abated taxes are per the 2<sup>nd</sup> year of the agreement.
- Shoppes at Eastview LLC, with a 7-year duration. The tax abatement for improvements will be 50% for the first four years of the agreement and 25% for the last three years of the agreement. The amount of abated taxes for fiscal year 2016/17 was \$16,514. The abated taxes are per the fourth year of the agreement.
- Olender Family Limited Partnership, with a 3-year duration. The tax abatement for improvements will be 50% in the first year of the agreement, 40% in the second year and 25% in the third year. The amount of abated taxes for fiscal year 2016/17 was \$3,815. The abated taxes are per the third year of the agreement.

**TOWN OF VERNON, CONNECTICUT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE 15 - TAX ABATEMENTS (Continued)**

- Talcott Mill Landlord LLC, with a 20-year duration. The tax abatement for improvements will be 100% for the first 10 years of the agreement, 75% for years 11 to 15 and 50% for years 16 to 20. The effective date for tax abatement will be in fiscal year 2018/19.

Total tax abatements for year ended June 30, 2017 were \$28,054.

**NOTE 16 - RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. This statement establishes new accounting and financial reporting requirements for OPEB plans and replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2017. The Town has not yet determined the impact that this statement will have on its financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This statement addresses accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2017. The Town does not expect this statement to have a material effect on its financial statements.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations. (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement which (1) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (2) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, and (3) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2019. The Town does not expect this statement to have a material effect on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2019. The Town has not yet determined the impact that this statement might have on its financial statements.

**TOWN OF VERNON, CONNECTICUT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE 16 - RECENTLY ISSUED ACCOUNTING STANDARDS (Continued)**

In March 2017, the GASB issued Statement No. 85, *Omnibus*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this statement are effective for the Town's reporting period beginning July 1, 2017. The Town does not expect this statement to have a material effect on its financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2017. The Town does not expect this statement to have a material effect on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the Town's reporting period beginning July 1, 2020. The Town has not yet determined the impact that this statement might have on its financial statements.

**NOTE 17 - SUBSEQUENT EVENTS**

On August 3, 2017, the Town issued \$4,400,000 of general obligation bonds at a net premium of \$199,166 to provide \$3,130,000 funding for Road Reconstruction and Improvements as authorized on January 28, 2014 at referendum and \$1,270,000 of funding for the Acquisition and Improvements to property known as 135 Bolton Road for use as a Senior Center as authorized on February 21, 2017 at referendum. The bonds, payable in installments over 15 years and maturing on August 1, 2032, were issued at a net interest cost of 2.30%. The \$3,130,000 of bond proceeds were used to retire a \$2,200,000 bond anticipation note that matured on August 3, 2017. Also on August 3, 2017, under the same authorizations and funding purposes, the Town issued \$3,325,000 of general obligation bond anticipation notes at a net interest cost of 1.025% with a maturity date of August 2, 2018. The notes were issued with a net premium of \$32,319. Of the \$3,325,000, \$1,525,000 were issued for Road Reconstruction and \$1,800,000 for Senior Center renovations and improvements.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**TOWN OF VERNON, CONNECTICUT**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY - UNAUDITED**  
**POLICE PENSION PLAN**  
**LAST FOUR PLAN YEARS**

	<b>December 31,</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Total pension liability</b>				
Service cost	\$ 812,060	\$ 767,633	\$ 760,493	\$ 759,496
Interest	2,790,349	2,711,068	2,663,012	2,620,600
Differences between expected and actual experience	878,501	(304,928)	(288,635)	-
Changes of assumptions	-	1,833,919	1,214,064	-
Benefit payments, including refunds	(2,508,006)	(2,473,575)	(2,434,432)	(2,385,303)
Net change in total pension liability	1,972,904	2,534,117	1,914,502	994,793
Total pension liability - beginning	41,058,435	38,524,318	36,609,816	35,615,023
Total pension liability - ending	43,031,339	41,058,435	38,524,318	36,609,816
<b>Plan fiduciary net position</b>				
Contributions - employer	1,730,812	1,639,455	1,515,199	1,348,338
Contributions - members	364,862	370,334	358,642	368,533
Net investment income	1,352,877	176,500	1,092,203	2,874,222
Benefit payments, including refunds	(2,508,006)	(2,473,575)	(2,434,432)	(2,210,603)
Administrative expense	(70,666)	(49,744)	(70,783)	(67,398)
Net change in plan fiduciary net position	869,879	(337,030)	460,829	2,313,092
Plan fiduciary net position - beginning	19,263,107	19,600,137	19,139,308	16,826,216
Plan fiduciary net position - ending	20,132,986	19,263,107	19,600,137	19,139,308
<b>Town's net pension liability</b>	<b>\$ 22,898,353</b>	<b>\$ 21,795,328</b>	<b>\$ 18,924,181</b>	<b>\$ 17,470,508</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	46.79%	46.92%	50.88%	52.28%
Covered employee payroll	\$ 4,866,463	\$ 4,747,257	\$ 4,549,520	\$ 4,390,111
<b>Town's net pension liability as a percentage of covered employee payroll</b>	470.53%	459.11%	415.96%	397.95%

**NOTES TO SCHEDULE:**

The Town began to report the schedule of changes in net pension liability when it implemented GASB Statement No. 67 in fiscal year 2014. This schedule is intended to present information for 10 years. Additional years will be presented as they become available. The plan year end is December 31.

*Benefit Changes* - None noted

*Assumption Changes* - There have been no changes to the actuarial assumptions for the current year. In 2015, the expected investment rate of return was decreased from 7.25% to 7.00% and in 2014 the expected investment rate of return was decreased from 7.5% to 7.25%.

*See accompanying Independent Auditor's Report.*

**TOWN OF VERNON, CONNECTICUT**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY - UNAUDITED**  
**TOWN PENSION PLAN**  
**LAST FOUR PLAN YEARS**

	December 31,			
	2016	2015	2014	2013
<b>Total pension liability</b>				
Service cost	\$ 1,510,406	\$ 1,464,780	\$ 1,396,502	\$ 1,355,480
Interest	5,055,024	4,604,469	4,540,614	4,472,890
Differences between expected and actual experience	1,507,303	135,086	(3,083,615)	-
Changes of assumptions	-	5,959,086	3,200,987	-
Benefit payments, including refunds	(3,781,356)	(3,280,576)	(2,935,096)	(2,814,688)
Net change in total pension liability	4,291,377	8,882,845	3,119,392	3,013,682
Total pension liability - beginning	74,529,518	65,646,673	62,527,281	59,513,599
Total pension liability - ending	78,820,895	74,529,518	65,646,673	62,527,281
<b>Plan fiduciary net position</b>				
Contributions - employer	2,575,719	2,383,370	2,135,571	1,883,779
Contributions - members	930,892	1,032,684	1,031,071	1,001,400
Net investment income	2,457,038	352,500	1,981,432	4,782,653
Benefit payments, including refunds	(3,781,356)	(3,280,577)	(2,935,096)	(2,664,672)
Administrative expense	(114,432)	(89,656)	(101,919)	(93,140)
Net change in plan fiduciary net position	2,067,861	398,321	2,111,059	4,910,020
Plan fiduciary net position - beginning	38,362,379	37,964,058	35,852,999	30,942,979
Plan fiduciary net position - ending	40,430,240	38,362,379	37,964,058	35,852,999
<b>Town's net pension liability</b>	<u>\$ 38,390,655</u>	<u>\$ 36,167,139</u>	<u>\$ 27,682,615</u>	<u>\$ 26,674,282</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	51.29%	51.47%	57.83%	57.34%
Covered employee payroll	\$ 15,411,202	\$ 14,789,154	\$ 14,933,089	\$ 14,895,476
<b>Town's net pension liability as a percentage of covered employee payroll</b>	249.11%	244.55%	185.38%	179.08%

**NOTES TO SCHEDULE:**

The Town began to report the schedule of changes in net pension liability when it implemented GASB Statement No. 67 in fiscal year 2014. This schedule is intended to present information for 10 years. Additional years will be presented as they become available. The plan year end is December 31.

*Benefit Changes* - None noted

*Assumption Changes* - There have been no changes to the actuarial assumptions for the current year. In 2015, the expected investment rate of return was decreased from 7.25% to 7.00% and in 2014 the expected investment rate of return was decreased from 7.5% to 7.25%.

*See accompanying Independent Auditor's Report.*

**TOWN OF VERNON, CONNECTICUT**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY - UNAUDITED**  
**LOSAP RETIREMENT PLAN**  
**LAST FOUR PLAN YEARS**

	December 31,			
	2016	2015	2014	2013
<b>Total pension liability</b>				
Service cost	\$ 21,190	\$ 24,830	\$ 26,292	\$ 19,751
Interest	92,540	85,622	82,620	78,483
Differences between expected and actual experience	(27,545)	(13,707)	(31,211)	-
Benefit payments, including refunds	(36,536)	(33,270)	(29,764)	(19,718)
Net change in total pension liability	49,649	63,475	47,937	78,516
Total pension liability - beginning	1,397,364	1,333,889	1,285,952	1,207,436
Total pension liability - ending	1,447,013	1,397,364	1,333,889	1,285,952
<b>Plan fiduciary net position</b>				
Contributions - employer	52,289	39,924	37,752	34,172
Net investment income	135,693	(54,768)	54,828	204,365
Benefit payments, including refunds	(36,536)	(33,270)	(29,764)	(26,184)
Administrative expense	(18,545)	(18,745)	(18,516)	(15,668)
Net change in plan fiduciary net position	132,901	(66,859)	44,300	196,685
Plan fiduciary net position - beginning	1,441,953	1,508,812	1,464,512	1,267,827
Plan fiduciary net position - ending	1,574,854	1,441,953	1,508,812	1,464,512
<b>Town's net pension liability</b>	<u>\$ (127,841)</u>	<u>\$ (44,589)</u>	<u>\$ (174,923)</u>	<u>\$ (178,560)</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	108.83%	103.19%	113.11%	113.89%
Covered employee payroll	Not applicable	Not applicable	Not applicable	Not applicable
<b>Town's net pension liability as a percentage of covered employee payroll</b>	Not applicable	Not applicable	Not applicable	Not applicable

**NOTES TO SCHEDULE:**

The Town began to report the schedule of changes in net pension liability when it implemented GASB Statement No. 67 in fiscal year 2014. This schedule is intended to present information for 10 years. Additional years will be presented as they become available. The plan year end is December 31.

*Benefit Changes* - None noted

*Assumption Changes* - There have been no changes to the actuarial assumptions for the current year.

*See accompanying Independent Auditor's Report.*

**TOWN OF VERNON, CONNECTICUT**  
**SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS - UNAUDITED**  
**POLICE PENSION PLAN**  
**LAST FOUR FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,730,812	\$ 1,639,455	\$ 1,515,199	\$ 1,348,338
Contributions in relation to the actuarially determined contribution	<u>1,730,812</u>	<u>1,639,455</u>	<u>1,515,199</u>	<u>1,348,338</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 4,866,463	\$ 4,747,257	\$ 4,549,520	\$ 4,390,111
Contributions as a percentage of covered employee payroll	35.57%	34.53%	33.30%	30.71%
Annual money-weighted rate of return, net of investment expense	6.80%	0.20%	5.90%	14.60%

**NOTES TO SCHEDULE:**

The Town began to report the schedule of contributions and investment returns when it implemented GASB Statement No. 67 in fiscal year 2014. This schedule is intended to present information for 10 years. Additional years will be presented as they become available.

Actuarially determined contribution rates are calculated as of January 1, six months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Projected Unit Credit
Amortization method:	Level dollar, closed
Remaining amortization period:	26 years
Asset valuation method:	5-year smoothed market
Inflation:	1.50%
Investment rate of return:	7.00%
Salary increases, including inflation:	2.50%

*See accompanying Independent Auditor's Report.*



**TOWN OF VERNON, CONNECTICUT**  
**SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS - UNAUDITED**  
**TOWN PENSION PLAN**  
**LAST FOUR FISCAL YEARS**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Actuarially determined contribution	\$ 2,525,719	\$ 2,383,370	\$ 2,135,571	\$ 1,883,779
Contributions in relation to the actuarially determined contribution	<u>2,575,719</u>	<u>2,383,370</u>	<u>2,135,571</u>	<u>1,883,779</u>
Contribution deficiency (excess)	<u>\$ (50,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 15,411,202	\$ 14,789,154	\$ 14,933,089	\$ 14,895,476
Contributions as a percentage of covered employee payroll	16.71%	16.12%	14.30%	12.65%
Annual money-weighted rate of return, net of investment expense	6.20%	0.20%	7.00%	13.50%

**NOTES TO SCHEDULE:**

The Town began to report the schedule of contributions and investment returns when it implemented GASB Statement No. 67 in fiscal year 2014. This schedule is intended to present information for 10 years. Additional years will be presented as they become available.

Actuarially determined contribution rates are calculated as of January 1, six months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Projected Unit Credit
Amortization method:	Level dollar, closed
Remaining amortization period:	26 years
Asset valuation method:	5-year smoothed market
Inflation:	1.50%
Investment rate of return:	7.00%
Salary increases, including inflation:	3.00%

*See accompanying Independent Auditor's Report.*

**TOWN OF VERNON, CONNECTICUT**  
**SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS - UNAUDITED**  
**LOSAP RETIREMENT PLAN**  
**LAST FOUR FISCAL YEARS**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Actuarially determined contribution	\$ 52,289	\$ 39,924	\$ 37,752	\$ 34,172
Contributions in relation to the actuarially determined contribution	52,289	39,924	37,752	34,172
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	Not applicable	Not applicable	Not applicable	Not applicable
Contributions as a percentage of covered employee payroll	Not applicable	Not applicable	Not applicable	Not applicable
Annual money-weighted rate of return, net of investment expense	8.10%	-4.87%	2.48%	12.39%

**NOTES TO SCHEDULE:**

The Town began to report the schedule of contributions and investment returns when it implemented GASB Statement No. 67 in fiscal year 2014. This schedule is intended to present information for 10 years. Additional years will be presented as they become available.

Actuarially determined contribution rates are calculated as of July 1, prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Frozen entry age
Amortization method:	Level dollar, closed
Remaining amortization period:	0 years
Asset valuation method:	Fair Value
Inflation:	N/A
Investment rate of return:	6.50%
Salary increases, including inflation:	N/A

*See accompanying Independent Auditor's Report.*

**TOWN OF VERNON, CONNECTICUT**  
**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - UNAUDITED**  
**CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM**  
**LAST THREE FISCAL YEARS**  
(Dollar amounts rounded to nearest thousand)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability attributed to the Town	0.62%	0.67%	0.67%
Town's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability attributed to the Town	88,052,000	73,579,000	68,009,000
Total	<u>\$ 88,052,000</u>	<u>\$ 73,579,000</u>	<u>\$ 68,009,000</u>
Town's covered payroll	(1) Not applicable	Not applicable	Not applicable
Town's proportionate share of the net pension liability as a percentage of its covered payroll	0.0%	0.0%	0.0%
Plan fiduciary net position as a percentage of the total pension liability	52.26%	59.50%	61.51%

(1) Not applicable since 0.0% proportional share of the net pension liability.

**NOTES TO SCHEDULE:**

The Town began to report this schedule when it implemented GASB Statement No. 68 in fiscal year 2015. This schedule is intended to present information for 10 years. Additional years will be presented as they become available.

The total pension liability reported for each fiscal year is based on a measurement date as of the end of the prior fiscal year (i.e. the total pension liability reported for 2017 is based on a June 30, 2016 measurement date).

*Benefit Changes* - There were no changes in benefit terms that affected the measurement of the total pension liability.

*Changes in assumptions* : Since the prior valuation in 2015, new assumptions were adopted. Specifically:

1. Inflation rate reduced from 3.00% to 2.75%.
2. Real rate of return assumption was reduced from 5.50% to 5.25%, which when combined with the inflation assumption change results in a decrease in the investment rate of return assumption from 8.50% to 8.00%.
3. The annual rate of wage increase assumption was reduced from 0.75% to 0.50%.
4. The payroll growth assumption was reduced from 3.75% to 3.25%.
3. Various demographic assumption changes utilizing the RPH-2014 mortality tables.

*See accompanying Independent Auditor's Report.*

**TOWN OF VERNON, CONNECTICUT**  
**SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - UNAUDITED**  
**OTHER POST-EMPLOYMENT BENEFITS PLAN**  
**LAST FIVE ACTUARIAL VALUATIONS**

<b>Schedule of Funding Progress</b>						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age normal (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
July 1, 2008	\$ -	\$ 13,393,000	\$ (13,393,000)	0.0%	Unavailable	Unavailable
July 1, 2010	-	10,355,000	(10,355,000)	0.0%	Unavailable	Unavailable
July 1, 2012	77,009	8,200,976	(8,123,967)	0.9%	Unavailable	Unavailable
July 1, 2014	237,033	6,451,198	(6,214,165)	3.7%	42,337,825	-14.7%
July 1, 2016	684,481	7,847,638	(7,163,157)	8.7%	52,602,048	-13.6%

<b>Schedule of Employer Contributions</b>				
Year Ended June 30	Annual		Percentage	
	Required Contribution	Actual Contribution	Contribution	
2009	\$ 1,073,000	\$ 545,000	51%	
2010	1,117,000	649,000	58%	
2011	1,162,000	739,000	64%	
2012	1,023,000	722,000	71%	
2013	1,074,000	791,000	74%	
2014	852,522	640,029	75%	
2015	896,019	821,913	92%	
2016	684,579	642,059	94%	
2017	719,304	660,185	92%	

*See accompanying Independent Auditor's Report.*

**TOWN OF VERNON, CONNECTICUT**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY - UNAUDITED**  
**OTHER POST-EMPLOYMENT BENEFITS PLAN**  
**LAST FISCAL YEAR**

	<u><b>2017</b></u>
<b>Total OPEB liability</b>	
Service cost	\$ 295,287
Interest	514,729
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds	(455,185)
Net change in total OPEB liability	354,831
Total OPEB liability - beginning	7,847,638
Total OPEB liability - ending	<u>8,202,469</u>
<b>Plan fiduciary net position</b>	
Contributions - employer	660,185
Contributions - active members	-
Contributions - retirees' subsidies	-
Net investment income	4,205
Benefit payments, including refunds	(455,185)
Net change in plan fiduciary net position	209,205
Plan fiduciary net position - beginning	684,481
Plan fiduciary net position - ending	<u>893,686</u>
<b>Town's net OPEB liability</b>	<u><u>\$ 7,308,783</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	10.90%
Covered employee payroll	\$ 52,602,048
Town's net OPEB liability as a percentage of covered employee payroll	13.89%

**NOTES TO THE SCHEDULE:**

The Town began to report this schedule when it implemented GASB Statement No. 74 in fiscal year 2017. This schedule is intended to present information for 10 years. Additional years will be presented as they become available.

*See accompanying Independent Auditor's Report.*

**TOWN OF VERNON, CONNECTICUT**  
**SCHEDULE OF CONTRIBUTIONS AND INVESTMENT RETURNS - UNAUDITED**  
**OTHER POST-EMPLOYMENT BENEFITS PLAN**  
**LAST FISCAL YEAR**

	<u><b>2017</b></u>
Actuarially determined contribution	\$ 719,304
Contributions in relation to the actuarially determined contribution	<u>660,185</u>
Contribution deficiency (excess)	<u><u>\$ 59,119</u></u>
Covered employee payroll	\$ 52,602,048
Contributions as a percentage of covered employee payroll	1.26%
Annual money-weighted rate of return, net of investment expense	0.61%

**NOTES TO THE SCHEDULE:**

The Town began to report this schedule when it implemented GASB Statement No. 74 in fiscal year 2017. This schedule is intended to present information for 10 years. Additional years will be presented as they become available.

Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of salary, closed
Remaining amortization period	21 years (as of July 1, 2016)
Asset valuation method	Market Value
Inflation	2.75%
Investment rate of return	6.50%
Healthcare cost trend rates	5.70%, current 4.70%, final
Mortality	RP-2000 Combined Health Mortality Table for males and females projected forward 19 years using Scale AA, with a two-year age setback

*See accompanying Independent Auditor's Report.*

## APPENDIX B – OPINION OF BOND COUNSEL AND TAX STATUS

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

### BOND COUNSEL OPINION

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

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

[FORM OF BOND COUNSEL OPINION]

(date of closing)

Town of Vernon  
Vernon, Connecticut

We have represented the Town of Vernon, Connecticut as Bond Counsel in connection with the issuance by the Town of \$5,000,000 General Obligation Bonds, Issue of 2018, dated as of August 2, 2018.

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

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

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met in order that interest on the Bonds is excluded from gross income for Federal income tax purposes. The Town officials authorized to issue the Bonds have executed written representations and agreements on behalf of the Town relating to compliance with such provisions of the Code to ensure that the interest on the Bonds will be excluded from gross income for Federal income tax purposes. The representations and agreements also provide that the Bonds are designated or deemed designated as "qualified tax-exempt obligations" for purposes of the deduction for Federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

Based on such representations and agreements and on the record of proceedings authorizing the Bonds, and assuming the accuracy of such representations and compliance with such agreements, it is our opinion that, under existing statutes: (1) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; (2) the Bonds are not "private activity bonds" and interest on the Bonds is not treated as a preference item for purposes of calculating the Federal alternative minimum tax, however, for tax years beginning prior to January 1, 2018, interest on the Bonds is included in the calculation of a corporation's adjusted current earnings for purposes of, and thus may be subject to, the Federal alternative minimum tax for certain corporations; and (3) the Bonds are "qualified tax-exempt obligations" for purposes of the deduction for Federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

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

Very truly yours,

Day Pitney LLP

## **FEDERAL INCOME TAX.**

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

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

**Alternative Minimum Tax.** The Code imposes an alternative minimum tax on individuals and, for tax years beginning prior to January 1, 2018, an alternative minimum tax on corporations. The alternative minimum tax on corporations has been repealed for tax years beginning after December 31, 2017. The alternative minimum tax is imposed on alternative minimum taxable income, which includes preference items. The interest on certain tax-exempt "private activity bonds" is treated as a preference item. The Town's Tax Compliance Agreement will contain certain representations and covenants to ensure that the Bonds are not "private activity bonds" so that interest on the Bonds will not be treated as a preference item for individuals or corporations in calculating alternative minimum taxable income.

For tax years beginning prior to January 1, 2018, the Code provides, however, that for certain corporations a portion of the excess of adjusted current earnings (which includes certain tax-exempt interest) over other alternative minimum taxable income will be included in alternative minimum taxable income for purposes of calculating the corporation's alternative minimum tax.

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

**Additional Federal Income Tax Matters.** In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to certain taxpayers, including without limitation, taxpayers otherwise eligible for the earned income credit, recipients of Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, certain insurance companies, certain S corporations and foreign corporations subject to the branch profits tax. Prospective purchasers of the Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

## **STATE OF CONNECTICUT TAX ON INTEREST.**

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

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

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



## **ORIGINAL ISSUE DISCOUNT.**

The initial public offering price of certain of the Bonds may be less than the amount payable on the Bonds at maturity. The excess of the amount payable at maturity over the initial public offering price at which a substantial amount of such Bonds are sold constitutes original issue discount. Any prices set forth on the cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the Bonds were ultimately sold to the public.

The discussion in this paragraph applies to those Bonds having original issue discount. Under Section 1288 of the Code, the amount of original issue discount treated as having accrued with respect to any such bond during each day it is owned by a taxpayer is added to the cost basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bond by such owner. Accrued original issue discount on a bond is excluded from gross income of the owners thereof for federal income tax purposes. Accrued original issue discount on a bond is also excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax. Original issue discount on any bond is treated as accruing on the basis of economic accrual for such purposes, computed by a constant semiannual compounding method using the yield to maturity on such bond. The original issue discount attributable to any bond for any particular semiannual period is equal to the excess of the product of (i) one-half of the yield to maturity of such bond and (ii) the amount which would be the adjusted basis of the bond at the beginning of such semiannual period if held by the original owner and purchased by such owner at the initial public offering price, over the interest payable on such bond during such period. The amount so treated as accruing during each semiannual period is apportioned in equal amounts among the days in that period to determine the amount of original issue discount accruing for such purposes during each such day. Owners of Bonds having original issue discount, and especially any owner who is not an original owner of a bond who bought the bond at its initial public offering price, should consult their tax advisors with respect to the federal and state income tax consequences of the disposition of such bonds.

## **ORIGINAL ISSUE PREMIUM.**

The initial public offering price of certain of the Bonds may be greater than the amount payable on the Bonds at maturity. The excess of the initial public offering price at which a substantial amount of such Bonds are sold over the amount payable thereon at maturity constitutes original issue premium. Any prices set forth on the cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the Bonds were ultimately sold to the public.

The discussion in this paragraph applies to those Bonds having original issue premium. Under Sections 1016 and 171 of the Code, the amount of original issue premium treated as having amortized with respect to any bond during each day it is owned by a taxpayer is subtracted from the cost basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bond by such owner. Original issue premium on any bond is treated as amortizing on the basis of the taxpayer's yield to maturity on such bond using the taxpayer's cost basis and a constant semiannual compounding method. As a consequence of the resulting cost basis reduction, under certain circumstances an owner of a bond acquired with original issue premium may realize a taxable gain upon disposition thereof even though it is sold or redeemed for an amount equal to or less than such owner's original cost of acquiring the bond. Amortized original issue premium on a bond is not allowed as a deduction from gross income for federal income tax purposes. Amortized original issue premium on a bond also does not reduce Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and does not reduce amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax. Owners of the Bonds having original issue premium, and especially any owner who is not an original owner of a bond who bought the bond at its initial public offering price, should consult their tax advisors with respect to the federal and state income tax consequences of the disposition of such bonds.

## **GENERAL.**

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

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

*[Remainder of page intentionally left blank]*

## APPENDIX C - FORM OF CONTINUING DISCLOSURE AGREEMENT

*In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the Town will agree, pursuant to a Continuing Disclosure Agreement for Bonds to be executed by the Town substantially in the following form, to provide, or cause to be provided, (i) annual financial information and operating data, (ii) in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of certain events with respect to the Bonds and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for Bonds.*

### **Continuing Disclosure Agreement for Bonds**

This Continuing Disclosure Agreement for Bonds ("Agreement") is made as of August 2, 2018 by the Town of Vernon, Connecticut (the "Issuer") acting by its undersigned officers, duly authorized, in connection with the issuance of \$5,000,000 General Obligation Bonds, Issue of 2018, dated as of August 2, 2018 (the "Bonds"), for the benefit of the beneficial owners from time to time of the Bonds.

**Section 1. Definitions.** For purposes of this Agreement, the following capitalized terms shall have the following meanings:

"Final Official Statement" means the official statement of the Issuer dated July 25, 2018 prepared in connection with the Bonds.

"MSRB" means the Municipal Securities Rulemaking Board established under the Securities Exchange Act of 1934, as amended, or any successor thereto.

"Repository" means the MSRB or any other information repository established pursuant to the Rule as amended from time to time.

"Rule" means Rule 15c2-12 under the Securities Exchange Act of 1934, as of the date of this Agreement.

"SEC" means the Securities and Exchange Commission of the United States, or any successor thereto.

### **Section 2. Annual Financial Information.**

(a) The Issuer agrees to provide or cause to be provided to each Repository, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2018) as follows:

(i) Financial statements of the Issuer's general fund and any special revenue, capital projects, internal service and trust or agency funds, for the prior fiscal year which statements shall be prepared in accordance with generally accepted accounting principles or mandated state statutory principles as in effect from time to time. As of the date of this Agreement, the Issuer prepares its financial statements in accordance with generally accepted accounting principles. The financial statements will be audited.

(ii) The following financial information and operating data to the extent not included in the financial statements described in (i) above:

- (A) amounts of the net taxable grand list applicable to the fiscal year,
- (B) listing of the ten largest taxpayers on the applicable grand list, together with each such taxpayer's taxable valuation thereon,
- (C) percentage of the annual property tax levy uncollected as of the close of the fiscal year,
- (D) schedule of annual debt service on outstanding long-term bonded indebtedness as of the close of the fiscal year,
- (E) calculation of total direct debt and net direct debt as of the close of the fiscal year,

- (F) total direct debt and total net debt of the Issuer per capita,
- (G) ratios of the total direct debt and net direct debt of the Issuer to the Issuer's net taxable grand list,
- (H) statement of statutory debt limitation as of the close of the fiscal year, and
- (I) funding status of the Issuer's pension benefit obligation.

(b) The financial information and operating data described above will be provided on or before the date eight months after the close of the fiscal year for which such information is being provided (the "Filing Due Date"). The Issuer's fiscal year currently ends on June 30. The Issuer reserves the right to provide unaudited financial statements if audited financial statements are not available as of the Filing Due Date, provided that the Issuer shall promptly provide audited financial statements when available.

(c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents available to the public on the MSRB's Internet Web site referenced in the Rule as amended from time to time or filed with the SEC. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report.

(d) The Issuer reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in accounting principles adopted by the Issuer; provided that the Issuer agrees that any such modification will be done in a manner consistent with the Rule.

### **Section 3. Notice of Certain Events.**

The Issuer agrees to provide or cause to be provided, in a timely manner not in excess of ten business days after the occurrence of the event, to each Repository notice of the occurrence of any of the following events with respect to the Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the Bonds;
- (g) modifications to rights of holders of the Bonds, if material;
- (h) Bond calls, if material, and tender offers;
- (i) Bond defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the Issuer;

(m) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

*Events (d) and (e).* The Issuer does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the Issuer applies for or participates in obtaining the enhancement.

*Event (f).* Event (f) is relevant only to the extent interest on the Bonds is excluded from gross income for federal income tax purposes.

*Event (h).* The Issuer does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not *otherwise* contingent upon the occurrence of an event, if (A) the terms, dates and amounts of redemption are set forth in detail in the Final Official Statement, (B) the sole matter to be determined is which of the Bonds will be redeemed in the case of a partial redemption, (C) notice of redemption is given to the holders of the Bonds to be redeemed as required under the terms of the Bonds, and (D) public notice of redemption is given pursuant to Exchange Act Release No. 23856 of the SEC, even if the originally scheduled amounts are reduced due to prior optional redemptions or Bond purchases.

#### **Section 4. Notice of Failure to Provide Annual Financial Information.**

The Issuer agrees to provide or cause to be provided, in a timely manner, to each Repository notice of any failure by the Issuer to provide annual financial information as set forth in Section 2(a) hereof on or before the date set forth in Section 2(b) hereof.

#### **Section 5. Use of Agents.**

Annual financial information and operating data and notices to be provided pursuant to this Agreement may be provided by the Issuer or by any agents which may be employed by the Issuer for such purpose from time to time.

#### **Section 6. Termination.**

The obligations of the Issuer under this Agreement shall terminate upon the earlier of (i) payment or legal defeasance, at maturity or otherwise, of all of the Bonds, or (ii) such time as the Issuer ceases to be an obligated person with respect to the Bonds within the meaning of the Rule.

#### **Section 7. Enforcement.**

The Issuer acknowledges that the undertakings set forth in this Agreement are intended to be for the benefit of, and enforceable by, the beneficial owners from time to time of the Bonds. In the event the Issuer shall fail to perform its duties hereunder, the Issuer shall have the option to cure such failure within a reasonable time (but not exceeding 30 days with respect to the undertakings set forth in Section 2 of this Agreement or five business days with respect to the undertakings set forth in Sections 3 and 4 of this Agreement) from the time the Issuer's Finance Officer, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Finance Officer is Town Hall, 14 Park Place, Vernon, Connecticut 06066.

In the event the Issuer does not cure such failure within the time specified above, the beneficial owner of any Bonds shall be entitled only to the remedy of specific performance. The parties expressly acknowledge and agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Bonds.

**Section 8. Miscellaneous.**

(a) All documents provided by the Issuer to a Repository pursuant to the Issuer's undertakings set forth in Sections 2, 3 and 4 of this Agreement shall be in an electronic format as prescribed by the MSRB from time to time and shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(b) The Issuer shall have no obligation to provide any information, data or notices other than as set forth in this Agreement; provided, however, nothing in this Agreement shall be construed as prohibiting the Issuer from providing such additional information, data or notices from time to time as it deems appropriate in connection with the Bonds. If the Issuer elects to provide any such additional information, data or notices, the Issuer shall have no obligation under this Agreement to update or continue to provide further additional information, data or notices of the type so provided.

(c) This Agreement shall be governed by the laws of the State of Connecticut.

(d) Notwithstanding any other provision of this Agreement, the Issuer may amend this Agreement, and any provision of this Agreement may be waived, if such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the Issuer, and is supported by an opinion of counsel expert in federal securities laws, to the effect that (i) such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds, and (ii) the provisions of the Agreement as so amended or waived would have complied with the requirements of the Rule, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, in each case as of the date of such amendment to the Agreement or waiver. A copy of any such amendment or waiver will be filed in a timely manner with each Repository. The annual financial information provided on the first date following adoption of any such amendment will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating or financial information provided.

(e) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same instrument.

TOWN OF VERNON

By \_\_\_\_\_  
Daniel A. Champagne  
Mayor

By \_\_\_\_\_  
Michael J. Purcaro  
Town Administrator

By \_\_\_\_\_  
Jeffrey A. O'Neill  
Finance Officer

## APPENDIX D – NOTICE OF SALE

**NOTICE OF SALE**  
**\$5,000,000**  
**Town of Vernon, Connecticut**  
**General Obligation Bonds**  
**(BOOK-ENTRY)**

ELECTRONIC BIDS via PARITY® will be received by the Town of Vernon, Connecticut at Day Pitney LLP, Bushnell Conference Room, 242 Trumbull Street, Hartford, Connecticut, until **11:00 A.M. Eastern Time on WEDNESDAY,**

**JULY 25, 2018**

for the purchase, when issued, at not less than par and accrued interest from the date of the Bonds to the date of delivery, of the whole of

**\$5,000,000 General Obligation Bonds, Issue of 2018**  
**Payable annually on August 1 as follows:**

**\$340,000 in 2019 to 2021**  
**\$335,000 in 2022 to 2025**  
**\$330,000 in 2026 to 2033**

The Bonds will be dated August 2, 2018, with interest payable on February 1, 2019 and thereafter semiannually on each August 1st and February 1st.

The Town will designate the Bonds as "qualified tax-exempt obligations" for purposes of the deduction for Federal income tax purposes by financial institutions of a portion of interest expense allocable to tax-exempt obligations.

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

**DTC Book Entry.** The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. The Bonds will be issued in registered form and one bond certificate for each maturity will be issued to The Depository Trust Company ("DTC"), New York, New York, registered in the name of its nominee, Cede & Co., and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Bonds in principal amounts of \$5,000 or any integral multiple thereof, with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures adopted by DTC and its Participants. The purchaser, as a condition to delivery of the Bonds, will be required to deposit the bond certificates with DTC, registered in the name of Cede & Co. Principal of, redemption premium, if any, and interest on the Bonds will be payable by the Town or its agent to DTC or its nominee as registered owner of the Bonds. Principal, redemption premium, if any, and interest payments by DTC to Participants of DTC will be the responsibility of DTC; principal, redemption premium, if any, and interest payments to Beneficial Owners by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The Town will not be responsible or liable for payments by DTC to its Participants or by DTC Participants or Indirect Participants to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds and the Town fails to identify another qualified securities depository to replace DTC, or (b) the Town determines to discontinue the book-entry system of evidence and transfer of ownership of the Bonds, the Town will authenticate and deliver replacement Bonds in the form of fully registered certificates. Any such replacement Bonds will provide that interest will be payable by check mailed by the Paying Agent to the registered owner whose name appears on the registration books of the Town as of the close of business on the record date preceding each interest payment date. The record dates will be the fifteenth day of January and July (or the preceding business day if such fifteenth day is not a business day).

**Redemption.** Bonds maturing on or before August 1, 2024 are not subject to redemption prior to maturity. Bonds maturing on August 1, 2025 and thereafter are subject to redemption prior to maturity, at the option of the Town, on or after August 1, 2024, at any time, either in whole or in part, in such amounts and in such order of maturity (but by lot within a maturity) as the Town may determine, following notice mailed by first class mail at least 30 days prior to the redemption date to the registered owners of the Bonds to be redeemed, at the following redemption price, expressed as a percentage of the principal amount, plus accrued interest to the date set for redemption:

Period During Which Redeemed  
August 1, 2024 and thereafter

Redemption Price  
100.0%

**Proposals.** Each proposal must specify the amount bid for the Bonds (which shall be the aggregate par value of the Bonds, and, at the option of the bidder, a premium), and must specify in a multiple of one-twentieth or one eighth of one percent the rate or rates of interest per annum which the Bonds are to bear, but shall not specify (a) more than one interest rate for any Bonds having a like maturity, or (b) any interest rate for any Bonds which exceeds the interest rate specified in such proposal for any other Bonds by more than three (3%) percentage points. In addition to the amount bid for the Bonds, the purchaser must pay an amount equal to the interest on the Bonds accrued to the date of delivery. For the purpose of the bidding process, the time as maintained on PARITY® shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the Town, as described under "Basis of Award" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

**Electronic Proposals Bidding Procedure.** Electronic bids for the purchase of the Bonds must be submitted through the facilities of PARITY®. Any prospective bidder must be a subscriber of I-Deal's Bidcomp competitive bidding system. Further information about PARITY®, including any fee charged, may be obtained from PARITY®, 1359 Broadway, 2nd Floor, New York, New York 10018, Attention: Customer Service Department (telephone: (212) 849-5021 - email notice: parity@i-deal.com). The Town neither will confirm any subscription nor be responsible for any failure of a prospective bidder to subscribe.

Once an electronic bid made through the facilities of PARITY® is communicated to the Town, it shall constitute an irrevocable offer, in response to this Notice, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Town. By submitting a bid for the Bonds via PARITY®, the bidder represents and warrants to the Town that such bidder's bid for the purchase of the Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder by an irrevocable offer and that acceptance of such bid by the Town will bind the bidder by a legal, valid and enforceable contract, for the purchase of the Bonds on the terms described in this Notice. **The Town shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY®, the use of such facilities being the sole risk of the prospective bidder.**

**Disclaimer** - Each PARITY® prospective electronic bidder shall be solely responsible to make necessary arrangements to access PARITY® for the purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the Town nor PARITY® shall have any duty or obligation to undertake such arrangements to bid for any prospective bidder or to provide or assure such access to any prospective bidder, and neither the Town nor PARITY® shall be responsible for a bidder's failure to make a bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, PARITY®. The Town is using PARITY® as a communication mechanism, and not as the Town's agent, to conduct the electronic bidding for the Bonds. The Town is not bound by any advice and determination of PARITY® to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the bid requirements herein set forth. All costs and expenses incurred by prospective bidders in connection with their subscription to, arrangements with and submission of bids via PARITY® are the sole responsibility of the bidders; and the Town is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder encounters any difficulty in arranging to bid or submitting, modifying or withdrawing a bid for the Bonds, the prospective bidder should telephone PARITY® at (212) 849-5021. If any provision of this Notice shall conflict with information provided by PARITY®, this Notice of Sale shall control.

All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale.

**Basis of Award.** As between proposals which comply with this Notice, the Bonds will be sold to the responsible bidder offering to purchase the Bonds at the lowest true interest cost to the Town. For the purpose of determining the successful bidder, the true interest cost to the Town will be the annual interest rate, compounded semiannually, which, when used to discount all payments of principal and interest payable on the Bonds to August 2, 2018, the date of the Bonds, results in an amount equal to the purchase price for the Bonds, excluding interest accrued to the date of delivery. If there is more than one responsible bidder making said offer at the same lowest true interest cost, the Bonds will be sold to the responsible bidder whose proposal is selected by the Town by lot from among all such proposals. It is requested that each proposal be accompanied by a statement of the percentage of true interest cost completed to four decimal places. Such statement shall not be considered as part of the proposal.

The right is reserved to reject any and all proposals and to reject any proposal not complying with this Notice of Sale and to waive any irregularity or informality with respect to any proposal.



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

**Certifying and Paying Agent.** The Bonds will be authenticated by U.S. Bank National Association, Hartford, Connecticut. U.S. Bank National Association will act as Registrar and Paying Agent.

**Delivery.** At or prior to the delivery of the Bonds the successful bidder shall be furnished, without cost, with (a) the approving opinion of Day Pitney LLP of Hartford, Connecticut, Bond Counsel, substantially in the form set out in Appendix B to the Official Statement; (b) a signature and no litigation certificate, in form satisfactory to said firm, dated as of the date of delivery of the Bonds, and stating that there is no litigation pending, or to the knowledge of the signer or signers thereof threatened, affecting the validity of the Bonds or the power of the Town to levy and collect taxes to pay them; (c) a signed copy of the Official Statement prepared for this bond issue; (d) a certificate of Town Officials relating to the accuracy and completeness of the Official Statement; (e) a Continuing Disclosure Agreement; and (f) a receipt of payment for the Bonds. U.S. Bank National Association will keep the original opinion and certificates and copies of the supporting documents, which may be examined at its principal office in Hartford, Connecticut, upon reasonable notice.

**Establishment of Issue Price.** The winning bidder shall assist the Town in establishing the issue price of the Bonds and shall execute and deliver to the Town at Closing an “issue price” or similar certificate setting forth the reasonably expected initial offering price to the Public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications, substantially in the applicable form set out in the Appendix hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the winning bidder and Bond Counsel. All actions to be taken by the Town under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the Town by the Town’s Municipal Advisor identified herein and any notice or report to be provided to the Town may be provided to the Town’s Municipal Advisor.

By submitting a bid for the Bonds, a bidder represents that it has an established industry reputation for underwriting new issuances of municipal obligations.

If the winning bidder has purchased the Bonds for its own account and not with a view to distribution or resale to the Public, then, whether or not the Competitive Sale Requirements, as herein defined, were met, the certificate will recite such facts and identify the price or prices at which the purchase of the Bonds was made.

The Town intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the “Competitive Sale Requirements”) because:

- (1) the Town shall disseminate this Notice of Sale to potential Underwriters in a manner that is reasonably designed to reach potential Underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the Town may receive bids from at least three Underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the Town anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid.

In the event that the Competitive Sale Requirements are not satisfied, the Town shall so advise the winning bidder. The Town shall treat the first price at which 10% of a maturity of the Bonds (the “10% Test”) is sold to the Public as the issue price of that maturity, applied on a maturity-by-maturity basis (and if different interest rates apply within a maturity, to each separate CUSIP number within that maturity). The winning bidder shall advise the Town if any maturity of the Bonds satisfies the 10% Test as of the date and time of the award of the Bonds. The Town will not require bidders to comply with the “Hold-The-Offering-Price Rule”, as described in Treasury Regulations Section 1.148-1(f)(2)(ii), and therefore does not intend to use the initial offering price to the Public as of the Sale Date of any maturity of the Bonds as the issue price of that maturity. **Bids will not be subject to cancellation in the event that the Competitive Sale Requirements are not satisfied.**

If the Competitive Sale Requirements are not satisfied, then until the 10% Test has been satisfied as to each maturity of the Bonds, the winning bidder agrees to promptly report to the Town the prices at which the unsold Bonds of that maturity have been sold to the Public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the earlier to occur of the satisfaction of the 10% Test as to the Bonds of that maturity or the sale of all Bonds of that maturity.

By submitting a bid, each bidder confirms that: (i) any agreement among Underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among Underwriters relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wires.

Sales of any Bonds to any person that is a Related Party to an Underwriter shall not constitute sales to the Public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

- (i) "Public" means any person other than an Underwriter or a Related Party,
- (ii) "Underwriter" means (A) any person that agrees pursuant to a written contract with the Town (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public),
- (iii) a purchaser of any of the Bonds is a "Related Party" to an Underwriter if the Underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "Sale Date" means the date that the Bonds are awarded by the Town to the winning bidder.

**Bond Counsel Opinion.** The opinion of Bond Counsel will cover the following matters: (1) that the Bonds will be valid general obligations of the Town when duly certified; (2) that, assuming the accuracy of and compliance by the Town with its representations and covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, under existing statutes, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; and the Bonds are not "private activity bonds" and interest on the Bonds is not treated as a preference item for purposes of calculating the Federal alternative minimum tax; however, for tax years beginning prior to January 1, 2018, interest on the Bonds is included in the calculation of a corporation's adjusted current earnings for purposes of, and thus may be subject to, the Federal alternative minimum tax and for certain corporations; and the Bonds are "qualified tax-exempt obligations"; and (3) that, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the Bonds is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax.

**Municipal Advisor.** The Town of Vernon has retained Independent Bond and Investment Consultants LLC, 129 Samson Rock Drive, Suite A, Madison, Connecticut 06443 (the "Municipal Advisor") to serve as its municipal advisor in connection with the issuance of the Bonds. The Municipal Advisor has not independently verified any of the information contained in the Notice of Sale and its appendices and makes no guarantee as to their completeness or accuracy.

**Official Statement.** The Town of Vernon has prepared a preliminary Official Statement for the Bond issue which is dated July 18, 2018. The Town deems such preliminary Official Statement final as of its date for purposes of SEC Rule 15c2-12(b)(1), but it is subject to revision or amendment. The Town will make available to the winning purchaser 50 copies of the Official Statement as prepared by the Town at the Town's expense. The copies of the Official Statement will be made available to the winning purchaser at the office of the Town's Municipal Advisor by the delivery of the Bonds or by the seventh business day after the day bids on the Bonds are received if earlier. If the Town's Municipal Advisor is provided with the necessary information from the winning purchaser by noon of the day following the day bids on the Bonds are received, the copies of the Official Statement will include an additional or revised cover page and other pages indicating the interest rates, ratings, yields or reoffering prices, the name of the managing underwriter, the name of the insurer, if any, on the Bonds and any corrections. The purchaser shall arrange with the Municipal Advisor the method of delivery of the copies of the Official Statement to the purchaser. Additional copies of the Official Statement may be obtained by the purchaser at its own expense by arrangement with the printer.

**Continuing Disclosure Agreement.** The Town will enter into a Continuing Disclosure Agreement with respect to the Bonds, substantially in the form attached as Appendix C to the Official Statement (the "Continuing Disclosure Agreement for Bonds"), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2-12, (i) annual financial information and operating data, (ii) timely notice of the occurrence of certain events with respect to the Bonds, and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for Bonds. The winning bidder's obligation to purchase the Bonds shall be conditioned upon its receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement for Bonds.

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

**Delivery Date and Payment.** It is expected that the closing on the Bonds will occur on or about August 2, 2018 through the facilities of the Depository Trust Company, New York, New York, against payment in immediately available Federal funds.

**More Information.** For more information regarding this issue and the Town reference is made to the Official Statement. Copies of the Official Statement may be obtained from Mr. William N. Lindsay, Independent Bond and Investment Consultants LLC, 129 Samson Rock Drive, Suite A, Madison, Connecticut 06443 (telephone: (203) 245-9603) or from Mr. Jeffrey A. O'Neill, Finance Director, Town of Vernon, Town Hall, 14 Park Place, Vernon, Connecticut 06066 (telephone: (860) 870-3690).

DANIEL A. CHAMPAGNE,  
*Mayor*

MICHAEL J. PURCARO,  
*Town Administrator*

JEFFREY A. O'NEILL,  
*Finance Officer*

July 18, 2018

**APPENDIX TO NOTICE OF SALE  
FORM OF ISSUE PRICE CERTIFICATE**

*Competitive Sale Requirements Satisfied*

**TOWN OF VERNON, CONNECTICUT  
\$5,000,000 GENERAL OBLIGATION BONDS, ISSUE OF 2018**

**ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of Name of the Underwriter ("Underwriter Short Name"), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the "Bonds").

1. ***Reasonably Expected Initial Offering Price.***

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by Underwriter Short Name are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Bonds used by Underwriter Short Name in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by Underwriter Short Name to purchase the Bonds.

(b) Underwriter Short Name was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by Underwriter Short Name constituted a firm offer to purchase the Bonds.

2. ***Defined Terms.***

(a) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is July 25, 2018.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

(e) *Issuer* means the Town of Vernon, Connecticut.

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Underwriter Short Name's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Compliance Agreement and with respect to compliance with the federal income tax rules affecting the Bonds, and by Day Pitney LLP, as bond counsel, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

*Name of the Underwriter*

By: \_\_\_\_\_

Name: \_\_\_\_\_

Dated: \_\_/\_\_/2018

**Attachments:**

**SCHEDULE A  
EXPECTED OFFERING PRICES**

**SCHEDULE B  
COPY OF UNDERWRITER'S BID**

*[Remainder of page intentionally left blank]*

***Competitive Sale Requirements Not Satisfied - 10% Test Applied***

**TOWN OF VERNON, CONNECTICUT  
\$5,000,000 GENERAL OBLIGATION BONDS, ISSUE OF 2018**

**ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of Name of the Underwriter ("Underwriter Short Name"), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "Bonds").

1. ***Sale of the Bonds.*** As of the date of this certificate, for each Maturity of the Bonds, the first price at which at least 10% of such Maturity of the Bonds was sold to the Public is the respective price listed in Schedule A.

2. ***Defined Terms.***

(a) "*Issuer*" means the Town of Vernon, Connecticut.

(b) "*Maturity*" means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(c) "*Public*" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) "*Underwriter*" means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Underwriter Short Name's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Compliance Agreement and with respect to compliance with the federal income tax rules affecting the Bonds, and by Day Pitney LLP, as bond counsel, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Name of the Underwriter

By: \_\_\_\_\_  
Name: \_\_\_\_\_

Dated: \_\_/\_\_/2018

**Attachment:**

**SCHEDULE A  
SALE PRICES**

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