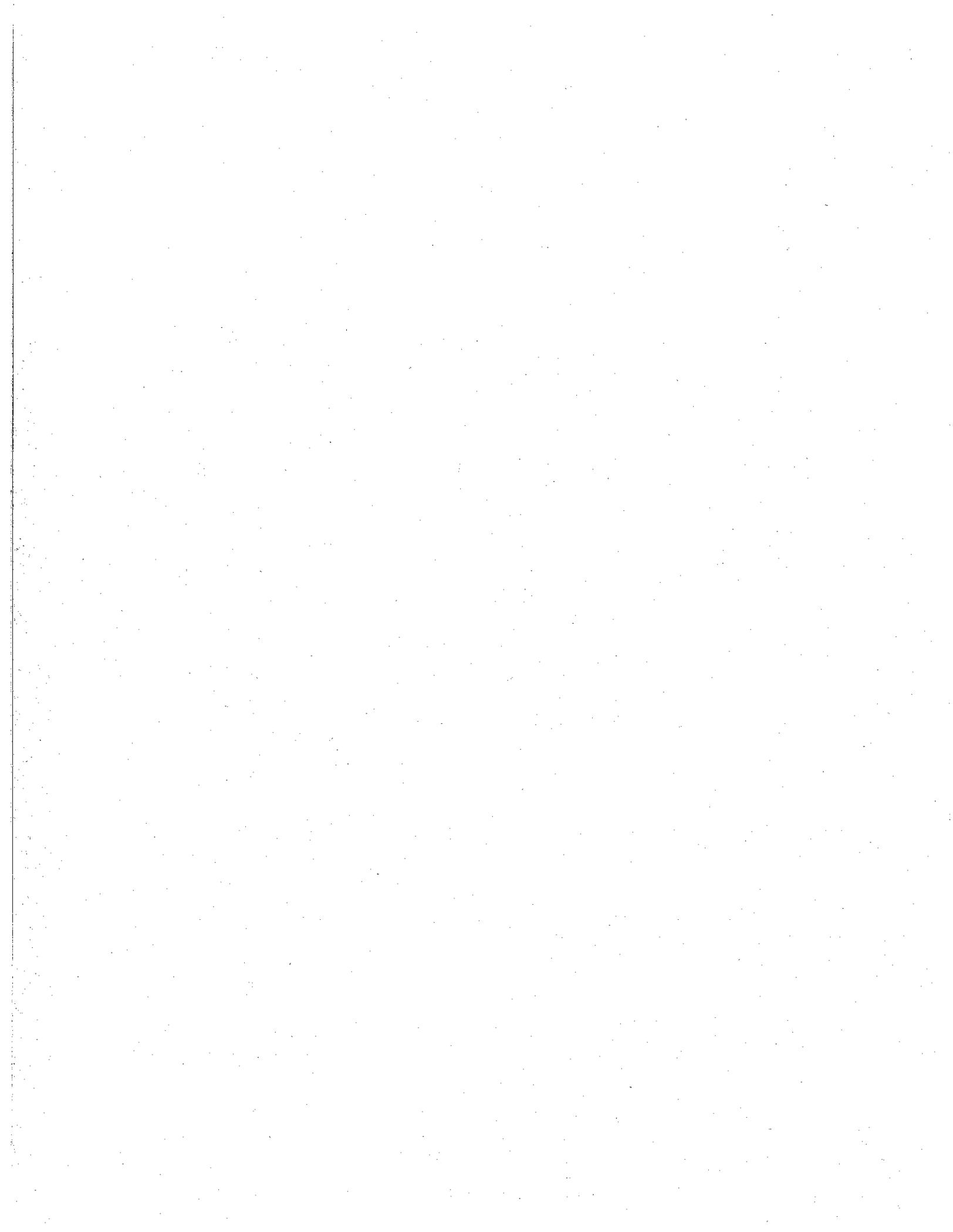




Certified Public Accountants

**TOWN OF DURHAM, CONNECTICUT
FINANCIAL REPORT
JUNE 30, 2016**





**TOWN OF DURHAM, CONNECTICUT
FINANCIAL REPORT**

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CERTIFIED PUBLIC ACCOUNTANTS
296 STATE STREET
NORTH HAVEN, CONNECTICUT 06473

INDEPENDENT AUDITORS' REPORT

To the Honorable Members of
the Board of Finance
Town of Durham, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Durham, Connecticut (the Town) as of and for the year ended June 30, 2016, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Durham, Connecticut, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 to 10, the budgetary comparison information on pages 52 to 57, the schedule of changes in the Town's net pension liability and related ratios on page 58, the schedule of employer contributions on page 59, the schedule of investment returns on page 60 and the schedules of funding progress and employer contributions - other post-employment benefits on page 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual nonmajor fund financial statements, schedule of changes in fund balance – reserve fund for capital and nonrecurring expenditures, schedule of property taxes levied, collected and outstanding, schedule of debt limitation and the schedule of expenditures of state financial assistance as required by the State Single Audit Act are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information and the schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



North Haven, Connecticut
October 21, 2016

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TOWN OF DURHAM, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

This discussion and analysis of the Town of Durham, Connecticut's (the "Town") financial performance is provided by management as an overview of the Town's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Town's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Town's financial performance.

Financial Highlights

- On a government-wide basis, the assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$45,666,007. Of this amount, \$5,557,183 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$6,427,085, an increase of \$1,082,841 in comparison with the prior year. Approximately 51% of this amount (\$3,266,423) is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, assigned fund balance for the General Fund was \$430,623 which was for carryover to the subsequent budget year. Unassigned fund balance for the General Fund was \$3,266,423, or approximately 10.73% of total budgetary general fund expenditures and transfers out.

Overview of the Financial Statements

This discussion and analysis provided here is intended to serve as an introduction to the Town of Durham's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains supplementary information intended to furnish additional details to support the basic financial statements themselves.

Government-Wide Financial Statements

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

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

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

In the statement of net position and the statement of activities, the Town reports its activities:

- *Governmental activities* - Most of the Town's basic services are reported here, including general government, highway, public safety, health and welfare, library, recreation, environmental

services and education. Property taxes, charges for services and state and federal grants finance most of these activities.

- *Business-type activities* - In 2003, the Town purchased a water company. The Town charges fees to customers which are expected to cover all of the costs associated with the services that the Town provides to the respective customers. The Town's water company is reported here.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the most significant funds, not the Town as a whole. Some funds are required to be established by Charter or State law. However, the Board of Finance and/or the Treasurer have established other funds to help the Town control and manage financial activities for particular purposes or to show that the Town is meeting legal responsibilities for using certain grants and other money. The Town's fund is divided into three categories; governmental, proprietary and fiduciary.

Governmental funds - Most of the Town's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accrual method called modified accrual accounting which measures cash and all other financial assets that can be readily converted to cash.

The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.

The Town maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Reserve Fund for Capital and Nonrecurring Expenditures and State and Federal Grants which are considered to be major funds. Data from ten other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements on pages 62-65.

The Town adopts an annual appropriated budget for its General Fund. The schedule of revenues and other financing sources and the schedule of expenditures and other financing uses have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-16 of this report.

Proprietary funds - When the Town charges customers for the services it provides, whether to outside customers or to other units of the Town, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. The Town's enterprise fund (a component of proprietary funds) is the same as the business-type fund reported in the government wide financial statements but provide more detail and additional information, such as cash flows for proprietary funds.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Fiduciary funds - The Town is the trustee, or fiduciary, for its employees' pension plans. All of the Town's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the Town's other financial statements because the Town cannot use the assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The basic fiduciary fund financial statements can be found on pages 20-21 of this report.

Notes to the Financial Statements - The notes provide additional information that are essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-51 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Town's progress in funding its obligation to provide Pension and Other Post Employment Benefits (OPEB) to its employees. Required supplementary information can be found on pages 52-61 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and other schedules are presented immediately following the required supplementary information on pensions and OPEB.

Government-wide Financial Analysis

The table below provides a summary of the Town's net position for 2015 and 2016.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 7,137,532	\$ 6,398,437	\$ 23,384	\$ 22,562	\$ 7,160,916	\$ 6,420,999
Capital assets	38,833,082	39,344,287	1,383,111	1,401,358	40,216,193	40,745,645
Total assets	45,970,614	45,742,724	1,406,495	1,423,920	47,377,109	47,166,644
Deferred Outflows of Resources						
Charges related to pensions	405,813	307,605	-	-	405,813	307,605
Liabilities						
Current liabilities	247,379	352,609	481	5,579	247,860	358,188
Long-term liabilities:						
Due within one year	32,118	-	-	-	32,118	-
Due in more than one year	1,536,533	1,516,199	-	-	1,536,533	1,516,199
Total liabilities	1,816,030	1,868,808	481	5,579	1,816,511	1,874,387
Deferred Inflows of Resources						
Unavailable revenue	67,531	44,404	-	-	67,531	44,404
Charges related to pensions	232,873	-	-	-	232,873	-
	300,404	44,404	-	-	300,404	44,404
Net Position						
Net investment in capital assets	38,694,185	39,344,287	1,383,111	1,401,358	40,077,296	40,745,645
Restricted	31,528	31,528	-	-	31,528	31,528
Unrestricted	5,534,280	4,761,302	22,903	16,983	5,557,183	4,778,285
Total net position	\$ 44,259,993	\$ 44,137,117	\$ 1,406,014	\$ 1,418,341	\$ 45,666,007	\$ 45,555,458

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, the Town's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$45,666,007. At year-end, net position was \$44,259,993 and \$1,406,014 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the Town's net position. At year-end, capital assets represented 84.5% of total assets for governmental activities. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles and infrastructure.

The table below shows the change in net position between fiscal 2015 and 2016.

	Governmental Activities			Business-Type Activities		
	2016	2015	Change	2016	2015	Change
Revenues:						
Program Revenues:						
Charges for services	\$ 386,711	\$ 351,236	\$ 35,475	\$ 58,621	\$ 59,801	(\$ 1,180)
Operating grants and contributions	4,467,959	4,463,124	4,835	-	-	-
Capital grants and contributions	70,221	764,895	(694,674)	-	-	-
General revenues:						
Property taxes	25,494,392	24,921,925	572,467	-	-	-
Grants and contributions not restricted to specific purposes	117,536	124,160	(6,624)	-	-	-
Unrestricted investment earnings	20,201	9,956	10,245	2	2	-
Total revenues	<u>30,557,020</u>	<u>30,635,296</u>	<u>(78,276)</u>	<u>58,623</u>	<u>59,803</u>	<u>(1,180)</u>
Program expenses:						
General government	2,687,308	2,632,309	54,999	-	-	-
Public safety	682,186	703,552	(21,366)	-	-	-
Public works	2,073,627	2,067,693	5,934	-	-	-
Health and welfare	154,718	150,388	4,330	-	-	-
Recreation	197,497	193,366	4,131	-	-	-
Education	23,373,233	22,861,334	511,899	-	-	-
Library	592,499	574,546	17,953	-	-	-
Environmental services	334,797	335,455	(658)	-	-	-
Capital outlay	338,279	73,695	264,584	-	-	-
Water services and operations	-	-	-	70,950	79,781	(8,831)
Total program expenses	<u>30,434,144</u>	<u>29,592,338</u>	<u>841,806</u>	<u>70,950</u>	<u>79,781</u>	<u>(8,831)</u>
Change in net position	<u>\$ 122,876</u>	<u>\$ 1,042,958</u>	<u>(\$ 920,082)</u>	<u>(\$ 12,327)</u>	<u>(\$ 19,978)</u>	<u>\$ 7,651</u>

Governmental Activities

Governmental activities increased in 2016. The main reasons for the increase in net position of the Town is the increase in tax collections for the year.

The table below presents the cost of each of the Town's five largest programs – education, public works, general government, public safety and library - as well as each program's net cost (total cost less revenues generated by the activities). Net cost shows the burden that was placed on the Town's taxpayers by each of the functions.

	Year Ended June 30, 2016		Year Ended June 30, 2015	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Education	\$ 23,373,233	\$ 19,400,052	\$ 22,861,334	\$ 18,867,828
General government	2,687,308	2,388,967	2,632,309	2,380,491
Public works	2,073,627	1,624,139	2,067,693	931,796
Public safety	682,186	635,708	703,552	663,717
Library	592,499	552,955	574,546	524,576
All others	1,025,291	907,432	752,904	644,675
	<u>\$ 30,434,144</u>	<u>\$ 25,509,253</u>	<u>\$ 29,592,338</u>	<u>\$ 24,013,083</u>

Business-type Activities

In June, 2003, the Town acquired a water company at a cost of \$554,605, including related fees. During the year ended June 30, 2016, the water company reported program revenues of \$58,621, interest income of \$2, and expenses of \$70,950. This program ended fiscal 2016 with an operating loss of \$12,327. The operating loss is due to depreciation expenses applied to the water company's capital assets for the year.

Financial Analysis of Governmental Funds

Governmental Funds - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Town's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Durham Town Meeting.

As June 30, 2016, the Town's governmental funds reported combined fund balances of \$6,427,085, an increase of \$1,082,841 in comparison with the prior year. The most significant reasons for the increase was an increase in property taxes due to both a mill rate increase and collections on back taxes and interest, over \$400,000 of ongoing capital projects that will be completed in the next fiscal year, and budgetary savings. The total fund balance amount is broken down as follows: \$34,028 is nonspendable, \$241,015 is restricted by governmental grants or other legal restrictions, \$2,409,038 is committed to various capital projects, \$476,581 is assigned and \$3,266,423 is unassigned.

The General Fund is the operating fund of the Town. At the end of the current fiscal year, the General Fund total fund balance was \$3,699,546. Approximately 88% of this amount (\$3,266,423) constitutes unassigned fund balance, which is available for spending at the town's discretion. The remainder of the fund balance is either nonspendable or assigned to indicate that it is 1) not in a spendable form (\$2,500), or 2) assigned for a particular purpose (\$430,623).

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,266,423, while total fund balance increased to \$3,699,546. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 10.7%, while total fund balance represents approximately 12.1%.

The fund balance of the Town's general fund increased by \$944,320 during the current fiscal year. The increase was primarily due to an increase in property taxes due to both a mill rate increase and collections on back taxes and interest, over \$400,000 of ongoing capital projects that will be completed in the next fiscal year, and budgetary savings.

The reserve fund for capital and nonrecurring expenditures, a major fund, had an \$144,886 increase in fund balance during the current fiscal year.

The state and federal grants, a major fund, had a \$2,471 decrease in fund balance during the current fiscal year.

Proprietary Funds

Net position of the Water Company, the Town's enterprise fund, reflected a decrease of \$12,327 attributable mainly to depreciation.

General Fund budgetary highlights

Original budget compared to final budget

Additional appropriations to the general fund approved during the year totaled \$883,793, including \$612,655 in transfers in from reserve, and \$271,138 in carryover from the prior fiscal year budget. There was a need to make an amendment to reallocate appropriations among departments. Generally, the movement of the appropriations was not significant.

Final budget compared to actual results

General property taxes - property tax revenue was \$371,805 more than budgeted. This is due to the payment of taxes due from prior years. Intergovernmental revenues were \$42,036 lower than budgeted primarily due to reductions in state aid to municipalities. Local revenues were \$69,860 higher than budgeted, primarily due to increased conveyance tax and building fee receipts.

Most of the Town's departments maintained spending within the budgetary limits. Overall, expenditures were \$796,313 under budget. Public works expenditures were under budget by \$85,171, public safety expenditures were under budget by \$130,308 and capital project expenditures were under budget by \$472,869. At a Town Meeting on October 3, 2016 it was voted to re-appropriate \$430,623 of the \$472,869 for fiscal year 2016-2017.

The Town's General Fund fund balance of \$3,699,546 reported on page 13 differed from the General Fund's budgetary fund balance. The nature of the difference is primarily attributable to accrued payroll that is not recognized for budgetary purposes and the use of fund balance to subsidize the operating budget is not recognized for GAAP purposes.

Capital Asset and Debt Administration

Capital Assets - At June 30, 2016, the Town had a net balance of \$40,216,193 invested in a broad range of capital assets, including land, buildings, vehicles and equipment, roads, bridges, and a water system. This represents a net decrease (including additions and deductions) of \$529,452 or approximately 1.3% from the prior year. The decrease is due primarily to depreciation of capital assets. Additions during the year included public works vehicles and a new tanker for the fire department.

Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 5,369,819	\$ 5,369,819	\$ -	\$ -	\$ 5,369,819	\$ 5,369,819
Construction in progress	311,355	-	-	-	311,355	-
Buildings & Improvements	3,228,743	3,351,128	-	-	3,228,743	3,351,128
Equipment & Furnishings	1,683,364	1,672,690	-	-	1,683,364	1,672,690
Land Improvements	35,268	30,988	-	-	35,268	30,988
Infrastructure	28,204,533	28,919,662	-	-	28,204,533	28,919,662
Water system	-	-	1,383,111	1,401,358	1,383,111	1,401,358
	<u>\$ 38,833,082</u>	<u>\$ 39,344,287</u>	<u>\$ 1,383,111</u>	<u>\$ 1,401,358</u>	<u>\$ 40,216,193</u>	<u>\$ 40,745,645</u>

Long-term debt

The Town had the following long-term obligations outstanding as of 2015 and 2016:

Governmental Activities

	2016	2015
Capital lease obligations	\$ 138,897	\$ -
Net pension obligation	1,178,670	1,272,922
Compensated absences	197,361	196,219
Other post-employment benefits	53,723	47,058
	<u>\$ 1,568,651</u>	<u>\$ 1,516,199</u>

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials consider many factors when establishing the annual budget and setting the mil rate. One of those factors is the state and local economy. Other factors include anticipated tax collections as well as uncertainty regarding the level of state funding to be received.

These factors were taken into account when adopting the General Fund budget. In addition, a full revaluation was done for the 2015 Grand List, which reduced the budgetary grand list by 7%.

The fiscal year 2017 budget of \$29,665,953 has a decrease of \$50,637 or 0.7% on the Town side and a decrease of \$631,222 or 2.7% for Regional School District No. 13. The mill rate was increased from 33.74 to 35.31.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department at the Town of Durham, 30 Town House Road, P.O. Box 428, Durham, Connecticut. Telephone (860) 349-9366.

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TOWN OF DURHAM, CONNECTICUT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,201,728	\$ 15,127	\$ 6,216,855
Investments	125,110	-	125,110
Property taxes, interest and liens receivable, net	570,269	-	570,269
Other receivables	206,397	8,257	214,654
Prepaid items	2,500	-	2,500
Permanently restricted cash	31,528	-	31,528
Capital assets:			
Capital assets, not being depreciated	5,681,174	-	5,681,174
Capital assets	53,093,192	1,620,324	54,713,516
Less: Accumulated depreciation	(19,941,284)	(237,213)	(20,178,497)
Total capital assets	38,833,082	1,383,111	40,216,193
 Total assets	45,970,614	1,406,495	47,377,109
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges related to pension	405,813	-	405,813
 Total deferred outflows of resources	405,813	-	405,813
LIABILITIES			
Accounts payable and accrued expenses	245,654	481	246,135
Unearned revenue	1,725	-	1,725
Long-term liabilities:			
Due within one year:			
Capital leases	32,118	-	32,118
Due in more than one year:			
Capital leases	106,779	-	106,779
Net pension liability	1,178,670	-	1,178,670
Other post-employment benefits	53,723	-	53,723
Compensated absences	197,361	-	197,361
 Total liabilities	1,816,030	481	1,816,511
DEFERRED INFLOWS OF RESOURCES			
Advance collection of property taxes	67,531	-	67,531
Deferred credits related to pension	232,873	-	232,873
 Total deferred inflows of resources	300,404	-	300,404
NET POSITION			
Net investment in capital assets	38,694,185	1,383,111	40,077,296
Restricted for:			
Animal welfare:			
Nonexpendable	31,528	-	31,528
Unrestricted	5,534,280	22,903	5,557,183
 Total net position	\$ 44,259,993	\$ 1,406,014	\$ 45,666,007

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

**TOWN OF DURHAM, CONNECTICUT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 2,687,308	\$ 259,626	\$ 38,715	\$ -	(\$ 2,388,967)	-	(\$ 2,388,967)
Public safety	682,186	22,499	23,979	-	(635,708)	-	(635,708)
Public works	2,073,627	-	379,267	70,221	(1,624,139)	-	(1,624,139)
Health and welfare	154,718	17,463	400	-	(136,855)	-	(136,855)
Culture and recreation	197,497	75,515	24,481	-	(97,501)	-	(97,501)
Education	23,373,233	-	3,973,181	-	(19,400,052)	-	(19,400,052)
Library	592,499	11,608	27,936	-	(552,955)	-	(552,955)
Environmental services	334,797	-	-	-	(334,797)	-	(334,797)
Capital outlay	338,279	-	-	-	(338,279)	-	(338,279)
Total Governmental Activities	30,434,144	386,711	4,467,959	70,221	(25,509,253)	-	(25,509,253)
Business-Type Activities							
Water	70,950	58,621	-	-	-	(12,329)	(12,329)
Total Business-Type Activities	70,950	58,621	-	-	-	(12,329)	(12,329)
Total Primary Government	\$ 30,505,094	\$ 445,332	\$ 4,467,959	\$ 70,221	(25,509,253)	(12,329)	(25,521,582)
General revenues:							
Property taxes, levied for general purposes					25,494,392	-	25,494,392
Grants and contributions not restricted to specific programs					117,536	-	117,536
Unrestricted investment earnings					20,201	2	20,203
Total general revenues					25,632,129	2	25,632,131
Change in net position					122,876	(12,327)	110,549
Net position, beginning					44,137,117	1,418,341	45,555,458
Net position, ending					\$ 44,259,993	\$ 1,406,014	\$ 45,666,007

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

**TOWN OF DURHAM, CONNECTICUT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Reserve Fund For Capital and Nonrecurring Expenditures	State and Federal Grants	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,667,961	\$ 2,383,828	\$ -	\$ 181,467	\$ 6,233,256
Investments	-	-	-	125,110	125,110
Property taxes, interest and liens receivable, net of allowance for doubtful accounts of \$10,000	570,269	-	-	-	570,269
Due from other funds	152,621	28,291	-	4,196	185,108
Other receivables	47,404	-	158,993	-	206,397
Prepaid items	2,500	-	-	-	2,500
Total assets	<u>\$ 4,440,755</u>	<u>\$ 2,412,119</u>	<u>\$ 158,993</u>	<u>\$ 310,773</u>	<u>\$ 7,322,640</u>
LIABILITIES					
Accounts payable	213,876	\$ -	\$ -	\$ -	\$ 213,876
Due to other funds	32,487	-	152,109	512	185,108
Accrued expenses	31,778	-	-	-	31,778
Unearned revenue	-	-	1,725	-	1,725
Total liabilities	<u>278,141</u>	<u>-</u>	<u>153,834</u>	<u>512</u>	<u>432,487</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	395,537	-	-	-	395,537
Advance collection of property taxes	67,531	-	-	-	67,531
Total deferred inflows of resources	<u>463,068</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>463,068</u>
FUND BALANCE					
Nonspendable	2,500	-	-	31,528	34,028
Restricted	-	-	5,159	235,856	241,015
Committed	-	2,409,038	-	-	2,409,038
Assigned	430,623	3,081	-	42,877	476,581
Unassigned	3,266,423	-	-	-	3,266,423
Total fund balances	<u>3,699,546</u>	<u>2,412,119</u>	<u>5,159</u>	<u>310,261</u>	<u>6,427,085</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,440,755</u>	<u>\$ 2,412,119</u>	<u>\$ 158,993</u>	<u>\$ 310,773</u>	<u>\$ 7,322,640</u>

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

**TOWN OF DURHAM, CONNECTICUT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total fund balance - governmental funds	\$	6,427,085
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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.		38,833,082
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Other long-term assets and deferred outflows are not available to pay current period expenditures and, therefore, are not reported in the funds.

Property taxes, interest and liens		395,537
Deferred charges related to pension		405,813

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

Capital leases	(138,897)
Net pension liability	(1,178,670)
Deferred credits related to pension	(232,873)
Other post-employment benefits	(53,723)
Compensated absences	(197,361)

Net position of governmental activities	\$	<u>44,259,993</u>
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The accompanying notes to the financial statements are an integral part of this statement.

TOWN OF DURHAM, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Reserve Fund For Capital and Nonrecurring Expenditures	State and Federal Grants	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 25,756,035	\$ -	\$ -	\$ -	\$ 25,756,035
Fees and fines	415,930	-	-	247	416,177
Licenses and permits	-	-	-	2,887	2,887
Intergovernmental	4,549,804	-	24,167	15,450	4,589,421
Investment earnings	11,522	8,080	-	599	20,201
Miscellaneous	-	19,300	-	15,642	34,942
Total revenues	<u>30,733,291</u>	<u>27,380</u>	<u>24,167</u>	<u>34,825</u>	<u>30,819,663</u>
EXPENDITURES					
Current:					
General government	2,559,305	-	15,400	3,728	2,578,433
Public safety	498,567	-	-	-	498,567
Public works	1,245,676	-	-	-	1,245,676
Health and welfare	152,055	-	2,893	(230)	154,718
Culture and recreation	192,077	-	309	283	192,669
Education	23,363,540	-	-	9,693	23,373,233
Library	493,465	-	3,382	25,245	522,092
Environmental services	334,797	-	-	-	334,797
Capital Outlay	970,880	-	4,654	-	975,534
Total expenditures	<u>29,810,362</u>	<u>-</u>	<u>26,638</u>	<u>38,719</u>	<u>29,875,719</u>
Excess (deficiency) of revenues over expenditures	<u>922,929</u>	<u>27,380</u>	<u>(2,471)</u>	<u>(3,894)</u>	<u>943,944</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from capital leases	138,897	-	-	-	138,897
Transfers in	626,805	744,311	-	-	1,371,116
Transfers out	(744,311)	(626,805)	-	-	(1,371,116)
Total other financing sources (uses)	<u>21,391</u>	<u>117,506</u>	<u>-</u>	<u>-</u>	<u>138,897</u>
Net change in fund balances	944,320	144,886	(2,471)	(3,894)	1,082,841
Fund balances, beginning	<u>2,755,226</u>	<u>2,267,233</u>	<u>7,630</u>	<u>314,155</u>	<u>5,344,244</u>
Fund balances, ending	<u>\$ 3,699,546</u>	<u>\$ 2,412,119</u>	<u>\$ 5,159</u>	<u>\$ 310,261</u>	<u>\$ 6,427,085</u>

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

**TOWN OF DURHAM, CONNECTICUT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Net change in fund balances - total governmental funds: \$ 1,082,841

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

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.

Capital outlay	637,255
Depreciation expense	(1,148,460)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property tax, interest and liens - accrual basis change	(261,643)
Change in deferred outflow charges related to pension	98,208

The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Issuance of capital lease obligations	(138,897)
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Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in net pension liability	94,252
Change in deferred inflow credits related to pension	(232,873)
Change in other post-employment benefits	(6,665)
Change in compensated absences	(1,142)

Change in net position of governmental activities	<u>\$ 122,876</u>
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The accompanying notes to the financial statements are an integral part of this statement.

**TOWN OF DURHAM, CONNECTICUT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016**

	Enterprise Fund
	Water Company
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 15,127
Accounts receivable, net	8,257
Total current assets	23,384
Capital assets:	
Utility system	1,620,324
Less: Accumulated depreciation	(237,213)
Total capital assets, net	1,383,111
Total assets	\$ 1,406,495
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 481
Total current liabilities	481
NET POSITION	
Net investment in capital assets	1,383,111
Unrestricted	22,903
Total net position	1,406,014
Total liabilities and net position	\$ 1,406,495

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

**TOWN OF DURHAM, CONNECTICUT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Enterprise Fund</u>
	<u>Water Company</u>
OPERATING REVENUES	
Charges for services	\$ 58,621
Total operating revenues	58,621
OPERATING EXPENSES	
Utilities	7,191
Repairs and maintenance	9,561
Other supplies and expenses	35,951
Depreciation	18,247
Total operating expenses	70,950
Operating loss	(12,329)
NONOPERATING REVENUES	
Interest	2
Total nonoperating revenue	2
Change in net position	(12,327)
Net position, beginning	1,418,341
Net position, ending	\$ 1,406,014

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

**TOWN OF DURHAM, CONNECTICUT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Enterprise Fund</u>
	<u>Water Company</u>
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 57,460
Payments to suppliers	<u>(57,801)</u>
Net cash used by operating activities	<u>(341)</u>
Cash Flows from Investing Activities	
Interest	<u>2</u>
Net change in cash and cash equivalents	(339)
Cash and cash equivalents, beginning	<u>15,466</u>
Cash and cash equivalents, ending	<u>\$ 15,127</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(\$ 12,329)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	18,247
Increase in accounts receivable	(1,161)
Decrease in accounts payable	<u>(5,098)</u>
Total adjustments	<u>11,988</u>
Net cash used by operating activities	<u><u>(\$ 341)</u></u>

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

**TOWN OF DURHAM, CONNECTICUT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 166,471	\$ 227,628
Accrued interest receivable	5,359	-
Other receivables	-	1,615
Investments	<u>2,358,895</u>	<u>-</u>
Total assets	<u>2,530,725</u>	<u>\$ 229,243</u>
LIABILITIES		
Amounts held for others	<u>-</u>	<u>\$ 229,243</u>
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 2,530,725</u>	

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

**TOWN OF DURHAM, CONNECTICUT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Pension Trust Fund</u>
ADDITIONS	
Contributions:	
Employer	\$ 202,591
Plan members	<u>72,072</u>
Total contributions	<u>274,663</u>
Investment return:	
Interest and dividends	48,897
Net decrease in fair value of investments	<u>(24,200)</u>
Total investment return	24,697
Less investment expense	<u>28,611</u>
Net investment return	<u>(3,914)</u>
Total additions	<u>270,749</u>
DEDUCTIONS	
Benefits	<u>144,110</u>
Total deductions	<u>144,110</u>
Change in net position	126,639
Net position restricted for pensions, beginning	<u>2,404,086</u>
Net position restricted for pensions, ending	<u><u>\$ 2,530,725</u></u>

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

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**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Town of Durham, Connecticut (the "Town") was named in 1708. The Town operates under a Board of Selectmen/Board of Finance form of government. The Town provides the following services: emergency response, water and sewer system, parks and recreation, street construction and maintenance, planning and zoning, and general administrative functions.

The Town operates under the provisions of its charter and the General Statutes of the State of Connecticut. The legislative powers of the Town are vested in the Town meeting. The executive body is made up of a Board of Selectmen, consisting of a First Selectman, who is the chief executive officer, and two other board members. A six-member Board of Finance is responsible for presenting fiscal operating budgets to the Annual Town Meeting.

The Town is a member of Regional School District No. 13 with the Town of Middlefield. The District provides educational services and facilities for children of the two towns from grades K through 12. The District's board, which is elected on a proportional basis by residents of the participating towns, controls the operation of the District.

The financial reporting entity consist of 1) the primary government, 2) organizations for which the primary government is financially accountable and 3) 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 the Governmental Accounting Standards Board (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. The following related organizations, to which the Town appropriates funds annually, do not meet the above criteria and are not included in the reporting entity:

Durham Volunteer Fire Company and Durham Volunteer Ambulance Corps Inc. have separate elected boards and provide services to residents, generally within the geographic boundaries of the Town. They are excluded from the reporting entity because the Town does not have the ability to exercise influence or control over the daily operations or approve budgets.

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . Continued . . .

B. Basis of Presentation

The financial statements of the Town of have been prepared in conformity with U.S. generally accepted accounting principles as applied to government units. GASB is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies used by the Town:

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 of the nonfiduciary activities of the Town. As a general rule, the effect of interfund balances and activity has been eliminated in preparation of these statements. Exceptions to this rule are services provided by one fund used by another fund. Elimination of these charges would distort the direct cost and program revenues reported for the various functions concerned. Governmental activities, which are normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of 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 the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 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. Property taxes and other items not properly included among program revenues are reported instead as general revenues. The Town does not allocate indirect expenses to functions in the Statement of Activities.

Fund Financial Statements

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

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . Continued . . .

The Town reports the following major governmental funds:

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

The Reserve Fund for Capital and Nonrecurring Expenditures is a capital projects fund and accounts for financial resources to be used for the acquisition of capital and/or nonrecurring items (other than those financed by proprietary funds or trust funds).

State and Federal Grants is a special revenue fund and accounts for federal, state and local grants awarded to the Town

The government reports the following major enterprise fund:

Water Company - This fund accounts for the activities of the water company service to the residents and commercial users located within the Town.

Additionally, the Town reports the following fund types:

The Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town's programs. Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

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

The Agency Fund accounts for funds held by the Town on behalf of outside groups or individuals such as performance bonds.

During the course of operations the Town may have activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported as gross amounts as transfers in/out. Certain eliminations are made in the preparation of the government-wide financial statements.

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . Continued . . .

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized 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. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenue when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the Town.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Like the government-wide statements, all proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . Continued . . .

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Town's proprietary funds are charges for sales and services. Operating expenses for proprietary funds include personnel and other expenses related to the operations of the enterprise. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. Proprietary fund reporting focuses on changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Town under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Town's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investment, and government repurchase agreements. At June 30, 2016, the Town's cash equivalents represented amounts held in the State Short-Term Investment Fund (STIF). The STIF is an investment pool managed by the Treasurer of the State of Connecticut. The pool is rated AAAM by Standard & Poor's.

Investments

Investments for the Town are reported at fair value, generally based on quoted market prices.

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . Continued . . .

Property Taxes and Other Receivables

Real estate and personal property taxes are levied and based upon values assessed on October 1st of every year. Assessed values are established by the Assessor for 70% of the estimated fair market value. Tax assessments levied in the current year were recorded as receivables at the time the levy was made. The receivables collected during the year and within 60 days following the year-end have been recorded as revenues. Receivables estimated to be collected subsequent to the 60 day period are considered to be deferred tax revenues. Prior year tax levies were recorded using the same principle.

The Town's property tax is levied and payable each July 1 on the assessed value listed as of the prior October 1 for all real and personal property located in the Town. These taxes are billed and due in two installments, July 1 and the subsequent January 1. Liens are effective on the assessment date and are continued by filing prior to the following levy date.

Section 12-165 of the General Statutes of the State of Connecticut requires each municipality to write-off, on an annual basis, the property taxes, which are deemed to be uncollectible. Accordingly, an allowance for uncollectible property taxes has been established. As of June 30, 2016, the allowance for uncollectible property taxes is \$10,000.

State statutes require that a revaluation be done every five years. The last revaluation completed and enacted was for the list of October 1, 2015.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Prepaid Items

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
... Continued ...**

Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 with an estimated useful life in excess of one year. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town's historical records of necessary improvements and replacement.

Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and improvements	40 years	40 years
Land improvements	15 years	15 years
Equipment and vehicles	5-10 years	5-10 years
Infrastructure	60 years	60 years

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, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports deferred outflows of resources related to pension in the government-wide statement of net position. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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assumptions and differences between projected and actual earnings. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active and inactive employees).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports advance collection of property taxes in the government-wide statement of net position and in the governmental funds balance sheet. The Town also reports deferred inflows of resources related to pension in the government-wide statement of net position. A deferred inflow of resources related to pension results from differences between expected and actual experience and changes in assumptions. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active and inactive employees). Also, for the governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated Absences

Compensated absences of the Town consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Town and the employee.

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Town will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30, 2016 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. Town employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
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Net Pension Liability

The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net position liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

Long-Term Obligations

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

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

Net Position/Fund Balance

Government-wide Statements

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

Net Investment in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
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Unrestricted - Net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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

Fund Financial Statements

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

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either (a) not in spendable form (e.g., inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - represents amounts that are constrained for a specific purpose by either (a) external parties, such as grantors, creditors, contributors, or laws and regulation of their governments or (b) imposed by law through constitutional provisions or enabling legislation.

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

Assigned Fund Balance - for all governmental funds other than the General Fund, any remaining positive amounts not classified as nonspendable, restricted or committed. For the General Fund, includes amounts constrained for the intent to be used for a specific purpose by the Board of Finance.

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

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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Fund Balance Flow Assumptions - Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The Town adopted a formal fund balance policy for the General Fund. This policy sets a target range from 5% to 10% overall fund balance when compared to the annual General Fund expenditure budget.

E. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues, expenses and expenditures. Actual results could differ from those estimates.

F. Subsequent Events

Management has evaluated subsequent events through October 21, 2016, the date the financial statements were available to be issued.

2. Stewardship, Compliance and Accountability

Budgetary Information

At the annual Town meeting, the Board of Finance presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by Town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special Town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Board of Finance is empowered to transfer funds from other budget line items up to \$20,000 to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

The legal level of control (the level at which expenditures may not legally exceed appropriations) is at the department level.

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
... Continued ...**

Appropriations for capital projects do not lapse until completion of the applicable projects. All General Fund unexpended appropriations lapse at year end.

The Town does not have legally adopted annual budgets for its special revenue funds because budgetary control is alternatively achieved by constraints imposed by the project authorization and grant awards related to these funds. The Town does not have legally adopted budgets for its enterprise or fiduciary funds.

At year end, appropriation balances lapse, except for certain unexpended capital items which will be honored during the subsequent year.

3. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

The deposit of public funds is controlled by Connecticut General Statutes. Cash equivalents are defined as those liquid investments having original maturities of three months or less. The carrying amount of the Town's deposits with financial institutions at June 30, 2016 was \$7,083,347.

The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows:

Deposits and cash on hand	\$ 4,653,674
Cash equivalents:	
State Short-Term Investment Fund (STIF)	2,383,829
Northern Institutional Diversified Assets	45,844
Total cash and cash equivalents	\$ 7,083,347
Book balances	
Governmental funds	\$ 6,233,256
Enterprise funds	15,127
Pension trust fund	166,471
Agency fund	227,628
Total cash and cash equivalents	\$ 6,642,482

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Of the June 30, 2016 bank balance, \$620,627 was covered by Federal Depository Insurance. All of the Town's deposits are in qualified public institutions as defined by state statute. Under this statute, any bank holding public deposits must at all times maintain segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its public deposits. Additionally, the Town has an agreement with its primary financial institution whereby one hundred percent of the Town deposits which exceed the FDIC limits are collateralized with assets segregated from the financial institutions assets at the Federal Reserve Bank and identified as being pledged to the Town. The Town has a deposit policy for custodial risk.

Investments

The Connecticut General Statutes permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interest in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market or 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 Mary J. Camp and Pension Trust Funds are also authorized to invest in corporate bonds, common stocks and mutual funds.

As of June 30, 2016, the Town's investments consisted of the following:

Mary J. Camp Fund:	
Equity mutual funds	\$ 83,490
Fixed income mutual funds	17,707
Hedge fund mutual funds	12,303
REIT mutual fund	7,803
Tangible asset mutual funds	3,807
Total	<u>\$ 125,110</u>
Pension Trust Fund:	
U.S. Treasury notes	\$ 260,546
Corporate bonds	418,357
Common stocks	1,665,324
Mutual funds	14,668
Total	<u>\$ 2,358,895</u>

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
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Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury notes	\$ 260,546	\$ 25,982	\$ 61,649	\$ -	\$ 172,915
Corporate bonds	418,357	10,262	344,187	-	63,908
	678,903	<u>\$ 36,244</u>	<u>\$ 405,836</u>	<u>\$ -</u>	<u>\$ 236,823</u>
Common stocks **	1,665,324				
Mutual funds **	139,778				
	<u>\$2,484,005</u>				

** Equity securities and mutual funds do not mature.

Interest Rate Risk - The Town has a formal investment policy that minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in shorter term securities, money market mutual funds, or similar investment pools.

Credit risk - The Town has a formal investment policy that minimizes credit risk by pre-qualifying institutions with which the Town may do business, limiting the type of acceptable investments to those permitted by Connecticut General Statutes except for types and kinds of investments prohibited by the Town, diversifying the investment portfolio and placing deposits in financial institutions that maintain a risk based capital ratio of 10% or higher. The provisions of State statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

Custodial Credit Risk - Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. The Town has a policy for custodial credit risk that minimizes custodial credit risk by ensuring all trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to release of funds and securities will be held by an independent third party custodian selected by or accepted by the Town, evidenced by safekeeping receipts in the Town. At June 30, 2016, the Town did not have any uninsured and unregistered securities held by the counterparty or by its trust department or agent that were not in the Town's name.

Concentrations of Credit Risk - The Town has no policy limiting the amount the Town may invest in any one issuer.

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
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Fair Value Measures - The Town utilizes the market approach as the valuation technique to measure fair value of its financial assets. U.S. generally accepted accounting principles establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value of financial instruments into three levels.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities where the organization has the ability to access at the measurement date;

Level 2 - Significant other observable inputs other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly (i.e. quoted prices in inactive markets, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency);

Level 3 - Unobservable inputs are used to the extent that observable inputs are unavailable due to little, if any, market activity for the asset or liability. Unobservable inputs are developed based on the best information available, which might include the organization's own data that reflects assumptions that market participants would use in pricing the asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Town's investments are measured on a recurring basis using Level 1 information (market quotations for investments that have quoted prices in active markets). The Town has no financial assets measured using Level 2 or Level 3 at June 30, 2016.

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
... Continued ...**

4. Interfund Transactions

Interfund Balances

Interfund balances consisted of the following at June 30, 2016, as reported in the fund financial statements:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 152,621	\$ 32,487
Reserve Fund for Capital and Nonrecurring Expenditures	28,291	-
State and Federal Grants	-	152,109
Nonmajor Governmental Funds:		
Carl Otte Natural Resources	-	512
Town Trust	<u>4,196</u>	<u>-</u>
	<u>\$ 185,108</u>	<u>\$ 185,108</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not yet received. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Internal balances between governmental funds are eliminated on the government-wide financial statements; therefore, only one interfund balance is reported on the government-wide financial statements.

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
... Continued ...**

Interfund Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following, as reported in the fund financial statements:

	Transfers In	Transfers Out
General Fund	\$ 626,805	\$ 744,311
Reserve Fund for Capital and Nonrecurring Expenditures	744,311	626,805
Total	\$1,371,116	\$1,371,116

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

5. Property Taxes and Other Receivables

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

	Property Taxes	Interest and Liens	Grants	Other	Allowance for Uncollectibles	Total
General Fund	\$ 407,173	\$ 173,096	\$ -	\$ 47,404	(\$ 10,000)	\$ 617,673
State and Federal Grants	-	-	158,993	-	-	158,993
Water Company	-	-	-	8,257	-	8,257
Pension Trust Fund	-	-	-	5,359	-	5,359
Agency Fund	-	-	-	1,615	-	1,615
Net total receivables	\$ 407,173	\$ 173,096	\$ 158,993	\$ 62,635	(\$ 10,000)	\$ 791,897

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
... Continued ...**

6. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2016
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 5,369,819	\$ -	\$ -	5,369,819
Construction in progress	-	311,355	-	311,355
Total capital assets not being depreciated	<u>5,369,819</u>	<u>311,355</u>	<u>-</u>	<u>5,681,174</u>
Capital assets, being depreciated:				
Buildings and improvements	5,379,328	14,028	-	5,393,356
Machinery, equipment and vehicles	4,399,388	306,747	-	4,706,135
Land improvements	80,866	5,125	-	85,991
Infrastructure	42,907,710	-	-	42,907,710
Total capital assets, being depreciated	<u>52,767,292</u>	<u>325,900</u>	<u>-</u>	<u>53,093,192</u>
Total accumulated depreciation	<u>18,792,824</u>	<u>1,148,460</u>	<u>-</u>	<u>19,941,284</u>
Total capital assets, being depreciated, net	<u>33,974,468</u>	<u>(822,560)</u>	<u>-</u>	<u>33,151,908</u>
Total Government-Wide Capital Assets, net	<u>\$ 39,344,287</u>	<u>(\$ 511,205)</u>	<u>\$ -</u>	<u>\$ 38,833,082</u>
	Balance			Balance
	July 1, 2015	Additions	Disposals	June 30, 2016
Business-Type Activities				
Capital assets, being depreciated:				
Water system	\$ 1,620,324	\$ -	\$ -	\$ 1,620,324
Total capital assets, being depreciated	<u>1,620,324</u>	<u>-</u>	<u>-</u>	<u>1,620,324</u>
Total accumulated depreciation	<u>218,966</u>	<u>18,247</u>	<u>-</u>	<u>237,213</u>
Total capital assets, being depreciated, net	<u>1,401,358</u>	<u>(18,247)</u>	<u>-</u>	<u>1,383,111</u>
Business-Type activities capital assets, net	<u>\$ 1,401,358</u>	<u>(\$ 18,247)</u>	<u>\$ -</u>	<u>\$ 1,383,111</u>

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
... Continued ...**

Depreciation expense was charged to governmental activities - functions/programs as follows:

	Total
General government	\$ 61,655
Public safety	183,619
Public works	827,951
Culture and recreation	75,235
	\$ 1,148,460

7. Long-Term Obligations

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

Governmental Activities	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Capital lease obligations	\$ -	\$ 138,897	\$ -	\$ 138,897	\$ 32,118
Net pension liability	1,272,922	-	94,252	1,178,670	-
Other post-employment benefits	47,058	6,665	-	53,723	-
Compensated absences	196,219	45,386	44,244	197,361	-
Total Governmental	\$ 1,516,199	\$ 190,948	\$ 138,496	\$ 1,568,651	\$ 32,118

The capital leases consist of the financed portion of equipment that has been capitalized in the amount of \$219,810. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2016 was \$5,788, leaving a current book value of \$214,022. A corresponding liability is recorded in the government-wide financial statements. Principal payments are made by the General Fund.

There are no authorized, unissued bonds at June 30, 2016.

Durham is a member of Regional School District No. 13, which provides education facilities for grades K through twelve for the towns of Durham and Middlefield. As of June 30, 2016, the outstanding bonded indebtedness of the District was \$7,765,000 with Durham's share being 65.62% or \$5,095,393. These are general obligations of Regional School District No. 13 and its member towns.

Connecticut General Statutes provide that the total authorized debt of the Town shall not exceed seven times total tax collections, or \$179,181,121. At June 30, 2016 the total outstanding debt applicable to the limit was \$5,095,393.

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
... Continued ...**

8. Fund Balance

	General Fund	Reserve Fund For Capital and Nonrecurring Expenditures	State and Federal Grants	Non-major Governmental Funds	Total
Fund balances:					
Nonspendable	\$ 2,500	\$ -	\$ -	\$ 31,528	\$ 34,028
Restricted for:					
General government	-	-	-	8,681	8,681
Animal control	-	-	-	31,500	31,500
Conservation	-	-	5,159	1,424	6,583
Natural resources	-	-	-	6,934	6,934
Education	-	-	-	125,110	125,110
Library	-	-	-	62,207	62,207
Committed to:					
Capital projects	-	2,409,038	-	-	2,409,038
Assigned to:					
Library	-	-	-	42,877	42,877
Capital projects	430,623	3,081	-	-	433,704
Unassigned	3,266,423	-	-	-	3,266,423
Total fund balances	<u>\$ 3,699,546</u>	<u>\$ 2,412,119</u>	<u>\$ 5,159</u>	<u>\$ 310,261</u>	<u>\$ 6,427,085</u>

9. Retirement Plan for Employees of the Town of Durham

The Town administers a single-employer, contributory, defined benefit public employees retirement system (PERS) plan to provide pension benefits to substantially all Town employees. The PERS is considered to be a part of the Town's financial reporting entity and is included in the Town's financial reports as a Pension Trust Fund. A stand-alone plan report is not available for this plan.

Management of the plan rest with the Board of Selectmen.

Plan Description

The Plan covers substantially all union employees; and on a voluntary basis, officials appointed by the Board of Selectman working 20 hours or more per week; non-union employees working at least twenty hours or more per week; and certain full-time elected officials, specifically the First Selectman, the Tax Collector and the Town Clerk. Participation in the Plan is available to all eligible employees who have attained the age of 21 years and who have completed one year of service.

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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... Continued ...**

At July 1, 2015, plan membership consisted of the following:

Active plan members	26
Inactive plan members entitled to but not yet receiving benefits	7
Inactive plan members or beneficiaries currently receiving benefits	<u>13</u>
	<u>46</u>

Benefits provided - A participant is eligible for normal retirement upon reaching the age of 65 and completing 5 years of service. A participant can retire early after age 55 with 10 years of service and receive a benefit that is reduced 5% for each year the early retirement precedes age 65.

The annual accrued benefit of a member shall be equal to 1.75% of average annual earnings multiplied by years of service prior to July 1, 2009 plus 2.00% of average annual earnings multiplied by years of service between July 1, 2009 and July 1, 2014 plus 2.25% of average annual earnings multiplied by years of service after July 1, 2014.

Participants in the Plan are fully vested after ten years according to the following schedule:

<u>Vesting Service</u>	<u>Vested Interest</u>
Less than 4 years	0%
At least 4 years	40%
At least 5 years	50%
At least 6 years	60%
At least 7 years	70%
At least 8 years	80%
At least 9 years	90%
10 years or more	100%

Contributions - Active plan members are required to contribute 5.0% of their regular earnings to the Plan. If an employee leaves covered employment or dies before meeting the vesting requirement, accumulated employee contributions and 4.0% interest thereon are refunded. The Town is required to contribute the remaining amounts necessary to finance the benefits for its employees as are actuarially determined.

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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. . . Continued . . .**

Summary of Significant Accounting Policies

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income is recognized as earned.

Administrative costs of the Plan are financed by the Town.

Investments

Investment policy - the pension plan's policy in regard to the allocation of invested assets is established and amended by the Board of Selectmen. It is the policy of the Board of Selectmen to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

The following was the Board's adopted asset allocation policy as of June 30, 2016:

Asset Class	Target Allocation
Large cap core equity	30.00 %
Mid cap core equity	15.00
Small cap core equity	10.00
International equity	10.00
Emerging market equity	5.00
Intermediate duration inv. grade taxable fixed	15.50
Short duration inv. grade taxable fixed	12.50
Cash	2.00
	100.00 %

Rate of return - For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -0.16%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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. . . Continued . . .

Net Pension Liability

The components of the net pension liability of the Town at June 30, 2016, were as follows:

Total pension liability	\$	3,709,395
Plan fiduciary net position		<u>2,530,725</u>
 Town's net pension liability	 \$	 <u>1,178,670</u>
 Plan fiduciary net position as a percentage of the total pension liability		 68.22 %

Actuarial assumptions - the total pension liability was determined by an actuarial valuation as of July 1, 2015 and increased by service cost and interest and decreased by benefit payments to estimate the total pension liability as of June 30, 2016. Actuarial assumptions were as follows:

Inflation	3.00%	
Salary increases	4.00%	
Investment rate of return	7.50%	net of investment-related and administrative expenses

Mortality rates were based on RP-2014 adjusted to 2006 total dataset mortality table projected to valuation date with Scale MP-2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
... Continued ...**

Asset Class	Long-Term Expected Real Rate of Return
Large cap core equity	6.70 %
Mid cap core equity	7.20
Small cap core equity	7.70
International equity	6.50
Emerging market equity	7.50
Intermediate duration inv. grade taxable fixed	2.70
Short duration inv. grade taxable fixed	1.60
Cash	1.00

Discount rate - the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Town contributions will be made at rates equal to the actuarially determined contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . Continued . . .**

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances, June 30, 2015	\$ 3,677,008	\$ 2,404,086	\$ 1,272,922
Changes for the year:			
Service cost	164,149	-	164,149
Interest	282,781	-	282,781
Differences between expected and actual experience	(218,852)	-	(218,852)
Changes in assumptions	(51,581)	-	(51,581)
Contributions - employer	-	202,591	(202,591)
Contributions - member	-	72,072	(72,072)
Net investment return	-	(3,914)	3,914
Benefit payments, including refunds of member contributions	(144,110)	(144,110)	-
Net changes	32,387	126,639	(94,252)
Balances, June 30, 2016	\$ 3,709,395	\$ 2,530,725	\$ 1,178,670

Sensitivity of the net pension liability to changes in the discount rate – the following presents the net pension liability of the Town, calculated using the discount rate of 7.50%, as well as what the Town’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Town's net pension liability	\$ 1,646,714	\$ 1,178,670	\$ 779,783

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . Continued . . .

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

For the year ended June 30, 2016, the Town recognized pension expense of \$242,936. The Town reported deferred outflows and inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 70,138	\$ 188,456
Changes in assumptions	122,541	44,417
Net difference between projected and actual earnings on pension plan investments	213,134	-
Total	\$ 405,813	\$ 232,873

Net differences between projected and actual earnings are amortized over 5 years. Differences between expected and actual experience and changes in assumptions are amortized over the average remaining service period of actives and inactive, which is 7.2 years.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30

2017	\$53,539
2018	53,539
2019	53,541
2020	32,903
2021	(4,903)
Thereafter	(15,679)

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . Continued . . .

10. Other Post-Employment Benefits (OPEB)

Plan Description

The Town provides post-employment medical benefits to eligible retirees and their spouses through a single-employer, contributory, defined benefit healthcare OPEB plan. A tri-annual actuarial valuation is made to determine whether the contributions are sufficient to meet plan obligations. The latest valuation was made July 1, 2014. The OPEB plan does not issue a separate, stand-alone, financial report.

Benefit Provisions

Employees of the Town are eligible for medical coverage based upon the following criteria:

- Normal retirement at age 60 and 10 years of service or
- Early retirement at age 55 and 15 years of service
- Benefits are continued until the retiree or spouse turn 65

Spousal medical benefits are provided to the spouse of a retiree eligible for medical benefits and are subject to the same duration of coverage as indicated above.

Plan Membership

Membership in the Plan consisted of the following at July 1, 2014, the date of the most recent actuarial valuation:

Active plan participants	24
Terminated vested participants	0
Participants in payment status	<u>7</u>
	<u><u>31</u></u>

Funding Policy

The contribution requirement of plan members and the Town are established and may be amended by the Town. The Town currently contributes enough money to the Plan to satisfy the current obligations on a pay-as-you go basis.

Eligible retirees age 55 with 25 years of service pay 90% of the premium; all others pay 100%. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Board of Selectmen. For the year ended June 30, 2016, the Town of Durham contributed \$0 to the Plan.

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . Continued . . .**

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost and net OPEB obligation of the plan as of June 30, 2016 were as follows:

Annual required contribution (ARC)	\$ 7,400
Interest on net OPEB obligation	1,882
Adjustment to ARC	<u>(2,617)</u>
Annual OPEB cost (AOC)	6,665
Contributions made	<u>-</u>
Change in net OPEB obligation	6,665
Net OPEB obligation, beginning of year	<u>47,058</u>
Net OPEB obligation, end of year	<u>\$ 53,723</u>

Three-Year Trend Information

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation three year trend information is presented below:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Actual Contribution</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014	\$ 7,103	\$ -	0.0 %	\$ 40,340
6/30/2015	6,718	-	0.0	47,058
6/30/2016	6,665	-	0.0	53,723

Funding Status and Funding Progress

The funded status of the plan as of July 1, 2014, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL As a Percentage of Covered Payroll</u>
7/1/2014	\$ -	\$ 56,000	\$ 56,000	0.0 %	\$ 1,410,600	3.97 %

TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . 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 actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.

The schedules of funding progress and employer contributions, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, actuarial valuations, will use actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The actuarial assumptions included:

A. Actuarial cost method	Projected unit credit
B. Amortization method	Level dollar open
C. Remaining amortization period	30 Years
D. Investment rate of return	4.00%
E. Projected salary increase (per year)	4.50%
F. Inflation rate	2.50%
G. Cost of living adjustment	None
H. Mortality	RP-2014 Mortality Table with no collar adjustment, projected to the valuation date with Scale MP-2014
I. Health care trend	9.00% in 2014, decreases by .5% per year down to 5.00% in 2022

**TOWN OF DURHAM, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
. . . Continued . . .**

11. Contingent Liabilities

There are various suits and claims pending against the Town, none of which, individually, or in the aggregate, is believed by legal counsel to be likely to result in a judgment or judgments, which would materially affect the Town's financial position.

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditure disallowed under terms of the grant. Based upon prior experience, Town management believes such disallowances, if any, will not be material.

12. 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; workers compensation and natural disasters for which the Town carries commercial insurance. During the year ended June 30, 2016, deductibles paid by the Town were insignificant. Settled claims, for all types of commercial coverage, have not exceeded commercial insurance coverage during any of the past three fiscal years.

13. Jointly Governed Organization

The Town is a participant in the organization described below:

Durham Middlefield Interlocal Agreement Advisory Board (DMIAAB) - The Town and the Town of Middlefield Town Meetings each appoint four members to the governing board of DMIAAB, which operates a shared refuse transfer station. The Town expended \$324,611 for operations for the year ended June 30, 2016.

14. Other Matters

The State of Connecticut's Office of Policy and Management has adopted new laws that will affect the Town's budgets in subsequent years. The motor vehicle mill rate will be capped at 37 mills in fiscal year 2017 and 29.36 mills in fiscal year 2018 and annually thereafter. Beginning with fiscal year 2018, a cap will be imposed on municipal spending to limit general budget expenditures to 2.5% above the previous year or the rate of inflation, whichever is greater. Exemptions from the cap include debt service, special education expenditures, expenditures from implementing court orders, arbitration awards, expenditures related to major disaster or emergency declarations, and MRSA grants distributed to special taxing districts under certain circumstances.

**TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Property Taxes	\$ 25,384,230	\$ 25,384,230	\$ 25,756,035	\$ 371,805
Local Revenues:				
Copy fees	1,000	1,000	1,457	457
General revenues	7,000	7,000	7,961	961
NSF fees	-	-	225	225
Regional Water Authority	400	400	763	363
Town Clerk cash receipts	50,000	50,000	50,986	986
Town Clerk conveyance tax	52,000	52,000	77,129	25,129
LOCIP - Town Clerk	3,000	3,000	2,729	(271)
Insurance dividend	5,000	5,000	6,366	1,366
Treasurers Trust Fund interest	4,800	4,800	565	(4,235)
Bank interest	750	750	4,591	3,841
Passport fees	9,000	9,000	10,565	1,565
Building and health cash receipts	66,980	66,980	87,656	20,676
Health department fees	11,000	11,000	15,438	4,438
IWWC fees	500	500	720	220
ZBA fees	100	100	305	205
PZC fees	1,000	1,000	850	(150)
Conservation receipts	5,720	5,720	5,726	6
Insurance reimbursements	18,381	18,381	22,247	3,866
Highway receipts	500	500	61	(439)
Workforce Alliance	21,000	21,000	18,776	(2,224)
State trooper - RSD #13 overtime	3,500	3,500	2,531	(969)
Dog fines	700	700	410	(290)
Animal population control	300	300	15	(285)
Emergency notification system	4,366	4,366	4,367	1
Tower reimbursement	2,800	2,800	2,700	(100)
Dog licenses	8,000	8,000	3,802	(4,198)
Fire Marshal cash receipts	500	500	805	305
Library cash receipts	15,000	15,000	11,361	(3,639)
Recreation department cash receipts	50,000	50,000	52,771	2,771
Summer recreation program fees	6,500	6,500	10,760	4,260
Farmer's market revenue	1,000	1,000	1,815	815
Cemetery revenue	-	-	1,125	1,125
Transfer in from Reserve	-	612,655	626,805	14,150
DEP fees	1,800	1,800	1,380	(420)
Pistol permits	2,500	2,500	6,510	4,010
Senior board activity fee	100	-	-	-
Senior bus revenue	16,545	16,645	11,984	(4,661)
Total Local Revenues	371,742	984,397	1,054,257	69,860

...Continued...

TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
...Continued...

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Intergovernmental Revenues:				
Town aid road improvement grant	\$ 222,769	222,769	\$ 222,641	(\$ 128)
Telecommunications personal property	21,000	21,000	19,604	(1,396)
Payment in lieu of taxes - state property	18,677	18,677	-	(18,677)
Local capital improvement program	52,321	52,321	52,321	-
Elderly tax relief	850	850	852	2
Miscellaneous state revenue	2,000	2,000	3,896	1,896
Casino funds	23,789	23,789	22,264	(1,525)
Town clerk - records restoration	3,000	3,000	3,000	-
Youth services grant	18,937	18,937	18,653	(284)
Judicial Branch receipts	2,000	2,000	1,720	(280)
Homeowners tax relief	41,000	41,000	38,241	(2,759)
Veterans tax relief	13,618	13,618	17,275	3,657
Trooper DWI grant	20,775	20,775	20,114	(661)
Municipal revenue sharing	153,897	153,897	153,897	-
Public safety grant	3,701	3,701	2,145	(1,556)
Educational cost sharing	3,993,506	3,993,506	3,973,181	(20,325)
Total Intergovernmental Revenues	<u>4,591,840</u>	<u>4,591,840</u>	<u>4,549,804</u>	<u>(42,036)</u>
Budgeted Use of Fund Balance	<u>-</u>	<u>271,138</u>	<u>-</u>	<u>(271,138)</u>
Total Revenues	<u>\$ 30,347,812</u>	<u>\$ 31,231,605</u>	<u>\$ 31,360,096</u>	<u>\$ 128,491</u>

...Continued...

TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
...Continued...

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Elected Officials and Boards				
Board of Finance	\$ 26,350	\$ 26,350	\$ 25,105	\$ 1,245
Board of Selectmen	37,707	43,957	38,091	5,866
First Selectman's salary	84,801	84,801	84,801	-
Selectmen's salary	8,134	8,134	8,134	-
Office of the First Selectmen	64,015	64,015	63,414	601
Board of Assessment Appeals	350	624	623	1
Office of the Tax Collector	11,840	11,840	11,096	744
Tax Collector's salary	62,565	62,565	62,565	-
Tax Collector's office staff salaries	26,686	27,676	21,746	5,930
Office of the Town Clerk	25,150	25,442	25,441	1
Town Clerk's salary	61,531	62,565	62,565	-
Town Clerk's office salaries	59,907	59,907	58,801	1,106
Town Treasurer's salary	10,459	10,459	10,459	-
Total Elected Officials and Board	479,495	488,335	472,841	15,494
Professional Services				
Assessor department	16,570	16,570	16,116	454
Assessor's office salaries	78,799	80,915	80,915	-
Midstate Regional Planning Agency	6,773	6,773	6,773	-
Middlesex soil and water	1,698	1,698	1,698	-
Probate court	8,717	8,717	8,717	-
Town Counsel	40,000	41,366	41,365	1
Town engineering	35,000	35,000	27,285	7,715
Building Official salary	87,431	87,431	87,430	1
Land use administration salary	57,138	59,254	59,255	-
Building department	5,980	5,680	3,250	2,430
Public health administration	92,631	92,631	92,630	1
Public health department	50	350	254	96
Finance department	6,120	6,120	5,951	169
Finance department salaries	121,252	123,168	123,167	1
Planning and Zoning legal council	9,000	13,227	13,226	1
Information technology	56,520	57,547	57,546	1
Computer equipment	9,900	9,900	9,900	-
Total Professional Services	633,579	646,347	635,478	10,870
Other Town Commissions				
Inland Wetlands	1,100	1,100	369	731
Zoning Board of Appeals	1,390	1,727	1,726	1
Planning and Zoning	45,000	45,000	31,890	13,110
Economic Development	1,500	1,500	98	1,402
Conservation	7,650	7,650	6,826	824
Historic District Commission	300	300	-	300
Ethics Commission	50	50	50	-
Agricultural Commission	150	150	126	24
Professional tree services	2,800	2,800	2,800	-
Total Other Town Commissions	59,940	60,277	43,885	16,392

...Continued...

TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
...Continued...

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
General Expenses				
Elections	\$ 34,383	\$ 42,768	\$ 42,767	\$ 1
Social security	151,099	164,124	136,679	27,445
Unemployment compensation	13,506	15,136	15,135	1
Employee retirement plan	216,091	220,591	220,366	225
Insurance	99,305	101,349	101,348	1
Employee health benefits	662,547	662,547	654,235	8,312
Tree Warden	27,875	27,875	27,361	514
Drug and alcohol test	1,096	1,116	1,116	-
Town hall expenses	44,241	45,381	45,381	-
Municipal heating fuel	30,576	30,576	28,576	2,000
Municipal custodial services	32,104	33,509	33,509	-
Facilities management	47,967	60,223	60,221	2
Total General Expenses	1,360,790	1,405,195	1,366,694	38,501
Public Works				
Street lights	46,000	53,668	53,668	-
Capital equipment	28,291	-	-	-
Highway department wages	463,571	490,234	445,391	44,843
Highway department seasonal wages	35,000	18,000	18,130	(130)
Highway department vehicle maintenance	70,000	70,000	70,776	(776)
Town garage maintenance	13,748	16,741	16,739	2
Public works department	71,350	89,632	84,198	5,434
Snow removal	160,000	160,000	147,473	12,527
Catch basin cleaning/repair	30,000	30,000	20,497	9,503
Vehicle fuel	66,000	66,000	59,018	6,982
Chip sealing	261,000	269,556	269,556	-
Highway sweeping	20,000	20,000	19,596	404
Highway projects	55,000	55,000	48,618	6,382
Total Public Works	1,319,960	1,338,831	1,253,660	85,171
Public Safety				
Emergency management	3,410	3,410	1,824	1,586
Animal control salaries	17,171	17,172	17,172	-
Animal control expenses	13,778	13,778	9,749	4,029
Public safety vehicle maintenance	15,000	15,000	5,241	9,759
Emergency expenditures	25,000	25,000	11,093	13,907
Volunteer fire company	69,705	69,705	67,571	2,134
Fire company trustees	17,492	17,492	16,163	1,329
Volunteer ambulance company	37,741	37,741	28,520	9,221
Public safety data system	10,550	11,279	11,279	-
Town wide radio communications	16,783	16,783	16,441	342
Fire Marshal department	2,895	5,280	3,686	1,594
Fire Marshal wages	26,575	26,575	26,287	288
Valley Shore communications	94,915	94,915	94,915	-
Fire pond fund	5,000	5,000	2,737	2,263
Resident State Trooper department	5,170	40,770	34,928	5,842
Resident State Trooper contract	227,000	183,575	130,936	52,639
Resident State Trooper/fair house	-	2,400	2,400	-
Burning permits	1,000	1,000	1,000	-
Emergency services facility	-	42,000	16,625	25,375
Total Public Safety	589,185	628,875	498,567	130,308

...Continued...

TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
...Continued...

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Health and Welfare				
Human services salary	\$ 35,711	\$ 37,034	\$ 37,034	\$ -
Human services department	17,560	17,560	17,214	346
Social services	280	374	373	1
Transportation	47,145	47,145	35,321	11,824
Youth services	44,937	44,937	44,653	284
Durham senior citizens board	17,030	17,460	17,460	-
Total Health and Welfare	162,663	164,510	152,055	12,455
Library				
Library	503,993	504,572	497,511	7,061
Recreation				
Recreation	193,883	196,574	191,127	5,447
Miscellaneous				
Tax refunds	33,500	36,085	36,084	1
Contingency	145,000	939	-	939
Farmers market	1,000	1,160	1,160	-
Total Miscellaneous	179,500	38,184	37,244	940
Reserve Funds				
Transfer to Reserve Fund	716,020	744,311	744,311	-
Total Reserve Funds	716,020	744,311	744,311	-
Capital Projects				
Capital improvements	449,662	1,316,452	843,583	472,869
Total Capital Projects	449,662	1,316,452	843,583	472,869
Environmental Services				
DMIAAB	324,611	324,611	324,611	-
Landfill water systems	5,275	5,275	5,275	-
Household hazardous waste	5,716	5,716	4,911	805
Total Environmental Services	335,602	335,602	334,797	805
Education	23,363,540	23,363,540	23,363,540	-
Total Expenditures	\$ 30,347,812	\$ 31,231,605	\$ 30,435,293	\$ 796,313
Excess of Revenues over Expenditures	\$ -	\$ -	\$ 924,803	\$ 924,803

TOWN OF DURHAM, CONNECTICUT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 31,498,993	\$ 30,554,673
Capital leases	(138,897)	(138,897)
Accrued payroll is not budgeted. This amount represents the change in accrued payroll.	-	19,517
Budgetary Basis	\$ 31,360,096	\$ 30,435,293

TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION LIABILITY
AND RELATED RATIOS
RETIREMENT PLAN FOR EMPLOYEES OF THE TOWN OF DURHAM
LAST THREE FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 164,149	\$ 157,503	\$ 153,960
Interest	282,781	242,340	224,488
Differences between expected and actual experience	(218,852)	93,913	-
Changes of assumptions	(51,581)	164,080	-
Benefit payments, including refunds of member contributions	(144,110)	(116,239)	(161,572)
Net change in total pension liability	32,387	541,597	216,876
Total pension liability - beginning	<u>3,677,008</u>	<u>3,135,411</u>	<u>2,918,535</u>
Total pension liability - ending (a)	<u>\$ 3,709,395</u>	<u>\$ 3,677,008</u>	<u>\$ 3,135,411</u>
Plan fiduciary net position			
Contributions - employer	\$ 202,591	\$ 188,652	\$ 153,294
Contributions - member	72,072	70,829	71,035
Net investment return	(3,914)	66,652	271,098
Benefit payments, including refunds of member contributions	(144,110)	(116,239)	(161,572)
Net change in plan fiduciary net position	126,639	209,894	333,855
Plan fiduciary net position - beginning	<u>2,404,086</u>	<u>2,194,192</u>	<u>1,860,337</u>
Plan fiduciary net position - ending (b)	<u>\$ 2,530,725</u>	<u>\$ 2,404,086</u>	<u>\$ 2,194,192</u>
Town's net pension liability - ending (a) - (b)	<u>\$ 1,178,670</u>	<u>\$ 1,272,922</u>	<u>\$ 941,219</u>
Plan fiduciary net position as a percentage of the total pension liability	68.22 %	65.38 %	69.98 %
Covered-employee payroll	\$ 1,540,827	\$ 1,461,620	\$ 1,462,181
Net pension liability as a percentage of covered-employee payroll	76.50 %	87.09 %	64.37 %

Notes to Schedule

Changes in assumptions:

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments of projected salary increases, the investment rate of return and adoption of the RP-2014 Total Dataset Mortality Table.

**TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
RETIREMENT PLAN FOR EMPLOYEES OF THE TOWN OF DURHAM
LAST TEN FISCAL YEARS**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 202,591	\$ 188,652	\$ 153,283	\$ 143,226	\$ 139,097	\$ 137,029	\$ 134,793	\$ 59,835	\$ 29,811	\$ 39,143
Contribution in relation to the actuarially determined contribution	202,591	188,652	153,294	143,226	139,097	137,029	134,793	33,877	46,256	51,994
Contribution deficiency (excess)	\$ -	\$ -	(\$ 11)	\$ -	\$ -	\$ -	\$ -	\$ 25,958	(\$ 16,445)	(\$ 12,851)
Covered-employee payroll	\$ 1,540,827	\$ 1,461,620	\$ 1,462,181	\$ 1,269,554	\$ 1,113,931	\$ 1,167,831	\$ 1,148,859	\$ 1,133,455	\$ 943,016	\$ 845,579
Contributions as a percentage of covered-employee payroll	13.15 %	12.91 %	10.48 %	11.28 %	12.49 %	11.73 %	11.73 %	2.99 %	4.91 %	6.15 %

Notes to Schedule

Valuation date: July 1, 2015
 Measurement date: June 30, 2016
 Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age
 Amortization period: Level percentage of salary, closed
 Remaining amortization period: 20 years
 Asset valuation method: Expected asset value plus 20% of the difference between the expected value and the market value of assets
 Inflation: 3.00%
 Salary increases: 4.00% per annum
 Investment rate of return: 7.50%
 Retirement age: Age 65 and 5 years of service
 Mortality: RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2015

**TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF INVESTMENT RETURNS
RETIREMENT PLAN FOR EMPLOYEES OF THE TOWN OF DURHAM
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expenses	-0.16 %	2.64 %	14.79 %

**TOWN OF DURHAM, CONNECTICUT
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFITS
JUNE 30, 2016**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/ c)
July 1, 2008	\$ -	\$ 43,000	\$ 43,000	0.00 %	\$ 1,190,400	3.61 %
July 1, 2011	-	50,000	50,000	0.00	1,285,500	3.89
July 1, 2014	-	56,000	56,000	0.00	1,410,600	3.97

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Employer Contributions	Annual Required Contributions	Percentage Contributed
2011	\$ -	\$ 6,600	0.00 %
2012	-	7,300	0.00
2013	-	7,500	0.00
2014	-	7,500	0.00
2015	-	7,200	0.00
2016	-	7,400	0.00

**TOWN OF DURHAM, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Special Revenue						
	Friends of Conservation	Library Fund	Library Development Fund	Gazebo on the Green	Mary J. Camp	Town Clerk Record Preservation	Gemma
ASSETS							
Cash and cash equivalents	\$ 1,424	\$ 97,690	\$ 7,394	\$ 1,384	\$ -	\$ 3,101	\$ 30,025
Due from other funds	-	-	-	-	-	-	-
Investments	-	-	-	-	125,110	-	-
Total assets	<u>\$ 1,424</u>	<u>\$ 97,690</u>	<u>\$ 7,394</u>	<u>\$ 1,384</u>	<u>\$ 125,110</u>	<u>\$ 3,101</u>	<u>\$ 30,025</u>
LIABILITIES AND FUND BALANCE							
Liabilities							
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-	-	-
Fund Balance							
Nonspendable	-	-	-	-	-	-	-
Restricted	1,424	54,813	7,394	1,384	125,110	3,101	30,025
Assigned	-	42,877	-	-	-	-	-
Total fund balance	<u>1,424</u>	<u>97,690</u>	<u>7,394</u>	<u>1,384</u>	<u>125,110</u>	<u>3,101</u>	<u>30,025</u>
Total liabilities and fund balance	<u>\$ 1,424</u>	<u>\$ 97,690</u>	<u>\$ 7,394</u>	<u>\$ 1,384</u>	<u>\$ 125,110</u>	<u>\$ 3,101</u>	<u>\$ 30,025</u>

...Continued...

**TOWN OF DURHAM, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016
...Continued...**

	Special Revenue			Town Trust	Mary Weber	Total Permanent	Total Nonmajor Governmental Funds
	Carl Otte Natural Resources	Total Special Revenue					
ASSETS							
Cash and cash equivalents	\$ 7,446	\$ 148,464	\$ -	\$ 33,003	\$ 33,003	\$ 33,003	\$ 181,467
Due from other funds	-	-	4,196	-	-	4,196	4,196
Investments	-	125,110	-	-	-	-	125,110
Total assets	\$ 7,446	\$ 273,574	\$ 4,196	\$ 33,003	\$ 37,199	\$ 37,199	\$ 310,773
LIABILITIES AND FUND BALANCE							
Liabilities							
Due to other funds	\$ 512	\$ 512	\$ -	\$ -	\$ -	\$ -	\$ 512
Total liabilities	512	512	-	-	-	-	512
Fund Balance							
Nonspendable	-	-	-	31,528	31,528	31,528	31,528
Restricted	6,934	230,185	4,196	1,475	5,671	5,671	235,856
Assigned	-	42,877	-	-	-	-	42,877
Total fund balance	6,934	273,062	4,196	33,003	37,199	37,199	310,261
Total liabilities and fund balance	\$ 7,446	\$ 273,574	\$ 4,196	\$ 33,003	\$ 37,199	\$ 37,199	\$ 310,773

**TOWN OF DURHAM, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	Friends of Conservation	Special Revenue						Town Clerk Record Preservation	Gamma
		Library Fund	Library Development Fund	Gazebo on the Green	Mary J. Camp				
Revenues									
Intergovernmental	-	\$ 15,450	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Licenses and permits	400	-	-	-	-	2,487	-	-	
Investment earnings	-	-	-	-	591	-	-	3	
Fees and fines	-	247	-	-	-	-	-	-	
Miscellaneous	-	8,814	-	-	-	-	-	-	
Total revenues	400	24,511	-	-	591	2,487	-	3	
Expenditures									
Current:									
General government	-	-	-	-	-	3,728	-	-	
Health and welfare	(230)	-	-	-	-	-	-	-	
Culture and recreation	-	-	-	-	-	-	-	-	
Education	-	-	-	-	9,693	-	-	-	
Library	-	25,245	-	-	-	-	-	-	
Total expenditures	(230)	25,245	-	-	9,693	3,728	-	-	
Excess of revenues over (under) expenditures	630	(734)	-	-	(9,102)	(1,241)	(1,241)	3	
Fund balance - beginning	794	98,424	7,394	1,384	134,212	4,342	30,022		
Fund balance - ending	\$ 1,424	\$ 97,690	\$ 7,394	\$ 1,384	\$ 125,110	\$ 3,101	\$ 30,025		

...Continued...

**TOWN OF DURHAM, CONNECTICUT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016
...Continued...**

	Carl Otte Natural Resources	Total Special Revenue	Town Trust	Mary Weber	Total Permanent	Total Nonmajor Governmental Funds
Revenues						
Intergovernmental	\$ -	\$ 15,450	\$ -	\$ -	\$ -	\$ 15,450
Licenses and permits	-	2,887	-	-	-	2,887
Investment earnings	1	595	-	4	4	599
Fees and fines	-	247	-	-	-	247
Miscellaneous	5,828	14,642	-	1,000	1,000	15,642
Total revenues	5,829	33,821	-	1,004	1,004	34,825
Expenditures						
Current:						
General government	-	3,728	-	-	-	3,728
Health and welfare	-	(230)	-	-	-	(230)
Culture and recreation	283	283	-	-	-	283
Education	-	9,693	-	-	-	9,693
Library	-	25,245	-	-	-	25,245
Total expenditures	283	38,719	-	-	-	38,719
Excess of revenues over (under) expenditures	5,546	(4,898)	-	1,004	1,004	(3,894)
Fund balance - beginning	1,388	277,960	4,196	31,999	36,195	314,155
Fund balance - ending	\$ 6,934	\$ 273,062	\$ 4,196	\$ 33,003	\$ 37,199	\$ 310,261

**TOWN OF DURHAM, CONNECTICUT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2016**

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Disbursements</u>	<u>Balance June 30, 2016</u>
<u>Performance Bonds:</u>				
ASSETS				
Cash and cash equivalents	\$ 218,068	\$ 9,585	\$ 25	\$ 227,628
Other receivables	<u>4,855</u>	<u>-</u>	<u>3,240</u>	<u>1,615</u>
Total Assets	<u>\$ 222,923</u>	<u>\$ 9,585</u>	<u>\$ 3,265</u>	<u>\$ 229,243</u>
LIABILITIES				
Due to Others	<u>\$ 222,923</u>	<u>\$ 9,585</u>	<u>\$ 3,265</u>	<u>\$ 229,243</u>
Total Liabilities	<u>\$ 222,923</u>	<u>\$ 9,585</u>	<u>\$ 3,265</u>	<u>\$ 229,243</u>

TOWN OF DURHAM, CONNECTICUT
RESERVE FUND FOR CAPITAL AND NONRECURRING EXPENDITURES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Fund Balance July 1, 2015	Additional Appropriations From Other	Transfer In From Other Funds	Interest and Other Income	Expenditures and Transfers Out	Fund Balance June 30, 2016
Committed:						
Ambulance	\$ 132,065	\$ -	10,000	\$ -	-	\$ 142,065
Ambulance OSHA gear	7,744	-	-	-	-	7,744
Ambulance AEDS	10,000	-	-	-	-	10,000
Animal control vehicle	6,000	-	1,000	-	-	7,000
Building maintenance	55,626	19,000	30,000	-	(66,150)	38,476
Building repair (unanticipated)	15,070	-	10,000	-	-	25,070
Buildings	862,358	-	205,000	-	(67,237)	1,000,121
Cemetery stone repairs	9,850	300	2,500	-	(11,600)	1,050
Conservation/open space	10,800	-	5,120	-	(1,450)	10,800
Conservation/barn maintenance	13,373	-	600	-	-	17,043
Conservation/Howd Road	1,800	-	3,500	-	-	2,400
Computers/servers	-	-	1,400	-	-	3,500
IT Equipment - Public Safety	4,000	-	-	-	-	5,400
Planning & Zoning - POCD	12,500	-	-	-	(12,500)	-
Emergency services facility	23,600	-	-	-	(19,260)	4,340
Fire department equipment	617,687	-	105,000	-	(311,355)	411,332
Fire department equipment - communications	38,508	-	2,000	-	(10,000)	30,508
Fire pond reserve	12,874	-	5,000	-	-	17,874
OPEB GASB 45 report	3,000	-	1,500	-	(4,500)	-
Radios and pagers	14,418	-	23,400	-	-	37,818
Highway equipment	40,082	-	196,291	-	(13,900)	222,473
Shelter - trailer	3,750	-	-	-	-	3,750
Major culvert repair	232,000	-	100,000	-	-	332,000
Guardrail replacement	8,500	-	8,500	-	(17,000)	-
Revaluation	111,927	-	21,000	-	(60,853)	72,074
Voting equipment	2,000	-	500	-	-	2,500
Senior van	2,700	-	-	-	-	2,700
Town Green Tree Replacement	-	-	1,000	-	-	1,000
Old Indian Trail tank	20,000	-	11,000	-	(31,000)	-
Total Committed Fund Balance	2,272,232	19,300	744,311	-	(626,805)	2,409,038
Assigned Fund Balance	(4,999)	-	-	8,080	-	3,081
Total Fund Balance	\$ 2,267,233	\$ 19,300	\$ 744,311	\$ 8,080	(\$ 626,805)	\$ 2,412,119

**TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF PROPERTY TAXES LEVIED, COLLECTED AND OUTSTANDING
FOR THE YEAR ENDED JUNE 30, 2016**

Current List Year	Uncollected Taxes July 1, 2015 and Current Levy	Lawful Corrections		Transfer to Suspense	Transfers To Deferred	Adjusted Taxes Collectible	Actual Cash Collections			Uncollected Taxes June 30, 2016	
		Additions	Deductions				Taxes	Interest	Lien and Other Fees		Total
2014	\$ 25,321,324	\$ 23,371	(\$ 86,478)	(\$ 10,545)	(\$ 34,587)	\$ 25,213,085	\$ 24,973,884	\$ 80,254	\$ 96	\$ 25,054,234	\$ 239,201
2013	270,010	22,648	(3,062)	(11,479)	-	278,117	216,909	44,823	864	262,596	61,208
2012	133,896	10,507	(977)	(9,138)	-	134,288	103,512	34,157	384	138,053	30,776
2011	85,967	5,723	(386)	(7,570)	-	83,734	64,045	33,329	192	97,566	19,689
2010	50,499	-	-	(2,299)	-	48,200	17,287	6,229	144	23,660	30,913
2009	6,245	-	-	(1,039)	-	5,206	831	825	96	1,752	4,375
2008	1,004	4,977	-	(91)	-	5,890	5,790	2,550	96	8,436	100
2007	1,311	4,987	-	-	-	6,298	5,801	2,951	96	8,848	497
2006	6,349	-	-	-	-	6,349	814	1,248	96	2,158	5,535
2005	5,534	-	-	-	-	5,534	-	-	-	-	5,534
2004	7,562	-	-	-	-	7,562	-	-	-	-	7,562
2003	1,207	-	-	-	-	1,207	-	-	-	-	1,207
2002	576	-	-	-	-	576	-	-	-	-	576
2001	-	-	-	-	-	-	-	-	-	-	-
2000	-	-	-	-	-	-	-	-	-	-	-
	\$ 25,891,484	\$ 72,213	(\$ 90,903)	(\$ 42,161)	(\$ 34,587)	\$ 25,796,046	\$ 25,388,873	\$ 206,366	\$ 2,064	\$ 25,597,303	\$ 407,173

SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS

296 STATE STREET

NORTH HAVEN, CONNECTICUT 06473

INDEPENDENT AUDITORS' 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

To the Honorable Members of
The Board of Finance
Town of Durham, Connecticut

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Durham, Connecticut (the Town) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 21, 2016.

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.



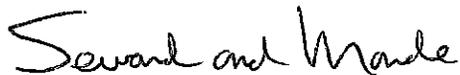
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 from 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



North Haven, Connecticut
October 21, 2016

SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS

296 STATE STREET

NORTH HAVEN, CONNECTICUT 06473

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT

To the Honorable Members of
the Board of Finance
Town of Durham, Connecticut

Report on Compliance for Each Major State Program

We have audited the Town of Durham, Connecticut's (the 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, 2016. 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 state statutes, regulations, and the terms and conditions of its state awards 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 U.S. generally accepted auditing standards; 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 on the Town's compliance.



Opinion on Each Major State Program

In our opinion, the Town of Durham, Connecticut 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, 2016.

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 a 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 a 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 material weaknesses or significant deficiencies. 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.



North Haven, Connecticut
October 21, 2016

TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
For the year ended June 30, 2016

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
<u>Office of Policy and Management:</u>		
Property tax relief for elderly and totally disabled homeowners	11000-OPM20600-17018	\$ 38,241
Property tax relief for veterans	11000-OPM20600-17024	17,275
Property tax relief on property of totally disabled persons	11000-OPM20600-17011	852
Local capital improvement program	12050-OPM20600-40254	52,321
Municipal reimbursement & revenue account	12060-OPM20600-35525	15,000
Municipal grants-in-aid	12052-OPM20600-43587	153,897
<u>Department of Transportation:</u>		
Town aid road grants transportation fund	12052-DOT57131-43455-34005	222,641
FAD-Temporary Holding Account	34003-DOT57331-42350	274
<u>Department of Public Health:</u>		
Children's Health Initiative	11000-DPH48500-12126	2,500
<u>Connecticut State Library:</u>		
Historic documents preservation grants	12060-CSL66094-35150	3,000
State grants to public libraries	11000-CSL66051-17003	1,088
Connecticard payments	11000-CSL66051-17010	16,678
<u>Judicial Branch:</u>		
51-516a(d)	34001-JUD95162-40001	1,595
<u>Department of Education:</u>		
Youth services bureau	11000-SDE64370-17052	14,000
Youth services bureau enhancement	11000-SDE64370-16201	4,653
Total State Financial Assistance Before Exempt Programs		<u>544,015</u>
EXEMPT PROGRAMS		
<u>Office of Policy and Management:</u>		
Mashantucket Pequot and Mohegan fund grant	12009-OPM20600-17005	22,264
<u>Department of Education:</u>		
Education cost sharing	11000-SDE64370-17041	<u>3,973,181</u>
Total Exempt Programs		<u>3,995,445</u>
Total State Financial Assistance		<u>\$ 4,539,460</u>

See note to schedule of state financial assistance.

TOWN OF DURHAM, CONNECTICUT
NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
For the year ended June 30, 2016

The accompanying schedule of expenditures of state financial assistance includes state grant activity of the Town of Durham, Connecticut under programs of the State of Connecticut for the fiscal year ended June 30, 2016. 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. These financial assistance programs fund several programs including education, youth services, and road and highway maintenance.

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Durham, Connecticut conform to U.S. generally accepted accounting principles as applicable to governments.

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

Basis of Accounting

The expenditures reported on the Schedule of Expenditures of State Financial Assistance are reported on the modified accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to 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 DURHAM, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2016**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' opinion issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___yes Xno
- Significant deficiency(ies) identified? ___yes Xnone reported

Noncompliance material to financial statements noted? ___yes Xno

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? ___yes Xno
- Significant deficiency(ies)? ___yes Xnone reported

Type of auditors' opinion 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 Xno

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

State Grantor and Program	State Core-CT Number	Expenditures
Office of Policy and Management Municipal grants-in-aid	12052-OPM20600-43587	\$ 153,897
Department of Transportation Town aid road grants transportation fund	12052-DOT57131-43455-34005	222,641
Dollar threshold used to distinguish between Type A and Type B programs		<u>\$ 100,000</u>

. . . Continued . . .

TOWN OF DURHAM, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2016
. . . Continued . . .

II. FINANCIAL STATEMENT FINDINGS

There are no financial statement findings.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

There are no state financial assistance findings or questioned costs.