

Town of Chester, Connecticut

Financial Statements and
Supplementary Information

Year Ended June 30, 2015

Town of Chester, Connecticut

Table of Contents
June 30, 2015

	<u>Page No.</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
<u>Exhibit</u>	
	Government-Wide Financial Statements
1	Statement of Net Position 10
2	Statement of Activities 11
	Fund Financial Statements
3	Balance Sheet - Governmental Funds 12
3a	Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position - Governmental Activities 13
4	Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds 14
4a	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 15
5	Statement of Fiduciary Net Position - Fiduciary Funds 16
6	Statement of Changes in Fiduciary Net Position – Fiduciary Funds 17
	Notes to the Financial Statements 18
Required Supplementary Information ("RSI")	
<u>RSI</u>	
1	Statement of Revenues, Expenditures and Changes in Budgetary Fund Balance – Budgetary Basis – Budget and Actual – General Fund 55
	Employee Retirement Plan
2a	Schedule of Changes in Net Pension Liability and Related Ratios 58
2b	Schedule of Employer Contributions 59
2c	Annual Money-Weighted Rate of Return 60
	Hose Company Volunteer Service Awards Program
3a	Schedule of Changes in Net Pension Liability and Related Ratios 61
3b	Schedule of Employer Contributions 62
3c	Annual Money-Weighted Rate of Return 63
4	Other Post-Employment Benefits Trust Fund 64
5	Connecticut Teachers' Retirement System 65

Town of Chester, Connecticut

Table of Contents (Continued)
June 30, 2015

	<u>Page No.</u>
Combining Fund Financial Statements	
<u>Statement</u>	
	Special Revenue Funds
1	Combining Balance Sheet 66
2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances 68
	Pension Trust Funds
3	Combining Statement of Net Position 70
4	Combining Statement of Changes in Fiduciary Net Position 71
	Agency Funds
5	Combining Statement of Net Position 72
Supplementary Schedules	
<u>Schedule</u>	
1	Report of the Property Tax Collector 73
2	Statement of Changes in Fund Balance – Capital Projects Fund 74
Internal Controls and Compliance Reports	
	<u>Government Auditing Standards Report</u> 75
	State Single Audit
	State Single Audit Report 77
	Schedule of Expenditures of State Financial Assistance 80
	Notes to the Schedule of Expenditures of State Financial Assistance 81
	Schedule of Findings and Questioned Costs 83

Independent Auditors' Report

**The Board of Finance
Town of Chester, Connecticut**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Chester, Connecticut ("Town") as of and for the year ended June 30, 2015, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2015, and the respective changes in financial position for the year then ended in conformity 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 Management's Discussion and Analysis, the budgetary comparison information, and Pension and Other Post-Employment Benefit Schedules 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The combining fund financial statements and supplementary 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. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015 on our consideration of the Town's internal control over financial reporting and 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 the 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.

O'Connor Davies, LLP

December 11, 2015

Town of Chester, Connecticut

Management's Discussion and Analysis
June 30, 2015

**Town of Chester, Connecticut
Management's Discussion and Analysis
June 30, 2015**

Our discussion and analysis of Town of Chester, Connecticut's (the Government) financial performance provides an overview of the Government's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the Government's financial statements, which begin with Exhibit 1.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the Town of Chester exceeded its liabilities at the close of the most recent year by \$13,640,406. Of the net position amount, \$3,097,197 was unrestricted net position, which may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$406,472.
- At the close of the current fiscal year, Chester's governmental funds reported a combined ending balance of \$4,001,379, an increase of \$202,695 in comparison with the prior year. Of the \$4,001,379 of fund balance, \$5,034 is non-spendable, \$288,644 is restricted, \$1,524,614 is committed for capital projects and \$465,339 is assigned. The \$1,717,748 of unassigned fund balance is available for spending at the Town's discretion.
- The unassigned fund balance for the general fund was \$1,724,338 or 13.50% of the general fund revenue and transfers in.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the Government as a whole and present a longer-term view of the Government's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. The remaining statements provide financial information about activities for which the Government acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the Government as a Whole

Our analysis of the Government as a whole begins with Exhibit 1. One of the most important questions asked about the Government's finances is, "Is the Government as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Town of Chester, Connecticut
Management's Discussion and Analysis
June 30, 2015

These two statements report the Government's *net position* and changes in them. You can think of the Government's net position—the difference between assets and liabilities—as one way to measure the Government's financial health, or *financial position*. Over time, *increases or decreases* in the Government's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Government's property tax base and the condition of the Government's roads, to assess the *overall health* of the Government.

In the Statement of Net Position and the Statement of Activities, the Government shows the following activity:

- Governmental activities—The Government's basic services are reported here, including the education, public works, and general administration. Property taxes, state and federal grants and local revenues such as fees and licenses finance most of these activities.

Reporting the Government's Most Significant Funds

Our analysis of the Government's major funds begins in the section titled "The Government's Funds". The fund financial statements begin with Exhibit 3 and provide detailed information about the most significant funds—not the Government as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board of Finance establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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

The Government as Trustee

The Government is the trustee, or *fiduciary*, for the pension trust funds and activity funds at the school. These funds do not belong to the Government. The Government's fiduciary activities are reported in separate Statements of Fiduciary Net Position in Exhibit 5. We exclude these activities from the Government's other financial statements because the Government cannot use these assets to finance its operations. The Government is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Town of Chester, Connecticut
Management's Discussion and Analysis
June 30, 2015

THE GOVERNMENT AS A WHOLE

The Government's *combined* net position increased by \$406,472 from a year ago—*increasing* from \$13,233,934 to \$13,640,406. Last year net position *increased* by \$661,015. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Government.

Table 1
Change in Net Position (on Exhibit 1)

	2015	Change During Year		2014
		Dollars	Percent	
Current and other assets	\$ 5,672,907	\$ 848,635	17.59%	\$ 4,824,272
Capital assets	11,527,187	18,264	0.16%	11,508,923
Total assets	17,200,094	866,899	5.31%	16,333,195
Deferred outflows of resources	85,358	85,358	100.00%	-
Long-term debt outstanding	2,368,954	(145,669)	-5.79%	2,514,623
Other liabilities	1,276,092	691,454	118.27%	584,638
Total liabilities	3,645,046	545,785	17.61%	3,099,261
Net position				
Net investment in capital assets	10,254,565	214,252	2.13%	10,040,313
Restricted				
Expendable	288,644	(1,462)	-0.50%	290,106
Unrestricted	3,097,197	193,682	6.67%	2,903,515
Total net position	\$ 13,640,406	\$ 406,472	3.07%	\$ 13,233,934

- Cash increased by \$946,735, but net receivables decreased by \$96,757, giving a net variance of \$849,978.
- Long Term Debt outstanding decreased as payments were made on the General Obligation Bond and Clean Water Note during the year. The General Obligation Bond matures in 2018 and the Clean Water Note matures in 2030. The Town also made payment on special termination benefits for retired employees. The Town will continue to make such payments through 2016.
- Other liabilities increased due to a STEAP grant received in the amount of \$665,256, but not spent.

**Town of Chester, Connecticut
Management's Discussion and Analysis
June 30, 2015**

**Table 2
Change in Net Position (on Exhibit 2)**

	2015	Change During Year		2014
		Dollars	Percent	
Revenues				
Program revenues:				
Charges for services	\$ 456,793	\$ 18,233	4.16%	\$ 438,560
Operating grants and contributions	1,876,201	208,742	12.52%	1,667,459
General revenues:				
Property taxes	10,826,261	(322,648)	-2.89%	11,148,909
Other taxes	35,717	(14,790)	-29.28%	50,507
Grants and contributions	111,764	(35,295)	-24.00%	147,059
Interest and investment earnings	16,836	2,719	19.26%	14,117
Gain (loss) on disposal of equipment	375	4,880	-108.32%	(4,505)
Total revenues	<u>13,323,947</u>	<u>(138,159)</u>	-1.03%	<u>13,462,106</u>
Program expenses				
General government	943,289	(15,443)	-1.61%	958,732
Public works	1,042,315	(18,849)	-1.78%	1,061,164
Public safety	798,084	(4,870)	-0.61%	802,954
Health and welfare	305,214	24,032	8.55%	281,182
Miscellaneous	756,007	21,328	2.90%	734,679
Education	9,036,410	116,995	1.31%	8,919,415
Interest on long-term debt	36,156	(6,809)	-15.85%	42,965
Total expenses	<u>12,917,475</u>	<u>116,384</u>	0.91%	<u>12,801,091</u>
Increase (decrease) in net position	<u>\$ 406,472</u>	<u>\$ (254,543)</u>	-38.51%	<u>\$ 661,015</u>

Governmental Activities

Table 3 presents the cost of each of the Government's governmental programs as well as each governmental program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Government's taxpayers by each of these functions.

**Table 3
Governmental Type Activities**

	Total Cost of Services			Incr. Decr.	Net Cost of Services		
	2015	2014			2015	2014	Incr. Decr.
Governmental Activities							
General government	\$ 943,289	\$ 958,732	-1.61%	\$ 458,632	\$ 547,884	-16.29%	
Public works	\$ 1,042,315	\$ 1,061,164	-1.78%	\$ 800,846	\$ 976,006	-17.95%	
Public safety	\$ 798,084	\$ 802,954	-0.61%	\$ 577,418	\$ 609,698	-5.29%	
Health and welfare	\$ 305,214	\$ 281,182	8.55%	\$ 197,748	\$ 173,993	13.65%	
Miscellaneous	\$ 756,007	\$ 734,679	2.90%	\$ 646,469	\$ 579,063	11.64%	
Education	\$ 9,036,410	\$ 8,919,415	1.31%	\$ 7,867,212	\$ 7,765,463	1.31%	
Interest on debt	\$ 36,156	\$ 42,965	-15.85%	\$ 36,156	\$ 42,965	-15.85%	
Totals	<u>\$ 12,917,475</u>	<u>\$ 12,801,091</u>	0.91%	<u>\$ 10,584,481</u>	<u>\$ 10,695,072</u>	-1.03%	

**Town of Chester, Connecticut
Management's Discussion and Analysis
June 30, 2015**

THE GOVERNMENT'S FUNDS

While the year showed an increase in net position of \$406,472, it showed an increase in fund balance in the government funds of \$202,695. As presented in Exhibits 3 and 4. The difference for this is primarily the treatment of long-term debt and capital assets. In the fund balance principal payments on long-term debt are a reduction in fund balance when the payments on the debt are made. Debt payments are never a direct reduction in net position on the government-wide statements. Likewise, purchases of capital assets are a reduction in fund balance when the purchase is made. Capital asset purchases are never a direct reduction in net position on the government-wide statements.

General Fund Budgetary Highlights

Over the course of the year, the Board of Finance can revise the Government budget with additional appropriations and budget transfers. Additional appropriations increase the total budget. The Board of Finance is allowed by State Statute to make one additional appropriations up to \$20,000 per line item or department. A second additional appropriation or an appropriation over \$20,000 requires a Town Meeting. Transfers do not increase the total budget, but instead pull appropriations from one department that needs additional funding from other departments that might have excess funding. State Statutes allow these transfers to be made by the Board of Finance without a Town Meeting. Below is a summarized view of the final budget and actual results for the General Fund:

**Table 4
General Fund - Budget Summary**

	Final Budget	Actual	Variance
Revenues			
Property Taxes	\$ 10,971,913	\$ 10,848,239	\$ (123,674)
Intergovernmental - general	394,383	381,090	(13,293)
Intergovernmental - education	678,103	679,155	1,052
Licenses and permits	67,200	85,060	17,860
Miscellaneous	210,150	267,951	57,801
Transfers in	172,700	195,390	22,690
Total Revenues	12,494,449	12,456,885	(37,564)
Expenditures			
General Government	867,260	848,345	18,915
Public works	1,015,307	1,007,753	7,554
Public safety	727,097	713,641	13,456
Health and welfare	142,895	139,001	3,894
Miscellaneous	763,527	756,007	7,520
Education	8,515,185	8,468,659	46,526
Debt service	233,595	233,594	1
Transfers out	342,870	342,870	-
Total Expenditures	12,607,736	12,509,870	97,866
Increase (Decrease) in Fund Balance	\$ (113,287)	\$ (52,985)	\$ 60,302

**Town of Chester, Connecticut
Management's Discussion and Analysis
June 30, 2015**

- Property tax revenue was under budget due to the outcome of a lawsuit by Chester Woods, Inc., which resulted in a tax refund.
- Intergovernmental revenues were under budget due to the Town not receiving the LOCIP Grant within 60 days of the close of the fiscal year.
- Licenses and permits revenue were over budget due to an increase in building permits and planning and zoning permits.
- Miscellaneous revenue was over budget due to various insurance reimbursements, a Region #4 surplus, conveyance tax (increase real estate sales) and police private duty revenue.
- All expense categories came in below budget. See further detail within the Required Supplementary Information Section which includes a detailed budget actual by line item.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of this year, the Government had \$11,527,187 invested government activity capital assets. This investment in assets includes – land, construction in progress, buildings and systems, machinery and equipment and infrastructure. This amount represents a net increase (including additions and deductions) of \$18,264 from last year. This increase consisted primarily of capital asset additions of \$416,325, disposals of \$96,734, offset by depreciation expense of \$301,327. Major capital asset events that occurred during the fiscal year included the following:

- Machinery and equipment \$78,888 (mower, generator rebuild, Ford Explorer, Dodge Charger)
- Infrastructure \$107,295 (Dock Road reclaimed)
- Construction in progress - \$133,408 (net)

More detailed information about the Government's capital assets is presented in Note 3E to the financial statements.

Debt

At year end, the Government had \$1,272,622 in bonds and notes outstanding. This is a decrease of \$195,988 from last year. The Government's general obligation bond rating continues to carry an A2 rating. More detailed information about the Government's long-term liabilities is presented in Note 3F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Government's elected and appointed officials considered many factors when setting the fiscal-year 2015 budget and tax rates.

Economic factors were considered in preparing the Town's budget for the 2016 year, including concerns of the constituents. The unemployment rate for the Town of Chester was 3.3% as of October, 2015 which is 25% lower than the prior year. This compares favorably to the State of Connecticut's unemployment rate of 4.8% and the national average of 5%.

The Town's adopted budget for the 2016 fiscal year increased by \$399,538. This was an increase of 3.19% over the prior year's budget of \$12,507,736. The Town's General Fund budget increase by \$180,275, and the capital budget increase by \$76,130 for total net increase of 6.42%. The Regional School District #4 budget increased by \$68,824 or 1.58%. The Chester Elementary School budget increase by \$74,309 or 1.79%.

The Town's major source of revenue to the budget is from local property taxes, which are based on value of residential and commercial real estate, personal property and motor vehicles. The net grand list decreased by \$3,630,255 or less than 1% to \$438,516,768. The mil rate increased to 25.32 or by 2.01%. The Town assigned \$200,000 of the 2015 fiscal year fund balance for spending in the 2016 fiscal year budget.

The State of Connecticut's Office of Policy and Management ("OPM") has adopted new laws that will affect the Government's budgets in subsequent years. The motor vehicle mill rate will be capped at 32 mills in fiscal-year 2017 and 29.36 mills in fiscal-year 2018 and annually thereafter. Beginning in fiscal-year 2018, a cap will be imposed on municipal spending to limit general budget expenditures to 2.5 percent above the previous year or the rate of inflation, whichever is greater. Exemptions from the cap include debt service, special education expenditures, and expenditures related to major disaster or emergency declaration. The Minimum Budget Requirement ("MBR") for education expenditures has been relaxed effective July 1, 2015. The change allows the Government more flexibility in lowering its MRB.

CONTACTING THE GOVERNMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Government's finances and to show the Government's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Finance at Town of Chester, Connecticut, 203 Middlesex Avenue, Chester, CT 06412.

Town of Chester, Connecticut

Basic Financial Statements
June 30, 2015

Town of Chester, Connecticut

Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and equivalents	\$ 5,003,781
Receivables	
Taxes, net	202,748
Accounts	33,075
Loans	166,714
Intergovernmental	78,908
Special assessments, net	182,647
Inventory	5,034
Capital assets	
Nondepreciable	1,195,982
Depreciable, net of accumulated depreciation	<u>10,331,205</u>
Total Assets	<u>17,200,094</u>
DEFERRED OUTFLOWS OF RESOURCES	
Differences between expected and actual experience	42,055
Net difference between projected and actual earnings	<u>43,303</u>
Total Deferred Outflows of Resources	<u>85,358</u>
LIABILITIES	
Accounts payable	352,447
Accrued payroll and related	136,423
Retainages payable	8,106
Unearned revenues	774,766
Accrued interest payable	4,350
Non-current liabilities	
Due within one year	211,407
Due in more than one year	<u>2,157,547</u>
Total Liabilities	<u>3,645,046</u>
NET POSITION	
Net investment in capital assets	10,254,565
Restricted	
Expendable	288,644
Unrestricted	<u>3,097,197</u>
Total Net Position	<u>\$ 13,640,406</u>

The notes to financial statements are an integral part of this statement.

Town of Chester, Connecticut

Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
General government	\$ 943,289	\$ 179,024	\$ 305,633	\$ -	\$ (458,632)
Public works	1,042,315	3,903	237,566	-	(800,846)
Public safety	798,084	24,677	195,989	-	(577,418)
Health and welfare	305,214	98,179	9,287	-	(197,748)
Miscellaneous	756,007	97,092	12,446	-	(646,469)
Education	9,019,554	53,918	1,098,424	-	(7,867,212)
Interest on long-term debt	36,156	-	-	-	(36,156)
Total Governmental Activities	<u>\$ 12,900,619</u>	<u>\$ 456,793</u>	<u>\$ 1,859,345</u>	<u>\$ -</u>	<u>(10,584,481)</u>
General Revenues					
Property taxes, payments in lieu of taxes, interest and liens					10,826,261
Other taxes					35,717
Grants and contributions not restricted to specific programs					111,764
Unrestricted interest and investment earnings					16,836
Gain on disposal of equipment					375
Total General Revenues					<u>10,990,953</u>
Change in Net Position					406,472
Net Position - Beginning of Year					<u>13,233,934</u>
Net Position - End of Year					<u>\$ 13,640,406</u>

The notes to financial statements are an integral part of this statement.

Town of Chester, Connecticut

Balance Sheet
 Governmental Funds
 June 30, 2015

	General Fund	Capital Projects Fund	STEAP Main Street Phase I	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and equivalents	\$ 2,316,459	\$ 1,532,905	\$ 840,757	\$ 313,660	\$ 5,003,781
Taxes receivable, net of allowance for uncollectible amounts	202,748	-	-	-	202,748
Other receivables					
Accounts	7,066	-	-	26,009	33,075
Loans	-	-	-	166,714	166,714
Intergovernmental	60,768	-	-	18,140	78,908
Special assessments, net	182,647	-	-	-	182,647
Due from other funds	8,739	-	-	-	8,739
Inventories	-	-	-	5,034	5,034
Total Assets	<u>\$ 2,778,427</u>	<u>\$ 1,532,905</u>	<u>\$ 840,757</u>	<u>\$ 529,557</u>	<u>\$ 5,681,646</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 120,429	\$ 2,000	\$ 166,239	\$ 63,779	\$ 352,447
Accrued payroll and related	136,423	-	-	-	136,423
Retainage payable	-	-	8,106	-	8,106
Due to other funds	-	-	-	8,739	8,739
Unearned revenues	109,510	-	665,256	-	774,766
Total Liabilities	<u>366,362</u>	<u>2,000</u>	<u>839,601</u>	<u>72,518</u>	<u>1,280,481</u>
Deferred inflow of resources					
Deferred revenues - unavailable	<u>396,543</u>	<u>-</u>	<u>-</u>	<u>3,243</u>	<u>399,786</u>
Fund balances					
Nonspendable	-	-	-	5,034	5,034
Restricted	-	-	1,156	287,488	288,644
Committed	-	1,524,614	-	-	1,524,614
Assigned	291,184	6,291	-	167,864	465,339
Unassigned	<u>1,724,338</u>	<u>-</u>	<u>-</u>	<u>(6,590)</u>	<u>1,717,748</u>
Total Fund Balances	<u>2,015,522</u>	<u>1,530,905</u>	<u>1,156</u>	<u>453,796</u>	<u>4,001,379</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,778,427</u>	<u>\$ 1,532,905</u>	<u>\$ 840,757</u>	<u>\$ 529,557</u>	<u>\$ 5,681,646</u>

The notes to financial statements are an integral part of this statement.

Town of Chester, Connecticut
 Reconciliation of Governmental Funds Balance Sheet
 to the Government Wide Statement of Net Position - Governmental Activities
 June 30, 2015

Fund Balances - Total Governmental Funds	\$ 4,001,379
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,527,187
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	399,786
Deferred outflows - differences between expected and actual experience	42,055
Deferred outflows - net difference between projected and actual earnings	43,303
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Notes and loans	(837,622)
General obligation bonds	(435,000)
Compensated absences	(53,436)
Post-closure landfill costs	(103,500)
Pension obligations	(875,988)
Other post employment benefits	(63,408)
Accrued interest payable	<u>(4,350)</u>
	<u>(2,373,304)</u>
Net Position of Governmental Activities	<u>\$ 13,640,406</u>

The notes to financial statements are an integral part of this statement.

Town of Chester, Connecticut

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	General Fund	Capital Projects Fund	STEAP Main Street Phase I	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$10,848,239	\$ -	\$ -	\$ -	\$ 10,848,239
Licenses and permits	85,060	-	-	102,082	187,142
Intergovernmental	1,379,955	-	237,266	105,996	1,723,217
Investment earnings	-	5,148	982	389	6,519
Miscellaneous loca	<u>247,019</u>	<u>-</u>	<u>-</u>	<u>375,336</u>	<u>622,355</u>
Total Revenues	<u>12,560,273</u>	<u>5,148</u>	<u>238,248</u>	<u>583,803</u>	<u>13,387,472</u>
EXPENDITURES					
Current					
General government	840,321	-	-	86,434	926,755
Public works	956,656	-	-	-	956,656
Public safety	713,641	-	-	25,890	739,531
Health and welfare	139,001	-	-	120,975	259,976
Miscellaneous	756,007	-	-	-	756,007
Education	8,769,969	-	-	171,430	8,941,399
Debt service					
Principal	195,988	-	-	-	195,988
Interest	37,606	-	-	-	37,606
Capital outlay	<u>-</u>	<u>133,593</u>	<u>237,266</u>	<u>-</u>	<u>370,859</u>
Total Expenditures	<u>12,409,189</u>	<u>133,593</u>	<u>237,266</u>	<u>404,729</u>	<u>13,184,777</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>151,084</u>	<u>(128,445)</u>	<u>982</u>	<u>179,074</u>	<u>202,695</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	195,390	342,870	-	18,900	557,160
Transfers out	<u>(361,270)</u>	<u>-</u>	<u>-</u>	<u>(195,890)</u>	<u>(557,160)</u>
Total Other Financing Sources (Uses)	<u>(165,880)</u>	<u>342,870</u>	<u>-</u>	<u>(176,990)</u>	<u>-</u>
Net Change in Fund Balances	(14,796)	214,425	982	2,084	202,695
Fund Balances - Beginning of Yea	<u>2,030,318</u>	<u>1,316,480</u>	<u>174</u>	<u>451,712</u>	<u>3,798,684</u>
Fund Balances - End of Yea	<u>\$ 2,015,522</u>	<u>\$1,530,905</u>	<u>\$ 1,156</u>	<u>\$ 453,796</u>	<u>\$ 4,001,379</u>

The notes to financial statements are an integral part of this statement.

Town of Chester, Connecticut
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 Year Ended June 30, 2015

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 202,695</u>
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.</p>	
Capital outlay expenditures	319,591
Depreciation expense	<u>(301,327)</u>
	<u>18,264</u>
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Real property taxes and other revenues in the General Fund	<u>(46,964)</u>
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
Principal payments on long-term debt	<u>195,988</u>
	<u>195,988</u>
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, including the change in</p>	
Accrued interest	1,450
Early retirement incentive	19,024
Landfill expenses	11,500
Compensated absences	(7,659)
Pension and other post employment benefits asset/liability	<u>12,174</u>
	<u>36,489</u>
Change in Net Position of Governmental Activities	<u>\$ 406,472</u>

The notes to financial statements are an integral part of this statement.

Town of Chester, Connecticut

Statement of Net Position
 Fiduciary Funds
 June 30, 2015

	Pension Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 15,258
Investments, at fair value	<u>1,897,356</u>	<u>-</u>
 Total Assets	 <u>1,897,356</u>	 <u>15,258</u>
 LIABILITIES		
Due to others	<u>-</u>	<u>15,258</u>
 NET POSITION		
Held in trust for pension benefits and other purposes	<u>\$ 1,897,356</u>	<u>\$ -</u>

The notes to financial statements are an integral part of this statement.

Town of Chester, Connecticut

Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 Year Ended June 30, 2015

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions	
Employer	\$ 184,295
Plan members	<u>8,193</u>
Total Contributions	<u>192,488</u>
Investment income	
Net change in fair value of investments	47,434
Interest and dividends	<u>11,183</u>
Net Investment Income	<u>58,617</u>
Total Additions	251,105
DEDUCTIONS	
Pension benefits	<u>68,738</u>
Change in Net Position	182,367
Net Position - Beginning of Year	<u>1,714,989</u>
Net Position - End of Year	<u>\$ 1,897,356</u>

The notes to financial statements are an integral part of this statement.

Town of Chester, Connecticut

Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies

The Town of Chester, Connecticut ("Town") is a municipal corporation governed by a selectmen–town meeting form of government. Under this form of government the town meeting is the legislative body. A town meeting is required to make appropriations, levy taxes and borrow money. The administrative branch is led by an elected three-member board of selectmen. The selectmen oversee most of the activities not assigned specifically to another body. An elected board of education oversees the public school system. The elected Board of Finance is the budget making authority and supervises the town financial matters.

The accounting policies conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Town's more significant accounting policies:

A. Financial Reporting Entity

The financial reporting entity consists of: a) the primary government; b) organizations for which the primary government is financially accountable and c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth by GASB.

In evaluating how to define the financial reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in this reporting entity was made by applying the criteria set forth by GASB, including legal standing, fiscal dependency and financial accountability. The criterion has been considered and there are no agencies or entities which should be presented with this government.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the primary government as a whole. For the most part, the effect of interfund activity has been removed from these statements, except for interfund services provided and used. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities (if any), which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the financial position of the Town at the end of its fiscal year. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods or services, or privileges provided by a given function or segment, (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and (3) interest earned on grants that is required to be used to support a particular program. Taxes and other items not identified as program revenues are reported as general revenues. The Town does not allocate indirect expenses to functions in the Statement of Activities.

1. Summary of Significant Accounting Policies (Continued)

C. Fund Financial Statements

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The Town maintains the minimum number of funds consistent with legal and managerial requirements. The focus of governmental fund financial statements is on major funds as that term is defined in professional pronouncements. Each major fund is to be presented in a separate column, with non-major funds, if any, aggregated and presented in a single column. The Town maintains fiduciary funds which are reported by type. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the pages following, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column of the government-wide presentation.

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

The Town's resources are reflected in the fund financial statements in two broad fund categories, in accordance with generally accepted accounting principles as follows:

Fund Categories

- a. Governmental Funds - Governmental funds are those through which most general government functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the Town's major governmental funds:
- General Fund - The General Fund constitutes the primary operating fund of the Town and is used to account for and report all financial resources not accounted for and reported in another fund.
 - Capital Projects Fund - The Capital Projects Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of major capital facilities and other capital assets.
 - STEAP Main Street Phase I Fund – this fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for the economic development and water quality improvement project funded by a STEAP Grant.

1. Summary of Significant Accounting Policies (Continued)

The Town also reports the following non-major governmental funds:

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purpose other than debt service or capital projects. The non-major Special Revenue Funds of the Town are:

- Dog Fund – This fund accounts for revenue received for dog licenses and dog warden fines. A portion is sent to the State of Connecticut and the balance is transferred to the General Fund to partially reimburse for the Animal Control Officer's budgeted expenditures.
- Emergency Fuel/Community Fund – This fund accounts for revenue received from donations from citizens and organizations and for expenditures related to emergency social services.
- Cafeteria Fund – This fund accounts for operations of Chester Elementary's school lunch program; including the receipts and expenditures of federal and state funding.
- Parks and Recreation Fund – This fund accounts for the revenue and expenditures of the self-funded programs offered through the Parks and Recreation Commission. Capital expenditures are allowed with Board of Finance approval.
- Small Cities Fund – This fund accounts for the repayment of loans to Chester residents originally received from the State of Connecticut Department of Housing. Grant funds received from loan repayments are available for housing rehabilitation loans to other residents. The Board of Selectmen determine if applicants meet guidelines.
- Historic Records Preservation Fund – This fund accounts for land record receipts earmarked for the preservation of Town documents.
- Library Fund – This fund accounts for grant and donation revenue and various expenditures. This fund is under the authority of the Chester Public Library Board of Trustees.
- Education Grants Fund – This fund accounts for all federal and state education grants.
- Ambulance Fund – This fund accounts for revenue generated by the ambulance less the related fees. The balance is transferred to the General Fund.
- Harbor Fund – This fund accounts for revenue related to mooring fees and related expenditures. This fund is under the authority of the Harbor Commission.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

- Miscellaneous Grants Fund – This fund accounts for various grant or miscellaneous revenue and related expenditures.
 - Sewer System Fund – This fund accounts for sewer assessment and fee revenue and all expenditures related to the Town's sewer system. This fund is under the authority of the water pollution control authority commission.
- b. Fiduciary Funds (Not Included in Government-Wide Financial Statements) - The Fiduciary Funds are used to account for assets held by the Town in an agency capacity on behalf of others. These include Pension Trust and Agency funds. The Pension Trust Funds are provided to account for the activities of the Town's Employee Retirement System, which accumulates resources for pension benefit payments to qualified employees, and the Town's Volunteer Firefighters' Pension Plan, which accumulates resources for pension benefit payments to qualified firefighters. The Agency Funds are primarily utilized to account for monies held as custodian for outside student groups.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements and the pension trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the pension trust funds. The Agency Fund has no measurement focus, but utilizes 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.

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.

Property taxes and certain other revenues are considered to be available if collected within sixty days of the fiscal year end. Property taxes associated with the current fiscal period, as well as charges for services and intergovernmental revenues are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fees and other similar revenues are not susceptible to accrual because generally they are not measurable until received in cash. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made.

1. Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures, when applicable, related to early retirement incentives, compensated absences, capital leases, post-closure landfill costs, pollution remediation obligations, other post-employment benefit obligations, certain pension obligations and certain claims payable 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 leases are reported as other financing sources.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balances

Deposits, Investments and Risk Disclosure

Cash and Equivalents - Cash and equivalents consist of funds deposited in demand deposit accounts, time deposit accounts, certificates of deposit, money market funds, State of Connecticut Treasurer's Short-Term Investment Fund, Tax Exempt Proceeds Funds and treasury bills with original maturities of less than three months.

The Town's custodial credit risk policy is to only allow the Town to use banks that are in the State of Connecticut. The State of Connecticut requires that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk-based capital ratio.

Investments - The investment policies of the Town conform to the policies as set forth by the State of Connecticut. The Town's policy is to only allow prequalified financial institution broker/dealers and advisors. The Town policy allows investments in the following: (1) obligations of the United States and its agencies; (2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof; and (3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the Connecticut Short-Term Investment Fund and the Tax Exempt Proceeds Fund.

Investments are stated at fair value, based on quoted market prices.

The pension funds allow for investments in certain alternative investments. Alternative investments may include private equity partnerships, infrastructure limited partnerships, hedge and absolute return funds for which there may be no ready market to determine fair value. These investments are valued using the most recent valuation available from the external fund manager. These estimated values do not necessarily represent the amounts that will ultimately be realized upon the disposition of those assets, which may be materially higher or lower than values determined if a ready market for the securities existed.

1. Summary of Significant Accounting Policies (Continued)

Other provisions of the Statutes cover specific municipal pension funds with particular investment authority and do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries (i.e., prudent person rule) and the provisions of the applicable plan. Their approved policies target an asset mix to provide the probability of meeting or exceeding the return objectives at the lowest possible risk.

The Short-Term Investment Fund ("STIF"), is a money market investment pool managed by the Cash Management Division of the State Treasurer's Office created by Section 3-27 of the Connecticut General Statutes ("CGS"). Pursuant to CGS 3-27a through 3-27f, the State, municipal entities, and political subdivisions of the State are eligible to invest in the fund. The fund is considered a "2a7-like" pool and, as such, reports its investments at amortized cost (which approximates fair value). A 2a7-like pool is not necessarily registered with the Security and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940 that allows money market mutual funds to use the amortized cost to report net assets. The pool is rated AAAM by Standard & Poor. This is the highest rating for money market funds and investment pools. The pooled investment funds' risk category cannot be determined since the Town does not own identifiable securities but invests as a shareholder of the investment pool.

Interest Rate Risk - Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Generally, the Town does not invest in any long-term investment obligations.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy for custodial credit risk is to invest in obligations allowable under the Connecticut General Statutes as described previously.

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Town does not have a formal credit risk policy other than restrictions to obligations allowable under the Connecticut General Statutes.

Concentration of Credit Risk – Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Town follows the limitations specified in the Connecticut General Statutes. Generally, the Town's deposits cannot be 75% or more of the total capital of any one depository.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

Taxes Receivable - Property taxes are assessed on property values as of October 1st. The tax levy is divided into two billings; the following July 1st and January 1st. This is used to finance the fiscal year from the first billing (July 1st) to June 30th of the following year. The billings are considered due on those dates; however, the actual due date is based on a period ending 31 days after the tax bill. On these dates (August 1st and February 1st), the bill becomes delinquent at which time the applicable property is subject to lien, and penalties and interest are assessed.

Under State Statute, the Town has the right to impose a lien on a taxpayer if any personal property tax, other than a motor vehicle tax, due to the Town is not paid within the time limited by any local charter or ordinance. The lien shall be effective for a period of fifteen years from the date of filing unless discharged. A notice of tax lien shall not be effective if filed more than two years from the date of assessment for the taxes claimed to be due.

Other Receivables - Other receivables include amounts due from other governments and individuals for services provided by the Town. Receivables are recorded and revenues recognized as earned or as specific program expenditures/expenses are incurred. Allowances are recorded when appropriate.

Loans Receivable - Loans receivable in the Small Cities Fund are housing rehabilitation loans. Loans receivable are recorded and revenues recognized as earned. The loans have various interest rates and maturities.

Prepaid Expenses/Expenditures - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method in both the government-wide and fund financial statements. Reported amounts are equally offset by nonspendable fund balance, in the fund financial statements, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.

Inventories - Inventories in the governmental funds are valued at cost on a first-in, first-out basis. The cost is recorded as inventory at the time individual items are purchased. The Town uses the consumption method to relieve inventory. In the fund financial statements, reported amounts are equally offset by nonspendable fund balance in governmental funds, which indicates that they do not constitute "available spendable resources" even though they are a component of current assets. Purchases of other inventoriable items are recorded as expenditures/expenses at the time of purchase and year-end balances are not material.

Due From/To Other Funds - During the course of its operations, the Town has numerous transactions between funds to finance operations, provide services and construct assets. To the extent that certain transactions between funds had not been paid or received as of June 30, 2015, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

1. Summary of Significant Accounting Policies (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 Town as assets with an initial, individual cost of more than the capitalization threshold for that asset type and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Intangible assets lack physical substance, is nonfinancial in nature and its useful life extends beyond a single reporting period. These are reported at historical cost if identifiable. Intangible assets with no legal, contractual, regulatory, technological or other factors limiting their useful life are considered to have an indefinite useful life and are not amortized.

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.

Land is considered inexhaustible and, therefore, not depreciated. Property, plant, and equipment of the Town is depreciated or amortized using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>	<u>Capitalization Threshold</u>
Land	N/A	\$ 1
Buildings and systems	20-75	\$ 1
Land Improvements	50	\$ 20,000
Machinery and equipment	5-40	\$ 5,000
Intangible assets	Varies, if any	\$ 20,000
Infrastructure		
Bridges	30	\$ 100,000
Roads and drainage	75	\$ 100,000

Unearned Revenues - Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In the government-wide financial statements, unearned revenues consist of revenue received in advance and/or amounts from grants received before the eligibility requirements have been met.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

1. Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Also, deferred revenues in the fund financial statements are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Such amounts in the fund financial statements have been deemed to be measurable but not "available" pursuant to generally accepted accounting principles.

Long-Term Liabilities - In the government-wide statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

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

Compensated Absences - Town employees accumulate sick leave hours for subsequent use or for payment upon termination or retirement. Sick leave expenses to be paid in future periods are accrued when incurred in the government-wide statements. A liability for these amounts is reported in the governmental funds only if the liability has matured through employee resignation or retirement.

Net Position - Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position on the Statement of Net Position includes, net investment in capital assets and restricted. The balance is classified as unrestricted.

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

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

Town of Chester, Connecticut

Notes to Financial Statements (Continued)

June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

- Restricted fund balance is to be reported when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation. This fund balance classification will be used to report funds that are restricted for debt service obligations and for other items contained in the Connecticut statutes.
- Committed fund balance will be reported for amounts that can only be used for specific purposes pursuant to formal action of the Town's highest level of decision making authority. A motion at a Town Meeting is the highest level of decision making authority for the Town that can, by the adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, these funds may only be used for the purpose specified unless the Town removes or changes the purpose by taking the same action that was used to establish the commitment.
- Assigned fund balance, in the General Fund, represents amounts constrained either by policies of the Board of Finance for amounts assigned for balancing the subsequent year's budget or management for amounts assigned for encumbrances. Unlike commitments, assignments generally only exist temporarily, in that additional action does not normally have to be taken for the removal of an assignment. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. Assigned fund balance in all other governmental funds represents any positive remaining amount after classifying nonspendable, restricted or committed fund balance amounts.
- Unassigned fund balance, in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities and deferred inflows, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets and deferred outflows.

In order to calculate the amounts to report as restricted and unrestricted 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. When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Town's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Town's policy to use fund balance in the following order: committed, assigned, and unassigned.

F. Encumbrances

In governmental funds, encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve applicable appropriations, is generally employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as assigned fund balance since they do not constitute expenditures or liabilities.

1. Summary of Significant Accounting Policies (Continued)

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

H. Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 11, 2015.

2. Stewardship, Compliance and Accountability

A. Budget Basis

A formal, legally approved, annual budget is adopted for the General Fund only. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions:

- **Teachers' Retirement** - The Town does not recognize as income or expenditures payments made for the teachers' retirement by the State of Connecticut on the Town's behalf in its budget. The Governmental Accounting Standards Board's Statement 24 requires that the employer government recognize payments for salaries and fringe benefits paid on behalf of its employees.
- **Encumbrances** - Unless committed through a formal encumbrance (e.g., purchase orders, signed contracts), all annual appropriations lapse at fiscal year-end. Encumbrances outstanding at year end are reported on the budgetary basis statements as expenditures.
- **Excess Cost Grant** – Revenue from the State of Connecticut's Excess Cost Grant, when received, is netted with the Board of Education expenditures on the budget basis of accounting in accordance with the Connecticut General Statutes.

B. Budget Calendar

The Boards of Selectmen and Education submit requests for appropriation(s) to the Board of Finance. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations of the next fiscal year.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

2. Stewardship, Compliance and Accountability (Continued)

The Board of Finance holds a public hearing, at which itemized estimates of the expenditures of the Town for the next fiscal year are presented. At this time, individuals are able to recommend any appropriations, which they desire the Board of Finance to consider. The Board of Finance then considers the estimates and any other matters brought to their attention at a public meeting held subsequent to the public hearing and prior to the annual meeting. The Board of Finance prepares the proposed budget.

The Board of Finance's estimated and recommended budget reports are submitted at the Annual Town Meeting. The Annual Town Meeting takes action on this budget. After the Annual Town Meeting the Board of Finance meets to levy a tax on the grand list which will be sufficient to cover, together with other income or revenue surplus which is appropriated, the amounts appropriated and any revenue deficit of the Town.

C. Budget Control

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level except expenditures for education, which are, by State Statutes, appropriated as one department.

The governing body may amend the annual budget subject to the requirements of the Connecticut General Statutes. The Board of Finance may make a one-time additional appropriation up to \$20,000 to any appropriations. A Town meeting must be called to make appropriations over \$20,000 or additional changes to a previously adjusted appropriation.

D. Expenditures in Excess of Budget

During the year \$100,000 of additional appropriations were made.

E. Application of Accounting Standards

For the year ended June 30, 2015, the Town implemented:

- GASB Statement 68 - *Accounting and Financial Reporting for Pensions* – This statement, and GASB Statement 67 applicable to pension plans, improves information provided by state and local government employers for better decision making, accountability, interperiod equity, and creating additional transparency.
- GASB Statement 69 – *Government Combinations and Disposals of Government Operations* - This statement establishes accounting and financial reporting standards related to a variety of transactions such as mergers, acquisitions, and transfers of operations.
- GASB Statement 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* – This statement is an amendment of GASB Statement 68 and should be applied simultaneously with the provisions of Statement 68.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

2. Stewardship, Compliance and Accountability (Continued)

F. Fund Deficit

The Cafeteria fund has an unassigned deficit of \$1,556 at June 30, 2015. The Town plans to address this deficit in the subsequent year.

3. Detailed Notes on All Funds

A. Cash, Cash Equivalents and Investments

Cash and investments of the Town consist of the following at June 30, 2015:

Statement of Net Position	
Cash and equivalents	\$ 5,003,781
Fiduciary Funds	
Cash and equivalents	15,258
Total Cash and Investments	<u>\$ 5,019,039</u>

Cash and Cash Equivalents - As of June 30, 2015 the carrying amount of the Town's deposits with financial institutions was:

Cash and Cash Equivalents	
Deposits with financial institutions	\$ 5,011,203
Plus external investment pools	7,836
	<u>\$ 5,019,039</u>

The bank balance of the deposits was \$5,114,477 and was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 1,106,691
Uninsured and uncollateralized	4,007,786
	<u>\$ 5,114,477</u>

Investments – Investments are summarized as follows at June 30, 2015

Investments reported in Fiduciary Funds:

	Town Pension	Firemen's Pension	Total Investments
Mutual funds - equity	\$ 873,328	\$ -	\$ 873,328
Mutual funds - money market	168,819	562,531	731,350
Mutual funds - bonds	292,678	-	292,678
	<u>\$ 1,334,825</u>	<u>\$ 562,531</u>	<u>\$ 1,897,356</u>

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

3. Detailed Notes on All Funds (Continued)

Below is a summary of the interest rate risk and credit risk as of June 30, 2015:

Type of Investment	Average Credit Rating	Fair Value	Investment Maturities (in Years)	
			N/A	1-5 Years
Mutual funds - equity	N/A	\$ 873,328	\$ 873,328	\$ -
Mutual funds - money market	N/A	731,350	731,350	-
Mutual funds - bonds	A1	292,678	-	292,678
Total		<u>\$ 1,897,356</u>	<u>\$ 1,604,678</u>	<u>\$ 292,678</u>

B. Receivables, Deferred Revenue and Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. The following were reported as *deferred revenue* because they were not received within 60 days of the year end:

	General Fund	Other Governmental Funds
Property taxes	\$ 163,896	\$ -
Special assessments	182,647	-
Intergovernmental revenue	-	3,243
	<u>\$ 396,543</u>	<u>\$ 3,243</u>

Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. This is recorded as the liability *unearned revenue* at June 30, 2015:

	General Fund	STEAP Main Street Phase I Fund
Taxes collected in advance	\$ 109,510	\$ -
Advances on grants	-	665,256
	<u>\$ 109,510</u>	<u>\$ 665,256</u>

C. Operating Lease

The Town leases approximately 21% of the Town Hall to an unrelated tenant. The lease expires on November 30, 2022. The building cost \$1,915,200 and as of June 30, 2015, after depreciation, had a carrying value of \$1,636,645. Depreciation for the year ended June 30, 2015 was \$21,706. Minimum future rentals to be received under the lease agreement are \$501,359 with \$67,599 to be received in the next year.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

3. Detailed Notes on All Funds (Continued)

D. Interfund Transactions

The outstanding balances between funds result mainly 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. At June 30, 2015 these were summarized as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Education Grants Fund	\$ 3,291
General Fund	Cafeteria Fund	5,448
		<u>\$ 8,739</u>

Fund transfers are generally used to fund special projects with general fund revenues. Transfers during the year ended June 30, 2015 were as follows:

	Transfers into			Total
	General Fund	Capital Projects Fund	Other Governmental Funds	
Transfers out of General Fund	\$ -	\$ 342,870	\$ 18,400	\$ 361,270
Other governmental funds	195,390	-	500	195,890
	<u>\$ 195,390</u>	<u>\$ 342,870</u>	<u>\$ 18,900</u>	<u>\$ 557,160</u>

E. Capital Assets

Changes in the Town's capital assets used in the governmental activities are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 965,840	\$ -	\$ -	\$ 965,840
Construction in progress	96,734	230,142	(96,734)	230,142
	<u>1,062,574</u>	<u>230,142</u>	<u>(96,734)</u>	<u>1,195,982</u>
Capital assets being depreciated				
Buildings and systems	7,621,490	-	-	7,621,490
Machinery and equipment	2,493,377	78,888	-	2,572,265
Infrastructure	3,936,902	107,295	-	4,044,197
	<u>14,051,769</u>	<u>186,183</u>	<u>-</u>	<u>14,237,952</u>
Less: Accumulated Depreciation	<u>(3,605,420)</u>	<u>(301,327)</u>	<u>-</u>	<u>(3,906,747)</u>
	<u>\$ 11,508,923</u>	<u>\$ 114,998</u>	<u>\$ (96,734)</u>	<u>\$ 11,527,187</u>

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

3. Detailed Notes on All Funds (Continued)

Depreciation and amortization expense was charged to functions/programs of the governmental activities as follows:

General government	\$ 51,889
Public works	60,286
Public safety	66,716
Health and welfare	45,238
Education	77,198
	<u>\$ 301,327</u>

F. Long-Term Liabilities

The following table summarizes changes in the Town's long-term indebtedness for the year ending June 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 580,000	\$ -	\$ 145,000	\$ 435,000	\$ 145,000
Clean water note	888,610	-	50,988	837,622	52,017
Compensated absences	45,777	7,659	-	53,436	2,890
Special termination benefits	19,024	-	19,024	-	-
Post closure landfill costs	115,000	-	11,500	103,500	11,500
Pension obligations	826,868	300,225	251,105	875,988	-
OPEB obligations	39,344	27,537	3,473	63,408	-
	<u>\$ 2,514,623</u>	<u>\$ 335,421</u>	<u>\$ 481,090</u>	<u>\$ 2,368,954</u>	<u>\$ 211,407</u>

Each governmental fund's liability is liquidated by the respective fund, primarily the General Fund. Interest on these obligations is expensed to the respective fund, primarily the General Fund.

General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations of the Town and pledge the full faith and credit of the Town. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds outstanding as of June 30, 2015 consisted of the following:

Purpose	Year of Issue	Original Amount	Final Maturity	Interest Rates	Amount Outstanding
General Purpose	2002	\$ 2,215,000	10/1/2017	2-3%	<u>\$ 435,000</u>

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

3. Detailed Notes on All Funds (Continued)

Payments to maturity on the general obligation bonds are as follows:

Year End	General Obligation Bonds	
	Principal	Interest
2016	\$ 145,000	\$ 14,500
2017	145,000	8,700
2018	145,000	2,900
	<u>\$ 435,000</u>	<u>\$ 26,100</u>

Interest incurred and expensed on general obligation bonds for the year ended June 30, 2015 totaled \$18,850.

Loans and Notes Payable

The Town received a Clean Water Loan to complete a sewer connection to the Town of Deep River. This loan from the State’s Department of Environmental Protection was issued on August 14, 2008 with interest at a rate of 2% per year. Monthly installments of principal and interest are \$5,691 for 20 years. Payments will be made out of the Sewer System Fund as follows:

Year End	Notes and Loans		Year End	Notes and Loans	
	Principal	Interest		Principal	Interest
2016	52,017	16,277	2024	61,034	7,260
2017	53,067	15,227	2025	62,266	6,028
2018	54,138	14,156	2026	63,523	4,771
2019	55,231	13,064	2027	64,805	3,489
2020	56,346	11,949	2028	66,113	2,181
2021	57,483	10,811	2029	67,448	847
2022	58,643	9,651	2030	5,681	9
2023	59,827	8,468		<u>\$ 837,622</u>	<u>\$ 124,189</u>

Interest incurred and expensed on loans and notes payable for the year ended June 30, 2015 totaled \$17,306.

Compensated Absences

Vacation time earned during the fiscal year can be carried over to the succeeding year, subject to limitations as provided in the respective collective bargaining agreements. Vacation pay is generally lost if it is not used in the year it is earned. Employees are entitled to accumulate sick leave up to a maximum amount stipulated in each contract. Payment for accumulated sick leave is dependent upon the length of service and accumulated days. The value of all compensated absences has been reflected in the government-wide financial statements.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

3. Detailed Notes on All Funds (Continued)

Special Termination Benefits

Special termination benefits represent the present value of future benefits to be paid to former employees. Periodically an employee is offered a special termination benefit as an incentive to leave or retire. Two employees were offered such a benefit during fiscal year 2009-2010 to be paid in equal installments of \$10,000 over five years. The Town funds this on a pay-as-you-go basis. The balance was paid off in full at June 30, 2015.

Post Closure Landfill Costs

The Town has a closed landfill with no further capacity or estimated useful life. State and federal laws and regulations require that the Town perform certain maintenance and monitoring functions on its closed landfill site for thirty years after closure. These costs will be paid through the General Fund each year as part of the annual budget. Total estimated costs based on the current actual costs are included in the long-term debt. The actual costs may vary based on actual events, inflation, changes in technology and applicable laws and regulations. During the year the actual costs amounted to \$4,175.

Regional School District Commitments

Chester is a member of Regional School District #4, which provides education facilities for grades seven through twelve for the towns of Chester, Deep River, and Essex. As of June 30, 2015, the outstanding bonded indebtedness of the District was \$11,395,000. The Town of Chester's share will be approximately 24.14%. These are general obligations of Regional School District #4 and its member towns.

Legal Debt Limit

Connecticut General Statutes Section 7-374 sets limits on the debt, as defined by the statutes, which can be incurred by the Town and other governmental agencies within the Town. The limitations for the Town of Chester, Connecticut are as follows:

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

3. Detailed Notes on All Funds (Continued)

Total tax collections (including interest and lien fees) for the year - primary government					10,848,239
Reimbursement for revenue loss on tax relief for the elderly (C.G.S. 12-129d)					21,939
Debt limitation base					<u>\$ 10,870,178</u>
	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
Debt limitation					
2 1/4 times base	\$ 24,457,901	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	48,915,801	-	-	-
3 3/4 times base	-	-	40,763,168	-	-
3 1/4 times base	-	-	-	35,328,079	-
3 times base	-	-	-	-	32,610,534
Total debt limitation	<u>24,457,901</u>	<u>48,915,801</u>	<u>40,763,168</u>	<u>35,328,079</u>	<u>32,610,534</u>
Indebtedness					
Bonds payable	837,622	-	435,000	-	-
Overlapping debt: RSD #4	-	2,750,753	-	-	-
Total indebtedness	<u>837,622</u>	<u>2,750,753</u>	<u>435,000</u>	<u>-</u>	<u>-</u>
Debt limitation in excess of debt outstanding and authorized	<u>\$ 23,620,279</u>	<u>\$ 46,165,048</u>	<u>\$ 40,328,168</u>	<u>\$ 35,328,079</u>	<u>\$ 32,610,534</u>
In no case shall total indebtedness exceed seven times the annual receipts from taxation					<u>\$ 76,091,246</u>

G. Net Position

The components of net position are detailed below:

Net Investments in Capital Assets - the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position - Nonexpendable - the component of net position that reflects funds set aside in accordance with laws, regulations, grants, and other agreements that must be kept intact and cannot be spent. There are no Nonexpendable Restricted Net Assets as of June 30, 2015.

Restricted Net Position – Expendable - the component of net position that reflects funds that can only be spent subject to the laws, regulations, grants, and other agreements relating to these funds. They are summarized below:

General Government	\$ 7,878
Capital Projects	1,156
Other Purposes	279,610
	<u>\$ 288,644</u>

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

3. Detailed Notes on All Funds (Continued)

Unrestricted - all other net position that do not meet the definition of "restricted" or "net investment in capital assets".

H. Fund Balances

As discussed in Note 1, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. These are summarized below:

	General Fund	Capital Projects Fund	STEAP Main Street Phase I Fund	Other Governmental Funds
Nonspendable				
Not in spendable form				
Other	\$ -	\$ -	\$ -	\$ 5,034
Restricted				
General Government	\$ -	\$ -	\$ -	\$ 7,878
Capital Projects	-	-	1,156	-
Other Purposes	-	-	-	279,610
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,156</u>	<u>\$ 287,488</u>
Committed				
Capital Projects	\$ -	\$ 1,524,614	\$ -	\$ -
Assigned				
General Government	\$ 91,184	\$ -	\$ -	\$ 49,045
Public Safety	-	-	-	28,519
Culture and Recreation	-	-	-	19,805
Capital Projects	-	6,291	-	-
Other Purposes	-	-	-	70,495
To balance next year's budget	200,000	-	-	-
	<u>\$ 291,184</u>	<u>\$ 6,291</u>	<u>\$ -</u>	<u>\$ 167,864</u>

4. Pension and Other Post Retirement Plans

A. Teachers' Retirement System

Plan Description

Teachers and certain other certified personnel in the Town are eligible to participate in the Connecticut State Teachers' Retirement System, a cost-sharing multiple employer public employee retirement system described in the Connecticut General Statutes, Chapter 167a. The TRS has been established to provide retirement and other benefits for teachers, their survivors and beneficiaries. The Teachers' Retirement System is administered by the Teachers' Retirement Board.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)

June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Plan Membership – All teachers, principals, superintendents or supervisors engaged in service of public schools are eligible for participation.

Plan Benefits – Plan provisions are set by statute of the State of Connecticut. Teachers' Retirement System provides retirement benefits, as well as death and disability benefits. A member is eligible to receive a normal retirement benefit who (1) has reached the age of sixty and has accumulated twenty years of credited service in the public schools of Connecticut or (2) has attained any age and has accumulated thirty-five years of credited service, at least twenty-five years of which are service in the public schools of Connecticut.

The normal retirement benefit is two percent times the number of years of credited service multiplied by their average annual salary received during the three years of highest salary. In no event will such benefit exceed seventy-five percent of the average annual salary. A minimum monthly benefit of \$1,200 is provided for teachers who retire under the normal retirement provisions and who have completed at least twenty-five years of full time Connecticut service.

A member is eligible to receive an early retirement benefit who (1) has attained any age and has accumulated twenty-five years of credited service, at least twenty years of which are service in the public schools of Connecticut or (2) has reached the age of fifty-five and has accumulated twenty years of credited service, at least fifteen years of which are service in the public schools of Connecticut.

The early retirement benefit is reduced six percent per year for the first five years preceding normal retirement age and four percent per year for the next five years preceding normal retirement age. Effective July 1, 1999, the reductions for individuals with 30 or more years of service is three percent per year by which retirement precedes normal retirement date.

Benefits are fully vested after ten years of service. Benefits are payable at age sixty and early retirement reductions are based on the number of years of service the member would have had if they had continued to work until age sixty.

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

Members are required to contribute six percent of their annual salary for the pension benefit.

The Town's proportionate share has been determined on the same basis as that used by the plan as has the basis of accounting, including policies with respect to benefit payments (including refunds of employee contributions) and the valuation of plan investments.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Actuarial Methods and Significant Assumptions – The following assumptions were used in the pension valuations, prepared as of June 30, 2014 (the Valuation Date and Measurement Date) for use in the June 30, 2015 financial statements (Reporting Date):

Experience study dates	July 1, 2005 - June 30, 2010
Inflation	3.00%
Salary increases	3.75-7.00%, including inflation
Investment rate of return	8.50%, net of investment related expense, including inflation
Discount rate	8.50%, the projection of cash flows assumed that plan member contributions will be made at the current contribution rate and employer contributions will be made at rates equal to the difference between the actuarially determined rate and the member rate.
Cost of living adjustment	Annually compounded increases vary based on member age and date of retirement and range from 2.00% to 6.00%
Post-retirement mortality	RP-2000 Combined Mortality Table projected 19 years

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

Target Asset Allocation and Rates of Return – The long-term expected rate of return on plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return are developed for each major asset class. The table below shows the target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are to be provided by the Fiduciary of the Plan:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equities	21.00%	7.30%
Developed Non-U.S. Equities	18.00%	7.50%
Emerging Markets (Non-U.S.)	9.00%	8.60%
Core Fixed Income	7.00%	1.70%
Inflation Linked Bond Fund	3.00%	1.30%
Emerging Market Bond	5.00%	4.80%
High Yield Bonds	5.00%	3.70%
Real Estate	7.00%	5.90%
Private Equity	11.00%	10.90%
Alternative Investments	8.00%	0.70%
Liquidity Fund	6.00%	0.40%

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Town's Proportionate Share of the Collective Net Pension Liability

Employer Net Pension Liability	\$	-
Nonemployer Contributing Entity (State) Net Pension Liability		98,988,998
Net Pension Liability	<u>\$</u>	<u>98,988,998</u>
Net Pension Liability percentage of the total		0.033705%
Deferred outflows of resources		
Contributions subsequent to the Measurement Date	\$	-
Deferred inflows of resources		
Net difference projected and actual earnings on investments	\$	280,881
Pension expense	\$	256,465
Proportion Basis		Employee contributions
Change in proportion since prior measurement date		None for 2015

Other amounts reported at deferred inflows of resources will be recognized in pension expense by the State as follows:

2015	\$	70,220
2016		70,220
2017		70,220
2018		70,221
	<u>\$</u>	<u>280,881</u>

Sensitivity Analysis – Although this is paid by the State of Connecticut and not a liability of the Town, the following presents the net pension liability of the Town's proportionate share of the plan (paid by the State), calculated using the current discount rate, 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:

	1% Decrease 7.50%	Current Discount Rate 8.50%	1% Increase 9.50%
Net Pension Liability (Asset)	<u>\$ 4,362,076</u>	<u>\$ 98,988,998</u>	<u>\$ 2,615,835</u>

Support Provided by Nonemployer Contributing Entity – The Town has recognized \$319,710 as revenue in support provided by the State of Connecticut's contributions to the plan on behalf of the Town's employees.

Obtaining a Report of the Plan – Teachers' Retirement System is considered to be a part of the State of Connecticut's financial reporting entity and is included in the State's financial reports as a pension trust fund. The reports include information on the plan's assets, deferred outflows of resource, liabilities, deferred inflows of resources, and fiduciary net position. The stand-alone financial report may be obtained through the Teachers' Retirement Board at www.ct.gov/trb.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

B. Town of Chester Employee Retirement Plan

Plan Description

The Town of Chester is the administrator of a single-employer Public Employee Retirement System (“PERS”) established and administered by the Town to provide pension benefits for its employees. The PERS is considered to be a part of the Town’s financial reporting entity and is included in the Town’s financial statement as a pension trust fund. A separate stand-alone financial report is not issued.

Management of the plan rests with the 5-member Retirement Board who are appointed by the selectmen. At least one member of the Board shall also be a member of the Board of Finance.

The plan covers substantially all regularly employed permanent employees of the Town. In order to be eligible for the plan, the employee must complete thirty-six months of service and attain a minimum age of twenty and one-half. Participants are 100% vested after 5 years. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of valuation and the pattern of sharing costs between the employer and the employee to this point.

As of the date of the latest actuarial valuation (January 1, 2015), membership consisted of:

Retirees and beneficiaries receiving benefits	3
Terminated employees entitled to benefits	6
Active members	19
Total	<u>28</u>

Funding Policy

Contribution requirements of the plan members and the Town are established, and may be amended, by the Board of Selectmen. Non-union members are required to contribute 2% of their earnings to the plan. The Town is required to contribute amounts necessary to fund benefits. The Town’s contributions to the plan are actuarially determined on an annual basis. Administrative costs are financed through investment earnings.

Investment Policy – It is the intent to have investments that represent a diversified mix of asset classes and styles, comprising a minimum of three major categories in accordance with the following guidance with and asset allocation of +/- 5%:

<u>Asset Class</u>	<u>Target Allocation</u>
Cash/Money Market	10%
Fixed Income/Bonds	45%
Equities/Stocks	45%

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Included, but not limited, in these selections will be: active management and passive index-like funds, and equity funds with a single range (e.g. large capitalization) and style category (e.g. growth, value). These investments may have an international equity exposure (e.g. foreign, global). Income funds will focus on credit quality (e.g. investment grade, high yield) and maturity period (e.g. short, intermediate, long term).

Long-term expected rate of return – The best estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation.

Below shows the Board's target asset class allocation and the long-term expected rate of return calculated as geometric means:

Asset Class	Index	Target Allocation	Long-term Expected Real Rate of Return
Cash	Citigroup 90-day T-Bill	10.00%	0.49%
Core Fixed Income	Barclays Aggregate	45.00%	1.95%
Broad US Equities	Wilshire 5000 / Russell 3000	45.00%	4.24%

Calculation of Money-Weighted Rate of Return – The money-weighted rate of return considers the changing amounts actually invested during and period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a quarterly basis and are assumed to occur at the end of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expense as:

Net money-weighted rate of return for the year ended June 30, 2015 2.61%

Net Pension Liability

The components of the net pension liability of the Town as of June 30, 2015 were as follows:

Town pension liability	\$ 2,081,408
Plan fiduciary net position	<u>1,334,825</u>
Net pension liability	<u>\$ 746,583</u>
Plan fiduciary net position as a percentage of total pension liability	64%

Actuarial Methods and Significant Assumptions

The following actuarial methods and assumptions were used in the January 1, 2015 valuation and projected forward to a measurement date of June 30, 2015:

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Valuation timing	Actuarially determined contribution rates are calculated as of January 1, eighteen months prior to the beginning of the fiscal year in which the contributions are reported.	
Actuarial cost method	Entry Age Normal	
Amortization method		
Level percent or level dollar	Level dollar	
Closed, open or layered	Closed periods	
Amortization period at 1/1/15	14 years	
Amortization growth rate	0.00%	
Asset valuation method		
Smoothing period	5 year	
Recognition method	Non-asymptotic	
Corridor	None	
Inflation	2.50%	
Salary increases	3.50%	
Investment rate of return	6.50%	(Same as last year)
Cost of living adjustment	None	
Retirement age	All are assumed to retire at normal retirement	
Turnover	None	
Pre-retirement mortality	None	
Post-retirement mortality	GAR 94 Table, Revenue Ruling 2001-62 for 417(e)	

There were no changes in assumptions or benefits that affected the measurement of the total pension liability since the prior measurement date.

Sensitivity Analysis – The following presents the net pension liability of the Town, calculated using the current discount rate, as well as what the Town’s net pension would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Net Pension Liability	\$ 873,951	\$ 746,583	\$ 631,237

Pension expense for the year ended June 30, 2015 was \$115,635. The contributions subsequent to the measurement date, shown as a deferred inflow of resources, will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported at deferred inflows of resources will be recognized in pension expense as follows:

2016	\$ 7,095
2017	7,095
2018	7,095
2019	7,095
2020	(2,896)
Thereafter	(5,790)
	<u>\$ 19,694</u>

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

C. Chester Hose Company Volunteers' Pension Plan

Plan Description

The Town of Chester is the administrator of a single employer Public Employee Retirement System ("PERS") established and administered by the Town to provide pension benefits for its employees. The PERS is part of the Town's financial reporting entity and is accounted for in the Town's financial statement as a pension trust fund. A separate stand-alone financial report is not issued.

The plan covers substantially all volunteer firefighters of the Chester Hose Company. In order to be eligible for the plan, the firefighter must complete one year of service and attain a minimum age of eighteen. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of valuation and the pattern of sharing of costs between the Town and the firefighter to this point.

Normal retirement age is sixty-five. Benefits are paid in monthly payments over fifteen years. The annual benefit is based upon years of service. The plan contains no provisions for early retirement. The death benefit for the plan is equal to the participant's accrued benefits at the date of death. Participants are fully vested after fifteen years of service.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

As of the date of the latest actuarial valuation (January 1, 2014), membership consisted of:

Retirees and beneficiaries receiving benefits	5
Terminated employees entitled to benefits	30
Active members	33
Total	<u>68</u>

Funding Policy

Contribution requirements of the plan members and the Town are established, and may be amended, by the Board of Selectmen. Plan members are not required to contribute to the plan. The Town is required to contribute amounts necessary to fund benefits. The Town's contributions to the plan are actuarially determined on an annual basis. Administrative costs are financed through investment earnings.

Investment Policy – It is the intent to have investments that represent a diversified mix of asset classes and styles, comprising a minimum of three major categories in accordance with the following guidance with and asset allocation of +/- 5%:

<u>Asset Class</u>	<u>Target Allocation</u>
Cash/Money Market	10%
Fixed Income/Bonds	45%
Equities/Stocks	45%

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Included, but not limited, in these selections will be: active management and passive index-like funds, and equity funds with a single range (e.g. large capitalization) and style category (e.g. growth, value). These investments may have an international equity exposure (e.g. foreign, global). Income funds will focus on credit quality (e.g. investment grade, high yield) and maturity period (e.g. short, intermediate, long term).

Long-term expected rate of return – The best estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation.

Below shows the Board's target asset class allocation and the long-term expected rate of return calculated as geometric means:

Asset Class	Index	Target Allocation	Long-term Expected Real Rate of Return
Core Fixed Income	Barclays Aggregate	40.00%	1.85%
Broad US Equities	Wilshire 5000 / Russell 3000	60.00%	4.24%

Calculation of Money-Weighted Rate of Return – The money-weighted rate of return considers the changing amounts actually invested during and period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a quarterly basis and are assumed to occur at the end of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expense as:

Net money-weighted rate of return for the year ended June 30, 2015 5.36%

Net Pension Liability

The components of the net pension liability of the Town as of June 30, 2015 were as follows:

Town pension liability	\$ 691,936
Plan fiduciary net position	<u>562,531</u>
Net pension liability	<u>\$ 129,405</u>
Plan fiduciary net position as a percentage of total pension liability	81%

Actuarial Methods and Significant Assumptions

The following actuarial methods and assumptions were used in the January 1, 2014 valuation and projected forward to a measurement date of June 30, 2015:

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Valuation timing	Actuarially determined contribution rates are calculated as of June 30, two years prior to the beginning of the fiscal year in which the contributions are reported.	
Actuarial cost method	Entry age normal	
Amortization Method		
Level percent or level dollar	Level dollar	
Closed, open or layered	Closed	
Amortization period at 7/1/14	15 years	
Amortization growth rate	0.00%	
Asset valuation method		
Smoothing period	5 year	
Recognition method	Non-asymptotic	
Corridor	None	
Inflation	2.50%	
Salary increases	N/A	
Investment rate of return	6.00%	(Same as last year)
Cost of living adjustment	None	
Retirement age	All are assumed to retire at normal retirement	
Turnover	None	
Mortality	None	

There were no changes in assumptions or benefits that affected the measurement of the total pension liability since the prior measurement date.

Sensitivity Analysis – The following presents the net pension liability of the Town, calculated using the current discount rate, as well as what the Town’s net pension would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
Net Pension Liability	\$ 1,180,966	\$ 129,405	\$ 44,465

Pension expense for the year ended June 30, 2015 was \$32,422. The contributions subsequent to the measurement date, shown as a deferred inflow of resources, will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported at deferred inflows of resources will be recognized in pension expense as follows:

2016	\$ 10,728
2017	10,728
2018	10,728
2019	10,728
2020	9,893
Thereafter	12,859
	<u>\$ 65,664</u>

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

D. General Government Other Post Employment Benefit Plan

Plan Description - The Town provides certain health care benefits for retired employees through a single-employer defined benefit plan administered by the Town of Chester, Connecticut. The Connecticut General Statutes and the various collective bargaining agreements stipulate the employees covered and the benefits provided. The plan does not issue a separate financial statement.

Funding Policy – An employee of the Town of Chester is covered by an employment contract which provides for post-retirement benefits. Union employees who are age 62 with 10 years of service are entitled to receive health insurance coverage until they are covered by Medicare. The Town and the employee will each pay 50% of the cost.

Annual OPEB Cost (“AOC”) and Net OPEB Obligation (“NOO”)

Amortization Component:

Actuarial Accrued Liability as of July 1, 2012	\$	40,295
Assets at Market Value		-
Unfunded Actuarial Accrued Liability ("UAAL")	\$	40,295
Funded Ratio		0.00%
Covered Payroll (Active plan members)	\$	310,052
UAAL as a Percentage of Covered Payroll		13.00%
Actuarially required contribution (ARC)	\$	5,958
Interest on net OPEB obligation		194
Adjustment to annual required contribution		(281)
Annual OPEB cost (AOC)		5,871
Contributions made		-
Increase in net OPEB obligation		5,871
Net OPEB obligation, beginning of year		4,854
Net OPEB obligation, end of year	\$	10,725

Actuarial Methods and Significant Assumptions - The Town's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with the parameters of GASB. GASB establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance. As a result, reporting of expenses and liabilities is using a per capita claims cost will be determined, which will be used to determine a “normal cost”, an “actuarial accrued liability”, and ultimately the ARC. 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.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the OPEB benefits provided under the terms of the

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the assumptions and projections utilized do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations of the OPEB plan reflect a long-term perspective.

The Town is required to accrue on the government-wide financial statements the amounts necessary to finance the plan as actuarially determined, which is equal to the balance not paid by plan members. Funding for the Plan has been established on a pay-as-you-go basis.

Other actuarial methods and significant assumptions are summarized as follows:

Latest Actuarial Date	July 1, 2012
Actuarial Cost Method	Projected Unit Credit
Discount Rate	4.00%
Payroll Growth Rate	N/A
Medical Inflation	Initial rate of 8.50% grading down to 5% in 7 years.
Amortization Method	Level dollar amount over 30 years
Remaining amortization	30 years, open
Healthy Mortality	Life expectancies are based on mortality tables at the National Center for Health Statistics website.
Disabled Mortality	Life expectancies are based on mortality tables at the National Center for Health Statistics website.
Turnover	Determined using non group specific age-based data
Retirement	Latest of age 62, plan eligibility or current age
Disability	None
Future Retiree Coverage	10% are assumed to elect coverage at retirement
Future Dependent Coverage	It is assumed that spouses do not continue
Future Post-65 Coverage	All Others – N/A

Three Year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost (AOC)	Actual Contribution Made	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
6/30/2015	\$ 5,871	\$ -	0.0%	\$ 10,725
6/30/2014	\$ 5,885	\$ 5,100	86.7%	\$ 4,854
6/30/2013	\$ 5,882	\$ 4,701	79.9%	\$ 4,069

Schedule of Funding Progress

As of the last valuation date, July 1, 2012, the actuarial valuation of the plan assets was \$0. The actuarial accrued liability was \$40,295. The schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. There is no requirement for funding and the plan has not been funded.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

E. Education Other Post Employment Benefit Plan

Plan Description - The Town provides certain health care benefits for retired employees through a single-employer defined benefit plan administered by the Town of Chester, Connecticut. The Connecticut General Statutes and the various collective bargaining agreements stipulate the employees covered and the benefits provided. The plan does not issue a separate financial statement.

Funding Policy - Retired teachers and their spouses must be allowed to continue their health insurance benefits, in the same health insurance plan offered to active teachers, through their last employing Town. The Town does not contribute to the retirees' health insurance. The retirees pay 100% of the premiums in accordance with the Connecticut General Statutes and the various collective bargaining agreements.

Annual OPEB Cost ("AOC") and Net OPEB Obligation ("NOO")

Amortization Component:

Actuarial Accrued Liability as of June 30, 2013	\$	138,599
Assets at Market Value		-
Unfunded Actuarial Accrued Liability ("UAAL")	\$	138,599
Funded Ratio		0.00%
Covered Payroll (Active plan members)	\$	1,854,747
UAAL as a Percentage of Covered Payroll		7.47%
Actuarially required contribution (ARC)	\$	22,824
Interest on net OPEB obligation		1,380
Adjustment to annual required contribution		(2,538)
Annual OPEB cost (AOC)		21,666
Contributions made		3,473
Increase in net OPEB obligation		18,193
Net OPEB obligation, beginning of year		34,490
Net OPEB obligation, end of year	\$	52,683

Actuarial Methods and Significant Assumptions - The Town's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution ("ARC"), an amount actuarially determined in accordance with the parameters of GASB. GASB establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance. As a result, reporting of expenses and liabilities is using a per capita claims cost will be determined, which will be used to determine a "normal cost", an "actuarial accrued liability", and ultimately the ARC. 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.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)

June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the assumptions and projections utilized do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations of the OPEB plan reflect a long-term perspective.

The Town is required to accrue on the government-wide financial statements the amounts necessary to finance the plan as actuarially determined, which is equal to the balance not paid by plan members. Funding for the Plan has been established on a pay-as-you-go basis.

Other actuarial methods and significant assumptions are summarized as follows:

Latest Actuarial Date	June 30, 2013
Actuarial Cost Method	Projected Unit Credit
Discount Rate	4.00%
Medical Inflation	Initial rate of 8.50% grading down to an ultimate inflation rate of 5.0% over a 7 year period.
Amortization Method	Level dollar amount
Remaining amortization	20 years, open
Participation Rate	Actives – It is assumed that 50% of active Certified employees will continue coverage upon retirement. Participants are assumed to continue in their current coverage type (single or family) and plan until age 65. After age 65, Certified participants are assumed to switch to the State plan. It is assumed that no active Non-Certified employees will continue coverage as pre-65 retirees and that they will be enrolled in the Medicare supplement plan post-65. Retirees – It is assumed that 100% of retirees will continue in their current coverage until age 65. After age 65, it is assumed that they drop coverage or enroll in the State or Medicare supplement plan.
Spouse Participation	It is assumed that spouses continue coverage until age 65.
Retirement Age	Latest of age 60, plan eligibility or current age.
Life Expectancy	Life expectancies are based on mortality tables at the National Center for Health Statistics website. The 2000 United States Life Tables for Males and United States Life Tables for Females were used.
Post-65 Implicit Subsidy	It is assumed that there is no post-65 implicit subsidy liability since these retirees are assumed to enroll in the State or Medicare supplement plan.
Withdrawal	The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in Paragraph 35b of GASB 45.
Disability	None

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Three Year trend information is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Annual Contribution Made</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2015	\$ 21,666	\$ 3,473	16.0%	\$ 52,683
6/30/2014	\$ 20,941	\$ 12,354	59.0%	\$ 34,490
6/30/2013	\$ 21,093	\$ 5,900	28.0%	\$ 25,903

Schedule of Funding Progress

As of the last valuation date, June 30, 2013, the actuarial valuation of the plan assets was \$0. The actuarial accrued liability was \$138,599. The schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. There is no requirement for funding and the plan has not been funded.

5. Other Information

A. Litigation

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

B. Contingencies

Grants - The Town participates in various Federal and State grant programs. These programs are subject to program compliance audits pursuant to the Federal and State Single Audit Acts. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town anticipates such amounts, if any, to be immaterial.

School Building Grants - Section 10-283(a)(3)(A) of the Connecticut General Statutes states that if the Town abandons, sells, leases, demolishes or otherwise redirects the use of a school building project authorized on or after July 1, 1996, paid partially with State funding, to other than a public school, will owe a portion of the State funding back to the State.

For projects with a cost of over two million dollars, the contingency will be amortized over twenty years. For smaller projects, the contingency will be amortized over ten years.

C. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

5. Other Information (Continued)

The Town currently is a member of the Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established under the provisions of Connecticut General Statutes section 7-479a et. seq. for some of its insurance. The Town is liable only for contributions to the pool. Members do not retain the risk of loss, as they have transferred the risk by purchasing coverage with no deductible retention. A separate agreement states limits on the member's obligation to pay indemnification obligations and expenses should CIRMA be unable to do so.

The Chester Board of Education participates in an internal service fund, which is maintained by Region School District No. 4. The Health Insurance Fund accounts for and finances the retained risk of loss for member Town employee medical benefits coverage. A third party administers the plan for which the fund pays a fee. The Health Insurance Fund provides coverage to all eligible, full-time Board of Education employees. The Town pays an annual contribution for its coverage. The fund is to be self-sustaining through members' premiums, but reinsures in excess of \$60,000 for each insured occurrence.

D. Risks and Uncertainties

The Town invests in various securities, including commercial paper, government-sponsored enterprises, and alternative investments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. The ongoing credit and liquidity crisis in the United States and throughout the global financial systems has resulted in substantial volatility in financial markets and the banking system. This and other economic events have had a significant adverse impact on investment portfolios. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position and activities.

E. Jointly Governed Organization

Regional School District #4: The Supervision District Committee established by a compact to provide supervisory services between the Boards of Education of Chester, Deep River, Essex, and Regional School District #4.

The Supervision District Committee is governed by representatives of the Boards of Education of Chester, Deep River, Essex, and Regional School District #4. The Supervision District Committee selects its staff, establishes a budget, provides facilities and equipment and develops procedures and negotiates objectives. The government has no direct control over the operation of the Supervision District Committee. The government provides approximately 27 percent of the Supervision District Committee's funding. This is calculated based on the prorated number of Chester students to the total students served. The Towns of Chester, Deep River, Essex, and Regional School District #4 provide the remaining 73 percent. The latest financial statements can be obtained by contacting the Superintendent of Schools at Regional School District #4 in Deep River, Connecticut.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

5. Other Information (Continued)

F. Motor Vehicle Tax Cap

Beginning in fiscal year 2017, the State of Connecticut Office of Policy and Management (“OPM”) capped the mill rate for motor vehicle taxes. The motor vehicle mill rate cap for fiscal year 2017 will be 32 mills. The rate cap in fiscal year 2018 and thereafter will be 29.36 mills.

G. Municipal Spending Cap

Beginning in fiscal year 2018, OPM will impose a cap on municipal spending to limit general budget expenditures to 2.5 percent above the previous year or the rate of inflation, whichever is greater. Exemptions to the cap include debt service, special education expenditures, expenditures for implementing court orders, arbitration awards, expenditures related to major disaster or emergency declaration, and MRSA grant distributed to a special taxing district under certain circumstances.

Effective July 1, 2015, the Minimum Budget Requirement (“MBR”) for education expenditures imposed by OPM will become more flexible. The new law gives the Town a greater ability to lower their MBR by allowing for larger reductions for declining enrollment, raising the cap on how much a town can reduce its MBR, and removing the limit on how many ways a town can qualify for MBR flexibility.

H. GASB Pronouncements Issued, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) is the standard setting board for governmental entities. The following is a statement which has been approved by GASB, but is not yet effective:

- GASB Statement 72 – *Fair Value Measurement and Application* – This statement, addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement is effective for fiscal years beginning after June 15, 2015.
- GASB Statement 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68* – This Statement establishes requirements for defined benefit and contribution pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. This is effective for fiscal years beginning after June 15, 2016.
- GASB Statement 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pensions* – This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with Other Post-Employment Benefits (OPEB), as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This is effective for fiscal years beginning after June 15, 2016.

Town of Chester, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

5. Other Information (Continued)

- GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits (OPEB) Other than Pensions* – This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) and applies to all governments whose employees are provided with OPEB. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017.
- GASB Statement 76 – *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments* – This statement identifies the current hierarchy of GAAP. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.
- GASB Statement 77 – *Tax Abatement Disclosures* – This Statement requires governments to disclose information about their tax abatements and agreements and is effective for periods beginning after December 15, 2015.

Town of Chester, Connecticut

Required Supplementary Information
June 30, 2015

Town of Chester, Connecticut

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
Year Ended June 30, 2015

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
REVENUES					
Property Taxes					
Grand list current year	\$ 10,836,913	\$ -	\$ 10,836,913	\$ 10,648,970	\$(187,943)
Prior years' taxes	90,000	-	90,000	132,192	42,192
Interest and fees	45,000	-	45,000	67,077	22,077
	<u>10,971,913</u>	<u>-</u>	<u>10,971,913</u>	<u>10,848,239</u>	<u>(123,674)</u>
Intergovernmental Revenues- Education					
Education equal (ECS)	674,079	-	674,079	675,408	1,329
Elementary school transportation	4,024	-	4,024	3,747	(277)
	<u>678,103</u>	<u>-</u>	<u>678,103</u>	<u>679,155</u>	<u>1,052</u>
Intergovernmental Revenues- General Government					
Town Aid Road	186,333	-	186,333	190,075	3,742
Local capital improvement project	50,000	-	50,000	-	(50,000)
Elderly tax relief- circuit breaker	22,000	-	22,000	21,939	(61)
Gas Tax Refund	-	-	-	2,427	2,427
State owned property	12,100	-	12,100	14,716	2,616
Mashantucket Pequot	10,800	-	10,800	14,917	4,117
DUI grant	10,000	-	10,000	12,894	2,894
Miscellaneous grants	2,500	-	2,500	20,627	18,127
Telecommunications	10,000	-	10,000	11,979	1,979
Judicial fine reimbursement	4,000	-	4,000	4,570	570
Surplus revenue sharing	84,000	-	84,000	83,953	(47)
Veterans' tax exemption	2,400	-	2,400	2,803	403
Totally disabled exemption	250	-	250	190	(60)
	<u>394,383</u>	<u>-</u>	<u>394,383</u>	<u>381,090</u>	<u>(13,293)</u>
Licenses and Permits					
Building permits	40,000	-	40,000	56,059	16,059
Aircraft registration	13,000	-	13,000	13,520	520
Planning & zoning permits	7,000	-	7,000	9,479	2,479
Sanitation permits	2,500	-	2,500	1,900	(600)
Inland wetland permits	1,500	-	1,500	850	(650)
Zoning board of appeals permits	500	-	500	1,005	505
Pistol permits	2,000	-	2,000	1,050	(950)
Fire marshal permits	200	-	200	390	190
Environmental fund	150	-	150	132	(18)
Solicitors license	300	-	300	640	340
Raffle permits	50	-	50	35	(15)
	<u>67,200</u>	<u>-</u>	<u>67,200</u>	<u>85,060</u>	<u>17,860</u>
Miscellaneous Revenue					
Rental - 203 Middlesex Avenue	67,500	-	67,500	67,599	99
Conveyance tax	40,000	-	40,000	52,594	12,594
Town clerk fees	30,000	-	30,000	33,816	3,816
Interest	8,000	-	8,000	8,577	577
WCPA assessment	20,000	-	20,000	24,987	4,987
Police private duty	16,000	-	16,000	24,222	8,222
Police violations	500	-	500	455	(45)
Parks and recreation park passes	11,500	-	11,500	8,849	(2,651)
Rental - 20 Water Street	5,000	-	5,000	5,000	-

(Continued)

Town of Chester, Connecticut

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
Year Ended June 30, 2015

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
Miscellaneous Revenue (Continued)					
Library fines	\$ 2,200	\$ -	\$ 2,200	\$ 2,087	\$ (113)
Rental - meeting house - community center	6,000	-	6,000	8,770	2,770
Rental - cedar lake shack	750	-	750	625	(125)
Copier - assessor	400	-	400	406	6
Copier - library	300	-	300	305	5
Community investment account	2,000	-	2,000	1,740	(260)
Region #4 surplus	-	-	-	11,738	11,738
Miscellaneous	-	-	-	15,098	15,098
Sale obsolete items	-	-	-	375	375
Supervision district surplus	-	-	-	708	708
	<u>210,150</u>	<u>-</u>	<u>210,150</u>	<u>267,951</u>	<u>57,801</u>
Other Financing Sources					
Transfers in	<u>172,700</u>	<u>-</u>	<u>172,700</u>	<u>195,390</u>	<u>22,690</u>
Total Revenues	<u>12,494,449</u>	<u>-</u>	<u>12,494,449</u>	<u>12,456,885</u>	<u>(37,564)</u>
EXPENDITURES					
General Government					
Selectmen	110,797	(75)	110,722	109,627	1,095
Finance	98,109	-	98,109	96,912	1,197
Town office operations	51,510	(7,237)	44,273	43,380	893
Town clerk	83,464	-	83,464	82,889	575
Treasurer	18,239	-	18,239	17,447	792
Tax collector	53,924	-	53,924	52,129	1,795
Tax assessor	85,026	5,552	90,578	88,767	1,811
Board of assessment appeals	400	-	400	150	250
Board of finance	19,750	75	19,825	19,825	-
Registrar of voters	14,812	-	14,812	13,174	1,638
Building department	27,704	134	27,838	27,836	2
Conservation commission	1,060	-	1,060	444	616
Harbor management	1,185	-	1,185	225	960
Planning and zoning	36,942	(306)	36,636	33,239	3,397
Inland wetland	12,022	-	12,022	11,367	655
Zoning board of appeals	1,200	-	1,200	672	528
Economic development commission	14,100	1,685	15,785	15,785	-
Parks and recreation commission	110,819	-	110,819	108,407	2,412
Library	126,369	-	126,369	126,070	299
	<u>867,432</u>	<u>(172)</u>	<u>867,260</u>	<u>848,345</u>	<u>18,915</u>
Public Works					
Highway	465,763	146,748	612,511	607,218	5,293
Municipal services	153,000	(9,463)	143,537	141,500	2,037
Building and Grounds	174,325	84,934	259,259	259,035	224
	<u>793,088</u>	<u>222,219</u>	<u>1,015,307</u>	<u>1,007,753</u>	<u>7,554</u>
Public Safety					
Fire protection	282,692	3,288	285,980	285,105	875
Police protection	249,528	(22,989)	226,539	215,775	10,764
Safety services	194,602	-	194,602	193,821	781
Animal controls	19,976	-	19,976	18,940	1,036
	<u>746,798</u>	<u>(19,701)</u>	<u>727,097</u>	<u>713,641</u>	<u>13,456</u>

(Continued)

Town of Chester, Connecticut

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
Year Ended June 30, 2015

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
Health and Welfare					
Human services department	\$ 87,893	\$ -	\$ 87,893	\$ 84,010	\$ 3,883
Health services	33,900	-	33,900	33,892	8
Sanitation department	20,930	172	21,102	21,099	3
	<u>142,723</u>	<u>172</u>	<u>142,895</u>	<u>139,001</u>	<u>3,894</u>
Miscellaneous					
Employee benefits	412,785	(22,219)	390,566	390,564	2
Retirement board	214,459	-	214,459	209,209	5,250
Municipal insurance	83,810	-	83,810	81,546	2,264
Payments to organizations	19,991	-	19,991	19,987	4
Contingency	135,000	(80,299)	54,701	54,701	-
	<u>866,045</u>	<u>(102,518)</u>	<u>763,527</u>	<u>756,007</u>	<u>7,520</u>
Board of Education					
Regional School District Number 4	4,364,508	-	4,364,508	4,364,508	-
Chester Elementary School	4,150,677	-	4,150,677	4,104,151	46,526
	<u>8,515,185</u>	<u>-</u>	<u>8,515,185</u>	<u>8,468,659</u>	<u>46,526</u>
Debt Service					
Redemption of debt principal	195,988	-	195,988	195,988	-
Interest payments	37,607	-	37,607	37,606	1
	<u>233,595</u>	<u>-</u>	<u>233,595</u>	<u>233,594</u>	<u>1</u>
Other Financing Uses					
Transfers out	<u>342,870</u>	<u>-</u>	<u>342,870</u>	<u>342,870</u>	<u>-</u>
TOTAL EXPENDITURES	<u>12,507,736</u>	<u>100,000</u>	<u>12,607,736</u>	<u>12,509,870</u>	<u>97,866</u>
Excess (Deficiency) of Revenues Over Expenditures - Budgetary Basis	<u>\$ (13,287)</u>	<u>\$ (100,000)</u>	<u>\$ (113,287)</u>	<u>(52,985)</u>	<u>\$ 60,302</u>
Adjustments to Generally Accepted Accounting Principles (GAAP):					
Payments on Behalf of the Town Not Recorded on a Budgetary Basis:					
Revenues from Teachers' Retirement				319,710	
Expenditures for Teachers' Retirement				(319,710)	
WPCA liens paid off				(20,932)	
Encumbrances recorded on Budget Basis, but not on the Modified Accrual Basis				91,184	
Previous Year Encumbrance recorded on Modified Accrual Basis, but not the Budget Basis				(32,063)	
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses - GAAP Basis (Exhibit 4)				<u>\$ (14,796)</u>	

The General Fund budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions: (1) the Town does not recognize as income or expenditures payments made for teacher's retirement by the State of Connecticut on the Town's behalf; (2) the Town recognizes encumbrances payable as an expenditure in the year they were committed; (3) the revenue from the State of Connecticut's Excess Cost Grant is net with the expenditures in accordance with the Connecticut General Statutes 10-76g.

Town of Chester, Connecticut

Required Supplementary Information
Town of Chester Employee Retirement Plan
Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Fiscal Years or Since Inception of GASB 67/68

	<u>2015</u>	<u>2014</u>
Town of Chester Employee Retirement Plan		
Total Pension Liability		
Service cost	\$ 69,134	\$ 78,964
Interest on total pension liability	127,803	118,706
Effect of economic/demographic gains (losses)	(23,165)	-
Benefit payments	<u>(24,782)</u>	<u>(24,782)</u>
Net change in total pension liability	148,990	172,888
Total pension liability, beginning	<u>1,932,418</u>	<u>1,759,530</u>
Total pension liability, ending	<u>2,081,408</u>	<u>1,932,418</u>
Fiduciary Net Position		
Employer contributions	155,733	155,733
Member contributions	8,193	7,416
Investment income net of investment expenses	30,251	141,011
Benefit payments	<u>(24,782)</u>	<u>(24,782)</u>
Net change in plan fiduciary net position	169,395	279,378
Fiduciary net position, beginning	<u>1,165,430</u>	<u>886,052</u>
Fiduciary net position, ending	<u>1,334,825</u>	<u>1,165,430</u>
Net pension liability, ending	<u>\$ 746,583</u>	<u>\$ 766,988</u>
Fiduciary net position as a % of total pension liability	64.13%	60.31%
Covered payroll	\$ 839,376	\$ 736,038
Net pension liability as a % of covered payroll	88.95%	104.20%

See Independent Auditors' Report

Town of Chester, Connecticut

Required Supplementary Information
Town of Chester Employee Retirement Plan
Schedule of Employer Contributions
Last 10 Fiscal Years or Since Inception of GASB 67/68

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$155,733	\$139,601	\$134,345	\$126,055	\$115,742	\$ 59,980	\$ 60,434	\$ 54,765	\$54,765	\$ 66,059
Contributions in relation to the actuarially determined contribution	\$155,733	\$155,733	\$134,345	\$110,000	\$107,667	\$ 60,500	\$ 56,000	\$ 56,725	\$48,610	\$ 63,486
Contribution deficiency (excess)	\$ -	\$ (16,132)	\$ -	\$ 16,055	\$ 8,075	\$ (520)	\$ 4,434	\$ (1,960)	\$ 6,155	\$ 2,573
Covered employee payroll	\$839,376	\$736,038	\$723,891	\$813,548	\$860,966	\$616,789	\$596,726	*	*	*
Contributions as a percentage of covered employee payroll	18.55%	21.16%	18.56%	13.52%	12.51%	9.81%	9.38%			

Notes to the Schedule

Valuation Date Actuarially determined contribution rates are calculated as of January 1, eighteen months prior to the beginning of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	3.50%
Investment rate of return	6.50%
Retirement age	All are assumed to retire at normal retirement age
Mortality	GAR 94 Table, Revenue Ruling 2001-62 for 417(e)

Other *Prior to January 1, 2008 this information was not required or available since the Actuarial Cost Method was the Aggregate Cost Method. Effective January 1, 2008 the plan switched to the Entry Age Normal Cost Method.

See Independent Auditors' Report

Town of Chester, Connecticut

Required Supplementary Information
Town of Chester Employee Retirement Plan
Annual Money-Weighted Rate of Return
Last 10 Fiscal Years or Since Inception of GASB 67/68

Fiscal Year Ending June 30	Net Money-Weighted Rate of Return
2015	2.61%
2014	16.05%
2013	NA
2012	NA
2011	NA
2010	NA
2009	NA
2008	NA
2007	NA
2006	NA

Town of Chester, Connecticut

Required Supplementary Information
 Chester Hose Company Volunteer Service Awards Program
 Schedule of Changes in Net Pension Liability and Related Ratios
 Last 10 Fiscal Years or Since Inception of GASB 67/68

	<u>2015</u>	<u>2014</u>
Town of Chester Employee Retirement Plan		
Total Pension Liability		
Service cost	\$ 15,011	\$ 12,829
Interest on total pension liability	39,225	34,902
Effect of economic/demographic gains (losses)	72,217	-
Benefit payments	<u>(43,956)</u>	<u>(14,130)</u>
Net change in total pension liability	82,497	33,601
Total pension liability, beginning	<u>609,439</u>	<u>575,838</u>
Total pension liability, ending	<u>691,936</u>	<u>609,439</u>
Fiduciary Net Position		
Employer contributions	28,562	29,344
Investment income net of investment expenses	28,366	76,098
Benefit payments	<u>(43,956)</u>	<u>(14,130)</u>
Net change in plan fiduciary net position	12,972	91,312
Fiduciary net position, beginning	<u>549,559</u>	<u>458,247</u>
Fiduciary net position, ending	<u>562,531</u>	<u>549,559</u>
Net pension liability, ending	<u>\$ 129,405</u>	<u>\$ 59,880</u>
Fiduciary net position as a % of total pension liability	81.30%	90.17%
Covered payroll	NA	NA
Net pension liability as a % of covered payroll	NA	NA

See Independent Auditors' Report

Town of Chester, Connecticut

Required Supplementary Information
 Chester Hose Company Volunteer Service Awards Program
 Schedule of Employer Contributions
 Last 10 Fiscal Years or Since Inception of GASB 67/68

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 28,526	\$ 29,316	\$ 29,344	\$ 27,777	\$ 26,498	\$ 14,809	\$ 20,955	\$ 18,944	\$ 18,944	\$ 18,944
Contributions in relation to the actuarially determined contribution	\$ 28,562	\$ 29,344	\$ 27,777	\$ 20,000	\$ 13,840	\$ 19,000	\$ 19,000	\$ 19,000	\$ 19,000	\$ 28,500
Contribution deficiency (excess)	\$ (36)	\$ (28)	\$ 1,567	\$ 7,777	\$ 12,658	\$ (4,191)	\$ 1,955	\$ (56)	\$ (56)	\$ (9,556)
Covered employee payroll	N/A	NA	NA	NA	NA	NA	NA	NA	NA	NA
Contributions as a percentage of covered employee payroll	N/A	NA	NA	NA	NA	NA	NA	NA	NA	NA

Notes to the Schedule

Valuation Date Actuarially determined contribution rates are calculated as of June 30, two years prior to the beginning of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	
Remaining amortization period	
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	N/A
Investment rate of return	6.00%
Retirement age	All are assumed to retire at normal retirement age
Mortality	None

See Independent Auditors' Report

Town of Chester, Connecticut

Required Supplementary Information
Chester Hose Company Volunteer Service Awards Program
Annual Money-Weighted Rate of Return
Last 10 Fiscal Years or Since Inception of GASB 67/68

Fiscal Year Ending June 30	Net Money-Weighted Rate of Return
2015	5.36%
2014	16.80%
2013	NA
2012	NA
2011	NA
2010	NA
2009	NA
2008	NA
2007	NA
2006	NA

Town of Chester, Connecticut

Required Supplementary Information
 Other Post Employment Benefits Trust Fund
 Year Ended June 30, 2015

Schedule of Funding Progress - Town

Since Inception

AAL/UAAL as
a Percentage
of Covered
Payroll

Valuation Date	Actuarial		Unfunded (UAAL)	Funded Ratio	Covered Payroll	AAL/UAAL as a Percentage of Covered Payroll
	Value of Assets	Accrued Liability (AAL)				
7/1/2012	\$ -	\$ 40,295	\$ (40,295)	0.00%	\$ 310,052	-13.00%
7/1/2009	\$ -	\$ 8,428	\$ (8,428)	0.00%	\$ 1,022,837	-0.82%

Schedule of Funding Progress - Education

Since Inception

AAL/UAAL as
a Percentage
of Covered
Payroll

Valuation Date	Actuarial		Unfunded (UAAL)	Funded Ratio	Covered Payroll	AAL/UAAL as a Percentage of Covered Payroll
	Value of Assets	Accrued Liability (AAL)				
6/30/2013	\$ -	\$ 138,599	\$ (138,599)	0.00%	\$ 1,854,747	-7.47%
6/30/2010	\$ -	\$ 312,729	\$ (312,729)	0.00%	\$ 1,908,289	-16.39%

Schedule of Employer Contributions - Town

Last Six Fiscal years

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
6/30/2015	\$ 5,958	\$ -	0.00%
6/30/2014	\$ 5,958	\$ 5,100	85.60%
6/30/2013	\$ 5,833	\$ 4,701	80.59%
6/30/2012	\$ 1,270	\$ 661	52.05%
6/30/2011	\$ 1,203	\$ -	0.00%
6/30/2010	\$ 1,137	\$ -	0.00%

Schedule of Employer Contributions - Education

Last Six Fiscal years

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
6/30/2015	\$ 22,824	\$ 3,473	15.22%
6/30/2014	\$ 21,811	\$ 12,354	56.64%
6/30/2013	\$ 21,453	\$ 5,900	27.50%
6/30/2012	\$ 40,563	\$ 43,852	108.11%
6/30/2011	\$ 40,519	\$ 39,462	97.39%
6/30/2010	\$ 39,497	\$ 25,602	64.82%

See Independent Auditors' Report

Town of Chester, Connecticut

Required Supplementary Information
 Connecticut Teachers' Retirement System
 June 30, 2015

**Schedule of Changes in Net Position Liability and Related Ratios
 Last 10 Fiscal Years or Since Inception of GASB 68**

	<u>2015</u>
Employer percentage of collective net pension liability	<u>0.033705%</u>
Employer proportionate share of the collective net pension liability	\$ -
State's proportionate share of the collective net pension liability associated with the employer	<u>\$ 3,418,225</u>
Total proportionate share of the collective net pension liability	<u><u>\$ 3,418,225</u></u>
Employer covered payroll	<u>\$ 1,219,476</u>
Employer proportionate share of the collective net pension liability as a % of covered payroll	<u>0.00%</u>
Plan fiduciary net position as a % of total pension liability	<u>61.51%</u>

**Schedule of Employer Contributions
 Last 10 Fiscal Years or Since Inception of GASB 68**

Contractually required Town contribution	<u>\$ -</u>
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The Town is not required to contribute to the plan. The State contributes on behalf of the Town.

Notes to Schedule

Changes in benefit term	None
Changes in assumptions	In 2011, rates of withdrawal, retirement and assumed rates of salary increase were adjusted as recommended by the Experience Study for the System.
Actuarial cost method	Entry Age
Amortization method	Level percent of salary, closed
Remaining amortization period	22.4 years
Asset valuation method	4 year smoothed market
Investment rate of return	8.5% net of investment expense, including inflation

See Independent Auditors' Report

Town of Chester, Connecticut

Combining Fund Financial Statements
June 30, 2015

Town of Chester, Connecticut

Combining Balance Sheet
 Special Revenue Funds
 June 30, 2015

	Dog Fund	Emergency Fuel/Community Fund	Cafeteria Fund	Parks and Recreation fund	Small Cities Fund	Historic Records Preservation Fund	Library Fund
ASSETS							
Cash and equivalents	\$ 1,365	\$ 11,616	\$ 4,936	\$ 51,399	\$ 112,896	\$ 2,973	\$ 10,772
Other receivables							
Accounts	-	-	-	-	-	-	-
Loans	-	-	-	-	166,714	-	-
Intergovernmental	-	-	3,798	-	-	-	-
Inventories	-	-	5,034	-	-	-	-
Total Assets	<u>\$ 1,365</u>	<u>\$ 11,616</u>	<u>\$ 13,768</u>	<u>\$ 51,399</u>	<u>\$ 279,610</u>	<u>\$ 2,973</u>	<u>\$ 10,772</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)							
Liabilities							
Accounts payable	\$ -	\$ 100	\$ 6,633	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	5,448	-	-	-	-
Total Liabilities	<u>-</u>	<u>100</u>	<u>12,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources							
Deferred revenues - unavailable	<u>-</u>	<u>-</u>	<u>3,243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances (deficits)							
Nonspendable	-	-	5,034	-	-	-	-
Restricted	-	-	-	-	279,610	2,973	-
Assigned	1,365	11,516	-	51,399	-	-	10,772
Unassigned	<u>-</u>	<u>-</u>	<u>(6,590)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances (Deficits)	<u>1,365</u>	<u>11,516</u>	<u>(1,556)</u>	<u>51,399</u>	<u>279,610</u>	<u>2,973</u>	<u>10,772</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	<u>\$ 1,365</u>	<u>\$ 11,616</u>	<u>\$ 13,768</u>	<u>\$ 51,399</u>	<u>\$ 279,610</u>	<u>\$ 2,973</u>	<u>\$ 10,772</u>

(Continued)

Town of Chester, Connecticut

Combining Balance Sheet
 Special Revenue Funds
 June 30, 2015

	Education Grants Fund	Ambulance Fund	Harbor Fund	Miscellaneous Grants Fund	Sewer System Fund	Total Special Revenue Funds
ASSETS						
Cash and equivalents	\$ -	\$ 2,568	\$ 1,602	\$ 23,071	\$ 90,462	\$ 313,660
Other receivables						
Accounts	-	26,009	-	-	-	26,009
Loans	-	-	-	-	-	166,714
Intergovernmental	14,342	-	-	-	-	18,140
Inventories	-	-	-	-	-	5,034
Total Assets	<u>\$ 14,342</u>	<u>\$ 28,577</u>	<u>\$ 1,602</u>	<u>\$ 23,071</u>	<u>\$ 90,462</u>	<u>\$ 529,557</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)						
Liabilities						
Accounts payable	\$ 11,051	\$ 1,423	\$ -	\$ 12,789	\$ 31,783	\$ 63,779
Due to other funds	3,291	-	-	-	-	8,739
Total Liabilities	<u>14,342</u>	<u>1,423</u>	<u>-</u>	<u>12,789</u>	<u>31,783</u>	<u>72,518</u>
Deferred inflows of resources						
Deferred revenues - unavailable	-	-	-	-	-	3,243
Fund balances (deficits)						
Nonspendable	-	-	-	-	-	5,034
Restricted	-	-	-	4,905	-	287,488
Assigned	-	27,154	1,602	5,377	58,679	167,864
Unassigned	-	-	-	-	-	(6,590)
Total Fund Balances (Deficits)	<u>-</u>	<u>27,154</u>	<u>1,602</u>	<u>10,282</u>	<u>58,679</u>	<u>453,796</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	<u>\$ 14,342</u>	<u>\$ 28,577</u>	<u>\$ 1,602</u>	<u>\$ 23,071</u>	<u>\$ 90,462</u>	<u>\$ 529,557</u>

See Independent Auditors' Report

Town of Chester, Connecticut

Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
Special Revenue Funds
Year Ended June 30, 2015

	Dog Fund	Emergency Fuel/ Community Fund	Cafeteria Fund	Parks and Recreation Fund	Small Cities Fund	Historic Records Preservation Fund	Library Fund
REVENUES							
Licenses and permits	\$ 3,903	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	26,241	-	-	-	1,437
Investment earnings	-	-	-	22	226	-	5
Miscellaneous local	-	9,287	53,918	48,026	444	37,809	1,146
Total Revenues	<u>3,903</u>	<u>9,287</u>	<u>80,159</u>	<u>48,048</u>	<u>670</u>	<u>37,809</u>	<u>2,588</u>
EXPENDITURES							
Current							
General government	-	-	-	15,149	-	37,302	2,323
Public safety	1,019	-	-	-	-	-	-
Health and welfare	-	15,742	-	-	-	-	-
Education	-	-	98,112	-	-	-	-
Total Expenditures	<u>1,019</u>	<u>15,742</u>	<u>98,112</u>	<u>15,149</u>	<u>-</u>	<u>37,302</u>	<u>2,323</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,884</u>	<u>(6,455)</u>	<u>(17,953)</u>	<u>32,899</u>	<u>670</u>	<u>507</u>	<u>265</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	18,400	-	-	-	500
Transfers out	(1,519)	-	-	(23,866)	-	-	(500)
Total Other Financing Sources (Uses)	<u>(1,519)</u>	<u>-</u>	<u>18,400</u>	<u>(23,866)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	1,365	(6,455)	447	9,033	670	507	265
Fund Balances (Deficits) - Beginning of Year	-	17,971	(2,003)	42,366	278,940	2,466	10,507
Fund Balances (Deficits) - End of Year	<u>\$ 1,365</u>	<u>\$ 11,516</u>	<u>\$ (1,556)</u>	<u>\$ 51,399</u>	<u>\$ 279,610</u>	<u>\$ 2,973</u>	<u>\$ 10,772</u>

(Continued)

Town of Chester, Connecticut

Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
Special Revenue Funds
Year Ended June 30, 2015

	Education Grants Fund	Ambulance Fund	Harbor Fund	Miscellaneous Grants Fund	Sewer System Fund	Total Special Revenue Funds
REVENUES						
Licenses and permits	\$ -	\$ -	\$ -	\$ -	\$ 98,179	\$ 102,082
Intergovernmental	73,318	-	-	5,000	-	105,996
Investment earnings	-	53	-	5	78	389
Miscellaneous local	-	<u>195,989</u>	<u>300</u>	<u>28,417</u>	-	<u>375,336</u>
Total Revenues	<u>73,318</u>	<u>196,042</u>	<u>300</u>	<u>33,422</u>	<u>98,257</u>	<u>583,803</u>
EXPENDITURES						
Current						
General government	-	-	-	31,660	-	86,434
Public safety	-	24,871	-	-	-	25,890
Health and welfare	-	-	-	-	105,233	120,975
Education	<u>73,318</u>	-	-	-	-	<u>171,430</u>
Total Expenditures	<u>73,318</u>	<u>24,871</u>	-	<u>31,660</u>	<u>105,233</u>	<u>404,729</u>
Excess (Deficiency) of Revenues Over Expenditures	-	<u>171,171</u>	<u>300</u>	<u>1,762</u>	<u>(6,976)</u>	<u>179,074</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	18,900
Transfers out	-	<u>(170,000)</u>	-	<u>(5)</u>	-	<u>(195,890)</u>
Total Other Financing Sources (Uses)	-	<u>(170,000)</u>	-	<u>(5)</u>	-	<u>(176,990)</u>
Net Change in Fund Balances	-	1,171	300	1,757	(6,976)	2,084
Fund Balances (Deficits) - Beginning of Year	-	<u>25,983</u>	<u>1,302</u>	<u>8,525</u>	<u>65,655</u>	<u>451,712</u>
Fund Balances (Deficits) - End of Year	<u>\$ -</u>	<u>\$ 27,154</u>	<u>\$ 1,602</u>	<u>\$ 10,282</u>	<u>\$ 58,679</u>	<u>\$ 453,796</u>

Town of Chester, Connecticut

Combining Statement of Net Position
 Pension Trust Funds
 June 30, 2015

	<u>Town Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Total</u>
ASSETS			
Investments, at fair value	<u>\$1,334,825</u>	<u>\$ 562,531</u>	<u>\$1,897,356</u>
NET POSITION			
Held in trust for pension benefits and other purposes	<u>\$1,334,825</u>	<u>\$ 562,531</u>	<u>\$1,897,356</u>

Town of Chester, Connecticut
 Combining Statement of Changes in Fiduciary Net Position
 Pension Trust Funds
 Year Ended June 30, 2015

	Town Pension Fund	Firemen's Pension Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ADDITIONS			
Contributions			
Employer	\$ 155,733	\$ 28,562	\$ 184,295
Plan members	<u>8,193</u>	<u>-</u>	<u>8,193</u>
Total Contributions	<u>163,926</u>	<u>28,562</u>	<u>192,488</u>
Investment income			
Net change in fair value of investments	30,251	17,183	47,434
Interest and dividends	<u>-</u>	<u>11,183</u>	<u>11,183</u>
Total Investment Income	<u>30,251</u>	<u>28,366</u>	<u>58,617</u>
Net Investment Income	<u>30,251</u>	<u>28,366</u>	<u>58,617</u>
Total Additions	194,177	56,928	251,105
DEDUCTIONS			
Pension benefits	<u>24,782</u>	<u>43,956</u>	<u>68,738</u>
Change in Net Position	169,395	12,972	182,367
Net Position - Beginning of Year	<u>1,165,430</u>	<u>549,559</u>	<u>1,714,989</u>
Net Position - End of Year	<u>\$ 1,334,825</u>	<u>\$ 562,531</u>	<u>\$ 1,897,356</u>

See Independent Auditors' Report

Town of Chester, Connecticut

Combining Statement of Net Position
 Agency Funds
 June 30, 2015

	<u>Balance Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Ending</u>
Student Activity Fund				
ASSETS				
Cash and cash equivalents	\$ 4,171	\$ 6,206	\$ (4,119)	\$ 6,258
LIABILITIES				
Due to students	\$ 4,171	\$ 6,206	\$ (4,119)	\$ 6,258
P & Z Bond Fund				
ASSETS				
Cash and cash equivalents	\$ 10,500	\$ -	\$ (1,500)	\$ 9,000
LIABILITIES				
Due to others	\$ 10,500	\$ -	\$ (1,500)	\$ 9,000
Combined Total				
ASSETS				
Cash and cash equivalents	\$ 14,671	\$ 6,206	\$ (5,619)	\$ 15,258
LIABILITIES				
Due to others	\$ 14,671	\$ 6,206	\$ (5,619)	\$ 15,258

Town of Chester, Connecticut

Supplementary Schedules
June 30, 2015

Town of Chester, Connecticut

Statement of Changes in Fund Balance
 Capital Projects Fund
 Year Ended June 30, 2015

	Beginning Unexpended Balance	Current Year Appropriations	Total Appropriation	Current Year Expenditures	Interest and Other Income	Ending Unexpended Balance
Committed Fund Balance						
Fire truck replacement	\$ 236,473	\$ 75,000	\$ 311,473	\$ -	\$ -	\$ 311,473
Main Street project	299,425	75,000	374,425	(878)	-	373,547
Assessor revaluation	-	10,000	10,000	-	-	10,000
Firehouse roof	99,844	-	99,844	(104)	-	99,740
Town hall computers	-	30,000	30,000	(26,368)	-	3,632
Town building generators	21,000	-	21,000	(10,816)	-	10,184
Road repairs	500,924	38,870	539,794	(41,175)	-	498,619
Highway equipment	77,668	54,000	131,668	-	-	131,668
School roofing	6,934	-	6,934	-	-	-
School - fire code/safety compliance	-	-	-	-	-	6,934
Ambulance	7	30,000	30,007	-	-	30,007
Town hall renovations/P&R Storage	3,063	-	3,063	(2,970)	-	93
Town building repairs/code comp.	50,000	-	50,000	(4,064)	-	45,936
Police - mobile radio replacement	-	10,000	10,000	(8,155)	-	1,845
Police - cruiser replacement	20,000	20,000	40,000	(39,064)	-	936
Total Committed Fund Balance	1,315,338	342,870	1,658,208	(133,594)	-	1,524,614
Assigned for Unspecified Projects	1,142	-	1,142	-	5,149	6,291
	<u>\$ 1,316,480</u>	<u>\$ 342,870</u>	<u>\$ 1,659,350</u>	<u>\$ (133,594)</u>	<u>\$ 5,149</u>	<u>\$ 1,530,905</u>

See Independent Auditors' Report

Town of Chester, Connecticut

Internal Control and Compliance Reports
June 30, 2015

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditors' Report

**The Board of Finance
Town of Chester, Connecticut**

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Chester, Connecticut ("Town") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 11, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

O'Connor Davies, LLP

December 11, 2015

Town of Chester, Connecticut

State Single Audit
June 30, 2015

Report on Compliance for Each Major State Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

Independent Auditors' Report

**The Board of Finance
Town of Chester, Connecticut**

Report on Compliance for Each Major State Program

We have audited the Town of Chester, Connecticut's ("Town") compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of the Town's major state programs for the year ended June 30, 2015. The Town's major state programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major State Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We have issued our report thereon dated December 11, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by the State Single Audit Act, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 Schedule of Expenditures of State Financial Assistance is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'Connor Davies, LLP

December 11, 2015

Town of Chester, Connecticut

Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2015

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
Connecticut State Library		
Grants to Public Libraries	11000-CSL66051-17003	\$ 1,158
Connecticard Payments	11000-CSL66051-17010	279
Historic Documents Preservation Grants	12060-CSL66094-35150	5,000
Department of Transportation		
Town Aid Road Grants Transportation Fund	12052-DOT57131-43455	190,075
Small Town Economic Assistance Program (DOT)	12052-DOT57191-40532	237,266
Improving State Bridges and Railroads	13033-DOT57124-41393	29
Improving State Bridges and Railroads	13033-DOT57191-41393	19,541
Department of Justice		
Non-Budgeted Operating Appropriation	34001-JUD95162-40001	4,585
Office of Policy and Management		
Reimbursement to Towns - Tax Loss on State Owned Property	11000-OPM20600-17004	14,716
Reimbursement of Property Tax - Disability Exemption	11000-OPM20600-17011	190
Property Tax Relief for Elderly Circuit Breaker	11000-OPM20600-17018	21,939
Property Tax Relief for Veterans	11000-OPM20600-17024	2,803
Local Capital Improvement Program (LOCIP)	12050-OPM20600-40254	50,000
Municipal Grants in Aid	12052-OPM20600-43587	83,953
Department of Education		
Child Nutrition State Match	11000-SDE64370-16211	882
Health Foods Initiative	11000-SDE64370-16212	1,809
School Breakfast Program	11000-SDE64370-17046	3,019
High Quality Schools Start Up	12052-SDE64370-43538	627
Total State Financial Assistance before Exempt Programs		<u>637,872</u>
EXEMPT PROGRAMS		
Department of Education		
Education Cost Sharing	11000-SDE64370-17041	675,408
Public School Transportation	11000-SDE64370-17027	3,747
Office of Policy and Management		
Mashantucket Pequot and Mohegan Fund Grant	12009-OPM20600-17005	14,917
Total exempt programs		<u>694,072</u>
Total State Financial Assistance		<u>\$ 1,331,943</u>

The accompanying notes are an integral part of this schedule

Town of Chester, Connecticut

Notes to Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2015

1. Summary of Significant Accounting Policies

General

The accompanying Schedule of Expenditures of State Financial Assistance includes state grant activity of the Town of Chester, Connecticut ("Town") under programs of the State of Connecticut for the fiscal year ended June 30, 2015. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America as applicable to governments.

The information in the Schedule of Expenditures of State Financial Assistance is presented based on regulations established by the State of Connecticut, Office of Policy and Management.

Basis of Accounting

The financial statements for the governmental fund types contained in the Town's basic financial statements are prepared on the modified accrual basis of accounting. The government-wide financial statements are prepared on the full 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 for the current period,
- Expenditures are generally recorded when a liability is incurred except for debt service expenditures, as well as certain other expenditures, when applicable, related to compensated absences, pension obligations, landfill closure costs, claims and judgments, and other post-employment benefits which are recorded only when payment is due (matured).

The expenditures reported on the Schedule of Expenditures of State Financial Assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations of the State Single Audit Act, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

Town of Chester, Connecticut

Notes to Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2015

2. Loan Programs

In accordance with Section 4-236-23(a)(4)(F) of the Regulations to the State Single Audit Act, the notes to the Schedule of Expenditures of State Financial Assistance shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2015:

Department of Environmental Protection:

Clean Water Funds 21015-OTT14230-42318:

	Issue Date	Interest Rate	Original Amount	Beginning Balance	Retired	Ending Balance
577C	08/14/09	2%	\$1,125,000	\$888,610	\$ (50,988)	\$837,622

Town of Chester, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued unmodified

Internal control over financial reporting

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified? ___ yes X none reported
- Noncompliance material to financial statements noted ___ yes X no

State Financial Assistance

Internal control over major programs

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified? ___ yes X none reported

Type of report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? ___ yes X no

The following schedule reflects the major programs included in the audit:

State Grantor and Program	State Core-CT Number	Expenditures
Department of Transportation Town Aid Road	12052-DOT57131-43455	\$190,075
Department of Transportation Small Town Economic Assistance Program	12052-DOT57191-40532	\$237,266

Dollar threshold used to distinguish between type A and type B programs: \$100,000

Section II - Financial Statement Findings

No matters were reported.

Section III - State Financial Assistance Findings and Questioned Costs

No findings or questioned cost are reported relating to State financial assistance programs.