

## Official Statement Dated April 5, 2012

### REFUNDING/NEW ISSUE

**RATING:** See "Ratings" herein

*In the opinion of Bond Counsel, assuming the accuracy of and compliance by the Town with its representations and covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), under existing statutes, interest on the Bonds and the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; the Bonds and the Notes are not "private activity bonds" and interest on the Bonds and the Notes is not treated as a preference item for purposes of calculating the Federal alternative minimum tax, but in the case of corporations a portion of such interest may be included in alternative minimum taxable income for purposes of computing any Federal alternative minimum tax; interest on the Bonds and the Notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the Bonds and the Notes is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. (See Appendix B "Form of Opinion of Bond Counsel and Tax Exemption" herein.)*

### TOWN OF VERNON, CONNECTICUT

**\$34,685,000**

#### GENERAL OBLIGATION REFUNDING BONDS, ISSUE OF 2012 BOOK-ENTRY-ONLY

**Dated: Date of Delivery**

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

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

The Bonds will bear interest payable on August 1, 2012 and semiannually thereafter on February 1 and August 1 in each year until maturity.

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

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**\$3,730,000**

#### GENERAL OBLIGATION BOND ANTICIPATION NOTES BOOK-ENTRY-ONLY

**Dated: April 11, 2012**

**Due: October 11, 2012**

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

The Notes will be issuable only as fully registered notes and will bear interest payable at maturity on October 11, 2012.

**The Notes are NOT subject to optional redemption prior to maturity as described herein. (See "Optional Redemption" herein).**

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

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

## Raymond James | Morgan Keegan

*The Bonds and Notes are offered for delivery when, as and if issued, subject to the final approving opinion of Day Pitney LLP, Bond Counsel, of Hartford, Connecticut. Certain matters will be passed upon for the Underwriter by Pullman & Comley, LLC, Bond Counsel, of Bridgeport and Hartford, Underwriter's Counsel. It is expected that the Bonds and Notes in definitive form will be available for delivery through the facilities of the Depository Trust Company, New York, New York on or about April 11, 2012.*

**Dated: April 5, 2012**

# TOWN OF VERNON, CONNECTICUT

## \$34,685,000

### GENERAL OBLIGATION REFUNDING BONDS, ISSUE OF 2012 BOOK-ENTRY-ONLY

Dated: Date of Delivery

Due: August 1, as shown below

#### MATURITY SCHEDULE

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>1</sup></u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>1</sup></u>
2012	\$ 695,000	2.000 %	0.250 %	924427SY4	2020	\$2,785,000	4.000 %	2.070 %	924427TG2
2013	1,610,000	3.000	0.500	924427SZ1	2021	2,790,000	4.250	2.320 *	924427TH0
2014	1,655,000	3.000	0.650	924427TA5	2022	2,890,000	4.000	2.570 *	924427TJ6
2015	1,645,000	3.000	0.800	924427TB3	2023	2,885,000	4.000	2.710 *	924427TK3
2016	2,485,000	3.000	1.050	924427TC1	2024	1,940,000	4.000	2.870 *	924427TL1
2017	2,625,000	3.000	1.250	924427TD9	2025	1,930,000	4.000	3.020 *	924427TM9
2018	2,785,000	2.500	1.500	924427TE7	2026	1,915,000	3.000	3.220	924427TN7
2019	2,775,000	4.500	1.780	924427TF4	2027	1,275,000	3.000	3.270	924427TP2

\* - Priced assuming redemption on August 1, 2020 however any such redemption is at the option of the Town (see "Optional Redemption" herein).

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## \$3,730,000

### GENERAL OBLIGATION BOND ANTICIPATION NOTES BOOK-ENTRY-ONLY

Dated: April 11, 2012

Due: October 11, 2012

<u>Coupon</u>	<u>Yield</u>	<u>CUSIP<sup>1</sup></u>
2.000 %	0.250 %	924427TQ0

<sup>1</sup> Copyright, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Town/City and are included solely for the convenience of the holders of the Bonds or the Notes. The Town is not responsible for the selection or use of these CUSIP numbers, does not undertake any responsibility for their accuracy, and makes no representation as to their correctness on the Bonds or the Notes or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds or the Notes as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds or the Notes.

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

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

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

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

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

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

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

The Town currently files its official statements for primary offerings with the nationally recognized municipal securities information repository. In accordance with the requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the Town will agree to provide, or cause to be provided, (i) annual financial information and operating data, (ii) timely notice of the occurrence of certain material events within 10 days of the occurrence of such events, and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreements to be executed in substantially the forms attached as Appendices C and D, respectively to this Official Statement.

The Underwriter has provided the following sentence for inclusion in the Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of this information.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

Neither the Bonds nor the Notes have been registered under the Securities Act of 1933, as amended. In addition, the Bonds and the Notes have not been registered under any state securities law.

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**INDEPENDENT FINANCIAL ADVISOR**  
**INDEPENDENT BOND AND**  
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## SECTION I - SECURITIES OFFERED

### Introduction

This Official Statement, including the cover page and appendices, has been prepared by the Town of Vernon, Connecticut (the "Town") with assistance from the financial advisor, in connection with the sale of \$34,685,000 General Obligation Refunding Bonds, Issue of 2012 (the "Bonds") and \$3,730,000 General Obligation Bond Anticipation Notes (the "Notes").

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

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

### Description of the Bonds

The Bonds will be dated the date of delivery and will mature in installments on August 1 in the years and amounts set forth on the inside front cover page herein. Interest on the Bonds will be payable August 1, 2012 and semiannually thereafter on February 1 and August 1 in each year until maturity. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be payable to the registered owners of the Bonds as of the close of business on the fifteenth day of January and July in each year, or the preceding business day if the fifteenth is not a business day. The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof for any single maturity. A book-entry system will be employed evidencing ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with transfers of ownership effected on the records of The Depository Trust Company, New York, New York, ("DTC"), and its participants pursuant to rules and procedures established by DTC and its participants. (See "Book-Entry-Only System" herein). The Registrar, Certifying Bank, Transfer, Paying and Escrow Agent will be U.S. Bank National Association of Hartford, Connecticut. **The Bonds are subject to redemption prior to maturity. (See "Optional Redemption" herein).**

### Optional Redemption

The Bonds maturing on or before August 1, 2020 are not subject to redemption prior to maturity. The Bonds maturing on August 1, 2021 and thereafter are subject to redemption prior to maturity, at the option of the Town, on or after August 1, 2020, at any time, either in whole or in part, in such amounts and in such order of maturity (but by lot within a maturity) as the Town may determine, at the redemption prices (expressed as a percentage of the par amount of Bonds to be redeemed) set forth in the following table, together with interest accrued and unpaid to the redemption date:

<u>Redemption Dates</u>	<u>Redemption Price</u>
August 1, 2020 and thereafter	100.0%

### Notice of Redemption

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

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

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

### **Description of the Notes**

The Notes will be dated April 11, 2012 and will be due and payable as to both principal and interest at maturity, October 11, 2012. The Notes will bear interest calculated on the basis of a 30-day month and a 360-day year at the rate or rates per annum as set forth on the inside front cover of this Official Statement. A book-entry system will be employed evidencing ownership of the Notes in principal amounts of \$1,000 or integral multiples thereof, except for any odd amount, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. See "Book-Entry Transfer System". The Certifying Agent, Paying Agent, Registrar and Transfer Agent will be U.S. Bank National Association, of Hartford, Connecticut. The legal opinions on the Bonds and the Notes will be rendered by Day Pitney LLP in substantially the form set forth in Appendix B to this Official Statement. The Notes are **NOT** subject to redemption prior to maturity.

### **Ratings**

The Bonds and the Notes have been rated "Aa2" and "MIG 1", respectively, by Moody's Investors Service ("Moody's"). The underlying rating on the Town's outstanding Bonds has also been affirmed as "Aa2" by Moody's. Such rating reflects only the views of such organization and any explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The Town furnished certain information and materials to the rating agency, some of which may not have been included in this Official Statement. There is no assurance that such rating will continue for any given period of time or that the rating will not be revised or withdrawn entirely by the agency if, in the judgment of such rating agency, circumstances so warrant. A revision or withdrawal of such rating may have an effect on the market price of the Town's bonds and notes.

### **Authorization – The Bonds**

#### Authorization:

The Bonds are being issued pursuant to Title 7 of the General Statutes of Connecticut, as amended, and a resolution adopted by the Town Council at a meeting held on March 20, 2012 authorizing the issuance of refunding bonds in an amount not to exceed \$40,500,000. (See "Plan of Refunding" herein).

### **Plan of Refunding**

The Bonds are being issued to refund the outstanding maturities of the Town's General Obligation Bonds (the "Refunded Bonds") listed below. The refunding is contingent upon delivery of the Bonds.

<u>Issue</u>	<u>Dated Date</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
2007	2/15/2007	2/15/2013	\$ 550,000	4.000 %	5/11/2012	100.00 %
2007	2/15/2007	2/15/2014	700,000	4.000	5/11/2012	100.00
2007	2/15/2007	2/15/2015	700,000	4.000	5/11/2012	100.00
2007	2/15/2007	2/15/2016	700,000	4.000	5/11/2012	100.00
2007	2/15/2007	2/15/2017	700,000	4.000	5/11/2012	100.00
2007	2/15/2007	2/15/2018	700,000	3.875	5/11/2012	100.00
2007	2/15/2007	2/15/2019	700,000	3.875	5/11/2012	100.00
2007	2/15/2007	2/15/2020	700,000	4.000	5/11/2012	100.00
2007	2/15/2007	2/15/2021	700,000	4.000	5/11/2012	100.00
2007	2/15/2007	2/15/2022	700,000	4.000	5/11/2012	100.00
2007	2/15/2007	2/15/2023	700,000	4.125	5/11/2012	100.00
2007	2/15/2007	2/15/2024	700,000	4.125	5/11/2012	100.00
2007	2/15/2007	2/15/2025	700,000	4.125	5/11/2012	100.00
2007	2/15/2007	2/15/2026	700,000	4.125	5/11/2012	100.00
2007	2/15/2007	2/15/2027	700,000	4.125	5/11/2012	100.00
			<u>10,350,000</u>			
2008	2/1/2008	2/1/2014	940,000	3.500	2/1/2013	100.00
2008	2/1/2008	2/1/2015	1,000,000	3.500	2/1/2013	100.00
2008	2/1/2008	2/1/2016	1,000,000	3.500	2/1/2013	100.00
2008	2/1/2008	2/1/2017	1,150,000	3.500	2/1/2013	100.00
2008	2/1/2008	2/1/2018	1,150,000	3.500	2/1/2013	100.00
2008	2/1/2008	2/1/2019	1,250,000	3.500	2/1/2013	100.00
2008	2/1/2008	2/1/2020	1,250,000	3.625	2/1/2013	100.00
2008	2/1/2008	2/1/2021	1,250,000	3.750	2/1/2013	100.00
2008	2/1/2008	2/1/2022	1,250,000	4.000	2/1/2013	100.00
2008	2/1/2008	2/1/2023	1,350,000	4.000	2/1/2013	100.00
2008	2/1/2008	2/1/2024	1,350,000	4.000	2/1/2013	100.00
2008	2/1/2008	2/1/2025	1,350,000	4.000	2/1/2013	100.00
2008	2/1/2008	2/1/2026	1,350,000	4.125	2/1/2013	100.00
2008	2/1/2008	2/1/2027	1,350,000	4.125	2/1/2013	100.00
2008	2/1/2008	2/1/2028	1,350,000	4.125	2/1/2013	100.00
			<u>18,340,000</u>			
2009	2/1/2009	2/1/2017	750,000	2.500	2/1/2014	100.00
2009	2/1/2009	2/1/2018	900,000	3.000	2/1/2014	100.00
2009	2/1/2009	2/1/2019	975,000	3.250	2/1/2014	100.00
2009	2/1/2009	2/1/2020	975,000	3.500	2/1/2014	100.00
2009	2/1/2009	2/1/2021	975,000	3.750	2/1/2014	100.00
2009	2/1/2009	2/1/2022	975,000	4.000	2/1/2014	100.00
2009	2/1/2009	2/1/2023	975,000	4.000	2/1/2014	100.00
2009	2/1/2009	2/1/2024	975,000	4.000	2/1/2014	100.00
			<u>7,500,000</u>			
		<b>Total</b>	<u><u>\$ 36,190,000</u></u>			

Upon delivery of the Bonds, a portion of the Bond proceeds will be deposited in an irrevocable trust fund (the "Escrow Deposit Fund") established with U.S. Bank, National Association as escrow agent (the "Escrow Agent") under an Escrow Agreement (the "Escrow Agreement") dated as of April 11, 2012 between the Escrow Agent and the Town. The Escrow Agent will use such proceeds to purchase a portfolio of non-callable direct obligations of, or obligations guaranteed by the

government of the United States of America, comprised of United States Treasury State and Local Government Series ("SLGS") securities, all of which shall not be callable or pre-payable at the option of the issuer thereof (the "Escrow Securities"). All investment income on and the maturing principal of the Escrow Securities held in the Escrow Deposit Fund will be irrevocably deposited by the Town for payment of the Refunded Bonds. The balance of the proceeds of the Bonds will be used to pay costs of issuance and the Underwriter's discount.

**Authorization and Use of Proceeds – The Notes**

Authorizations:

The Notes were authorized pursuant to Title 7 and Title 10 of the General Statutes of Connecticut, as amended, the Charter of the Town of Vernon, and bond ordinances adopted by the Town Council and approved by the voters of the Town at referendum.

**Rockville High School Project:** An appropriation and bond authorization in the amount of \$34,657,000 was approved at a Town referendum held on March 29, 2005 for the design and construction of additions and renovations to the Rockville High School including construction of a new kitchen, auditorium and front entrance; refurbishment and reconfiguration of the interior athletic facility, Library/Media Center classrooms and offices; various code compliance improvements; expansion of the cafeteria; replacement of all exterior windows and doors and the existing boiler; removal of asbestos floor tiles and various site work and site improvements.

**Vernon Center Middle School Project:** An appropriation and bond authorization in the amount of \$11,519,000 was approved at a Town referendum held on March 29, 2005 for the design and construction of renovations at the Vernon Center Middle School including renovations of the existing building; creation of a new entrance canopy; refurbishment and reconfiguration of the Library/Media Center and various classrooms and offices; various code compliance improvements; replacement of the existing boiler; removal of asbestos floor tiles and various site work and site improvements.

**Various Elementary Schools Additions and Renovations:** An appropriation and bond authorization in the amount of \$22,146,000 was approved at a Town referendum held on March 29, 2005 for various improvements at Center Road Elementary School, Lake Street Elementary School, Maple Street Elementary School, Northeast Elementary School and Skinner Road Elementary School.

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

<u>Project</u>	<u>Total Amount of Authorization</u>	<u>Notes Maturing 4/11/2012</u>	<u>Additions/ Reductions</u>	<u>The Notes This Issue</u>
Rockville High School Project	\$ 34,657,000	\$2,180,000	\$ (20,000)	\$2,160,000
Vernon Center Middle School Project	11,519,000	774,000	(494,000)	280,000
Various Elementary School Additions and Renovations	22,146,000	1,266,000	24,000	-
<b>Total</b>	<u>\$ 68,322,000</u>	<u>\$4,220,000</u>	<u>\$ (490,000)</u>	<u>\$3,730,000</u>

**Verification of Mathematical Computations**

Barthe & Wahrman, a Professional Association, will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of: (1) the computations that the anticipated receipts from the Escrow Securities set forth in the Underwriter's schedules, will be sufficient to pay, when due, the principal, interest and applicable call premium, if any, of the Refunded Bonds, and (2) the computations of yield on the Bonds and the Notes and the Escrow Securities contained in the provided schedules. Barthe & Wahrman, a Professional Association, will express no opinion on the assumptions provided to them.

## Sources and Uses of Proceeds

Proceeds of the Bonds and Note are to be applied as follows:

### Sources:

Par Amount Bonds	\$34,685,000.00
Par Amount Notes	3,730,000.00
Net Original Issue Premium- Bonds	2,987,414.55
Net Original Issue Premium - Notes	32,562.90
Total Sources	<u>\$41,434,977.45</u>

### Uses:

Deposit to Escrow Deposit Fund - Bonds	\$37,449,969.37
Deposit to Project Fund - Notes	3,719,100.00
Deposit to Debt Service Fund - Notes	28,260.39
Underwriter's Discount	115,685.00
Costs of Issuance	121,962.69
Total Uses	<u>\$41,434,977.45</u>

## Security and Remedies

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

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

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

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

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

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

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

## **Qualification for Financial Institutions**

The Bonds and the Notes shall **NOT** be designated as qualified tax-exempt obligations under the provisions of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Bonds.

## **Book-Entry-Only System**

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

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

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds and the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s

consenting or voting rights to those Direct Participants to whose accounts the Bonds and the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

### **Replacement Bonds and Notes**

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

### **DTC Practices**

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

### **Underwriting**

The Bonds are being purchased by Morgan Keegan & Company, Inc. or its successor in interest (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Town at the net aggregate purchase price of \$37,561,032.06, (consisting of the principal amount of \$34,685,000.00, plus original issue premium of \$2,987,414.55 and less Underwriter's discount of \$111,382.49) and to purchase the Notes from the Town at the net aggregate purchase price of \$3,758,260.39, (consisting of the principal amount of \$3,730,000.00, plus original issue premium of \$32,562.90 and less Underwriter's discount of \$4,302.51). The Underwriter will be obligated to purchase all such Bonds and Notes, if any such Bonds and Notes are purchased. The Bonds and Notes may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the Bonds and Notes into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

On April 2, 2012, Raymond James Financial, Inc. (“RJF”), the parent company of Raymond James & Associates, Inc. (“Raymond James”), acquired all of the stock of Morgan Keegan from Regions Financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing the trade name “Raymond James I Morgan Keegan” that appears on the cover of this Official Statement. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined.

The Underwriter has entered into distribution agreements with other broker-dealers (that have not been designated by the Town as Underwriter) for the distribution of the Bonds at the original issue prices. Such agreements generally provide that the Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.

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## SECTION II - THE ISSUER

### Description of the Town

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

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

The convenient access provided by the interstate highway system has contributed to Vernon's development as a suburban community and a regional commercial center. The 2010 Census reported Vernon's population as 29,179. Recent approvals of residential subdivisions and the number of building permits issued for new residential construction suggest growth of approximately 2,000 persons over the next few years. Currently 57% of occupied housing units are single-family, owner-occupied homes. Approximately 82% of Vernon's labor force is employed outside of the Town in the service, manufacturing, non-profit and public sectors.

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

The development of the Town has been guided by zoning regulations and land use planning. The zoning regulations that existed for the former City of Rockville and Vernon Fire District prior to consolidation were converted to the Town of Vernon's zoning regulations. The Town's zoning regulations were adopted in 1965 and are periodically revised to reflect current development standards and practices. The Town's first Master Plan of Development was adopted in 1967 and the most recent plan was adopted in 2011.

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

The Town's educational system for its residents consists of five elementary schools, one middle school, one special education school and one senior high school. In addition, Vernon has two K-8 parochial schools.

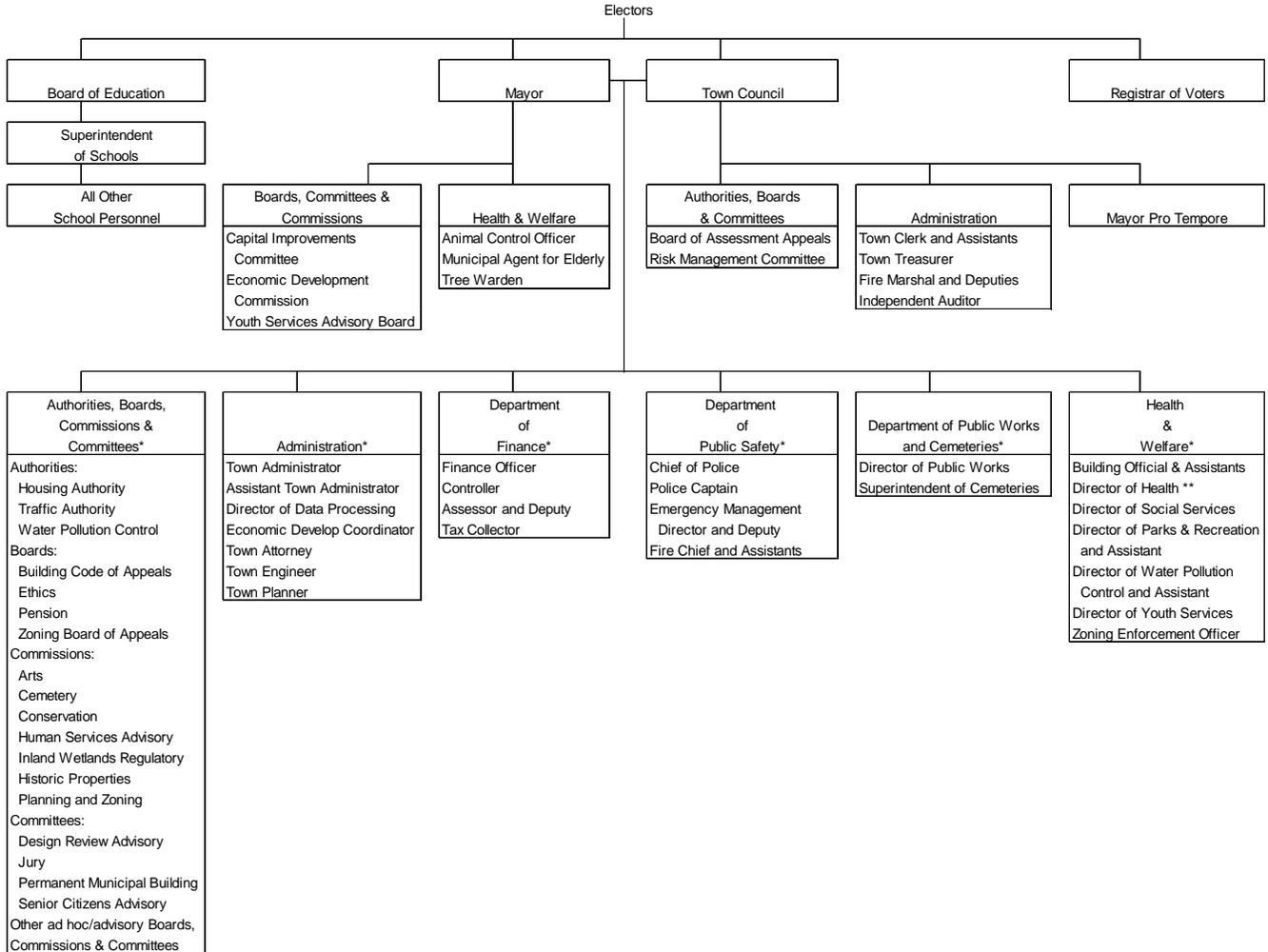
### Form of Government

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

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

**Table of Organization**

**ORGANIZATION CHART**



\* Mayor recommended, Town Council approved.  
 \*\* The Town is a member of the North Central District Health Department.

## Municipal Officials

<u>Name</u>	<u>Position</u>	<u>Term</u>
George F. Apel	Mayor	2 years – Elected
William F. Campbell	Town Council	2 years - Elected
Thomas A. Didio	Town Council	2 years - Elected
Virginia M. Gingras	Town Council	2 years - Elected
Judy M. Hany	Town Council	2 years - Elected
Marie A. Herbst	Town Council	2 years - Elected
John Kopec	Town Council	2 years - Elected
Brian R. Motola	Town Council	2 years - Elected
Steven Patterson	Town Council	2 years - Elected
Thomisima C. Russell	Town Council	2 years - Elected
Daniel Sullivan	Town Council	2 years – Elected
Adam B. Weissberger	Town Council	2 years - Elected
Michael A. Winkler	Town Council	2 years – Elected
John D. Ward	Town Administrator	Appointed
James M. Luddecke	Finance Officer/Treasurer	Appointed
Dr. Mary P. Conway	Superintendent of Schools	Appointed

### Biographies of Principal Officials

**Mayor:** Mayor George F. Apel was elected Mayor of the Town of Vernon in November, 2011. Mayor Apel received his Bachelor of Science in Mechanical Engineering in 1970 from the University of Hartford and a MBA from R.P.I. in 1976. Mayor Apel served in the Navy from the beginning of 1954 through the end of 1957. He also was employed 33 years at Pratt and Whitney as an Engineer and Manager.

Mayor Apel served on the Town Council from 1993 – 1995 and in 2007. He also served from 2007-2011 on the Board of Education. Mayor Apel has also given his volunteer efforts on many boards and commission for the Town of Vernon in the past 20 years.

**Town Administrator:** John D. Ward is the Administrator for the Town of Vernon. He previously served as Interim Town Administrator for Vernon in 2008. Prior to his municipal career, John Ward served as a trial attorney for over fifteen years in the private sector. For the last eight years of his legal career, he worked as Field Legal Counsel for Liberty Mutual Insurance Company.

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

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

**Superintendent of Schools:** Mary Conway, Ed.D, has been the superintendent of schools in Vernon, Connecticut since July, 2010. Prior to this, she was the superintendent in rural Plainfield, Connecticut for a period of ten years. During that time, Dr. Conway and her leadership team were able to reduce the high school dropout rate levels. While in Plainfield, Dr. Conway was the chair of the Northeast School Readiness Council, a member of the Northeast Connecticut Chamber of Commerce Board of Directors, a member of the Eastern Area Health Education Center Board of Directors and a chair for the New England Association of Schools and Colleges (NEASC). She is currently a member of the NEASC Commission on Public Secondary Schools. Dr. Conway was the principal of Windsor Locks High School in Connecticut, an assistant principal at RHAM High School in Hebron, Connecticut and Wheeler High School and Middle School in North Stonington, Connecticut and a teacher of mathematics at Windsor (CT) High School. She earned her doctorate from the University of Connecticut (UCONN), a sixth year diploma in Educational Leadership from UCONN and a master's degree in mathematics from Trinity College in Hartford, Connecticut.

## Summary of Municipal Services

The Town of Vernon has a full-time professional staff that includes a Town Administrator, Finance Officer, Town Clerk, Collector of Revenue, Assessor, Building and Housing Code Inspector, Town Planner, Economic Development Coordinator, Town Engineer, Director of Public Works, Police Chief, Data Processing Director, Social Services Director, Youth Services Director, Recreation Director, Fire Chief, Fire Marshal, Waste Pollution Control Authority Director, Water Pollution Control Authority Business Manager, Registrar of Voters and a Cemetery Superintendent. The following is a list of services provided by the Town:

**Police Protection.** The Police Department is responsible for the prevention and deterrence of crime, the apprehension of offenders, the return of property, the efficient control and movement of traffic, and the provision of public safety. It is responsible for the enforcement of all laws, ordinances and regulations governing the criminal and motor vehicle codes and the protection of all guarantees provided by the U.S. and the State of Connecticut constitutions. The staff consists of a chief, a captain, three lieutenants, five detectives, nine sergeants, 32 patrol officers, nine dispatchers, one administrative secretary, four clerks and a part-time evidence technician. The Department's major equipment includes 14 cruisers, special service vehicles and a complete radio communications center. The Department is fully computerized.

**Fire Protection and Ambulance Service.** Fire protection is provided by a volunteer fire department with a total of 160 active firefighters and six Fire Stations. Major equipment includes three 750 GPM pumpers, two 1,000 GPM pumpers, one 1,500 GPM pumper, one aerial ladder truck, one "mini" pumper and two rescue vehicles. The Rockville section of Vernon is protected by a Gamewell Fire Protection System.

**Public Works.** The Town provides services in the areas of highways, equipment repair, park engineering and building maintenance. The department maintains 112 miles of roads throughout Town, 28 buildings and 104 pieces of motorized equipment and vehicles.

**Parks and Recreation.** Vernon Parks and Recreation Department operates a comprehensive program of activities. Recreation facilities include 26 parks covering 580 acres of land, 35 miles of trails, two swimming pools, two beaches on lakes which provide swimming, a beach house, track, boat launch, picnic areas, fishing and ice skating. Additionally, the Town has a Teen Center, numerous playgrounds, baseball and softball diamonds, soccer fields, and tennis and basketball courts.

**Water Pollution Control Authority.** The Town has one wastewater treatment facility which serves approximately 80% of the Town's residents. The facility also accepts sanitary waste from portions of the surrounding towns of Tolland, Ellington, Manchester and South Windsor in accordance with the provisions of Intergovernmental Sewer Agreements between each of those communities and the Town. The facility is in its fourteenth year of operation since a major expansion and upgrade and establishes an advance treatment process capable of providing effective, efficient, and reliable treatment well into this century's second decade, protecting the natural ecology of the river and preserving its aesthetic and recreational values for future generations. On December 31, 1997 the Town permanently financed the upgrade and expansion with a loan through the State of Connecticut Clean Water Fund (CWF PLO 200-C) in the amount of \$27,635,550. The permanent loan obligation was financed at an interest rate of 2% and matures in 2016. The outstanding principal balance of the loan obligation is \$7,525,315 and the other benefiting towns are responsible for \$1,619,814 of that amount. See "Clean Water Fund Program" herein for more information.

The Town of Vernon and the neighboring Town of Bolton entered into a consent order with the Connecticut Department of Environmental Protection (CTDEP) on October 14, 1999 requiring the towns to take the necessary steps to address wastewater disposal alternatives for the Bolton Lakes' area. Two State-funded engineering studies have confirmed that specific areas around the middle and lower Bolton Lakes no longer meet the requirements of current health codes for septic systems and recommend the installation of a low-pressure sewer system with wastewater being pumped to the adjacent Town of Manchester Wastewater Treatment Facility.

By concurrent ordinances (the "Enabling Ordinances") adopted in April 2003, the Towns of Bolton and Vernon established the Bolton Lakes Regional Water Pollution Control Authority (the "BLRWPCA") pursuant to Sections 22a-500 through 22a-519, inclusive, of the Connecticut General Statutes, for the purpose of constructing sewers in the Route 44 corridor and around Bolton Lake. The BLRWPCA is authorized pursuant to the Enabling Ordinances to act as a regional water pollution control authority and to construct, maintain and operate a regional sewerage system to serve portions of the two towns designated in the Enabling Ordinances.

The BLRWPCA project is anticipated to cost \$21,699,000, of which the Town's estimated share is 29%, or approximately \$6,293,000. Significant shares of the project costs are expected to be funded by Federal and State grants from the United States Department of Agriculture Office of Rural Development, the Federal Environmental Protection Agency State and

Tribal Grants program, the State of Connecticut Small Town Economic Assistance Program and the CTDEP Clean Water Program. It is anticipated that the Town's share of project costs after the application of these grants will be \$2,737,000. The local share of the construction costs are anticipated to be permanently funded by long-term loans (20 years) from the CTDEP Clean Water Fund at 2% interest. The loans will be repaid through sewer benefit assessments, which represent about 23% of total project costs, and a small tax levy. Project construction commenced in October 2009 and is anticipated to be completed by December 2012.

By concurrent ordinances (the "Financing Ordinances") adopted in September 2007, the Towns of Bolton and Vernon, among other matters, authorized the entrance into one or more agreements by the towns with the BLRWPCA to guarantee the punctual payment of each town's proportionate share of all principal and interest on any debt obligations issued by the BLRWPCA to finance the sewer project, to pledge such town's full faith and credit to the payment of its guarantee obligations, and to appropriate, and have available on or before the dates on which any payment becomes due on such debt obligations, an amount of money which, together with other revenues available for such purpose, shall be sufficient to meet the town's guarantee obligations in connection with the such debt obligations. Pursuant to the Enabling Ordinances, as amended by the Financing Ordinances, initially 71% of the capital and non-capital expenses of the BLRWPCA are assigned to the Town of Bolton, with the remaining 29% of such costs assigned to the Town of Vernon.

**Solid Waste.** Residential wastes are collected once weekly by the Town's Public Works Department. Vernon participates in the Connecticut Resource Recovery Authority (the "Authority") Mid-Connecticut Resource Recovery System (the "System"). The System includes sixty-seven participating municipalities, all of which have entered into long-term municipal solid waste delivery and disposal agreements (the "Municipal Service Agreements" or "MSA") with the Authority. Under the MSA the Town is required to deliver or cause to be delivered to the System acceptable solid waste generated within its boundaries with a minimum commitment of 14,500 tons per year and to pay a uniform per ton disposal service fee (the "Municipal Disposal Fee"). The Town's commitment to pay Municipal Disposal Fees is a "put-or-pay" commitment, in that if the aggregate minimum commitment of the participating municipalities is not met by the total deliveries of all the participating municipalities or by other solid waste delivered to the System by the Authority in any year, and if the Town does not meet its minimum commitment, then the Town must pay the Municipal Disposal Fee for its proportional share of the aggregate minimum commitment, minus the amount of total acceptable solid waste delivered to the system. Under the MSA, Municipal Disposal Fees shall be payable so long as the System is accepting solid waste delivered by or on behalf of the Town, whether or not such solid waste is processed by the System. The Town's obligation to pay Municipal Disposal Fees, so long as the Authority is accepting the Town's solid waste, is absolute and unconditional and shall not be subject to any set-off, counterclaim, re-couplement, defense (other than payment itself) or other right which the Town may have against the Authority or any other person for any reason whatsoever. The Town has pledged its full faith and credit to the payment of Municipal Disposal Fees and has also agreed to enforce or levy and collect all taxes, cost sharing or other assessments or charges and take all such other action as may be necessary to provide for the payment of Municipal Disposal Fees. The Municipal Disposal Fee for the current fiscal year is \$69 and it is expected to remain the same for fiscal year ending June 30, 2013. The Town's contract with the Authority will expire in November 2012 and the Town has issued a Request for Proposals for a recycling and refuse disposal facility services.

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

**Electricity.** Electricity is furnished by Northeast Utilities.

### **Educational System**

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

## Educational Facilities

<u>School</u>	<u>Grades</u>	<u>Date Occupied</u>	<u>Date of Renovations</u>	<u>Number of Classrooms</u>	<u>Enrollment 10/1/2011</u>	<u>Design Capacity</u>
Center Road Elementary School	PK-5	1969	2010	33	497	825
Lake Street Elementary School	PK-5	1960	1961, 2010	20	286	525
Maple Street Elementary School	PK-5	1923	1962, 2010	23	307	525
Northeast Elementary School	PK-5	1954	2010	19	292	525
Skinner Road Elementary School	PK-5	1963	2010	21	375	525
Vernon Middle School	6-8	1968	2010	70	738	1,500
Rockville High School and VO-AG	9-12	1959	1964, 1976, 2010	136	1,055	2,400
Rockville High School	Spec. Ed	1987		n/a	29	n/a
<b>Total</b>				<b>322</b>	<b>3,579</b>	<b>6,825</b>

Source: Superintendent of Schools.

## School Enrollments (1)

### Actual Enrollments

<u>School Year</u>	<u>Pre-K</u>	<u>K-5</u>	<u>6 - 8</u>	<u>9 - 12</u>	<u>Ungraded</u>	<u>Total</u>
2002-03	54	1,774	961	1,227	62	4,078
2003-04	46	1,751	944	1,292	41	4,074
2004-05	40	1,710	939	1,314	47	4,050
2005-06	34	1,667	929	1,284	46	3,960
2006-07	26	1,656	851	1,244	20	3,797
2007-08	39	1,626	811	1,226	13	3,715
2008-09	33	1,588	781	1,166	16	3,584
2009-10	124	1,638	802	1,124	15	3,703
2010-11	129	1,620	768	1,079	23	3,619
2011-12	142	1,615	738	1,055	29	3,579

### Projected Enrollments

<u>School Year</u>	<u>Pre-K</u>	<u>K-5</u>	<u>6 - 8</u>	<u>9 - 12</u>	<u>Ungraded</u>	<u>Total</u>
2012-13	143	1,609	757	1043	13	3,565
2013-14	143	1,630	729	1054	13	3,569
2014-15	143	1,638	712	1012	13	3,518
2015-16	143	1,619	740	993	13	3,508
2016-17	143	1,620	748	987	13	3,511

(1) As of October 1 in each year.

Source: Superintendent of Schools.

**Municipal Employees**

<u>Fiscal Year</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Board of Education	649	638	624	633	642
General Government	204	204	211	211	213
<b>Total</b>	<b>853</b>	<b>842</b>	<b>835</b>	<b>844</b>	<b>855</b>

Source: Town Officials.

**Municipal Employees by Category**

<u>Department</u>	<u>Number of Employees</u>
<b><u>General Government</u></b>	
General Government	30
Public Safety	76
Public Works	52
Health and Welfare	10
Recreation	12
Townwide	2
Water Pollution Control	22
Subtotal	204
<b><u>Board of Education</u></b>	
Administration and Principals	21
Teachers	338
Classroom Instructional Aids/Paraprofessionals	144
Nurses	9
Clerical/Custodial/Maintenance	67
Cafeteria Workers	33
Plant Operation Supervisors	2
Librarians/Media Managers/Assistants	9
Non-Bargaining Employees	26
Subtotal	649
<b>Grand Total</b>	<b>853</b>

Source: Town Officials.

## Employee Collective Bargaining Representation

<u>Employees</u>	<u>Organization</u>	<u>Number of Employees Covered</u>	<u>Current Contract Expiration</u>
<b>General Government</b>			
Police officers	Local 17, Connecticut Independent Police Union	50	6/30/2011 (1)
Public Works/Parks/Water Pollution	Local 1471, AFSCME, AFL-CIO	56	6/30/2013
Public Works Supervisors	Local 818, AFSCME, AFL-CIO	5	6/30/2012 (1)
Civilian Police Department Employees	Local 47, Connecticut Independent Laborers Union (CILU)	14	6/30/2011 (1)
Professionals	Local 818, AFSCME, AFL-CIO	28	6/30/2012 (1)
Public Works Administrative Clerical	Local 1471, AFSCME, AFL-CIO	3	6/30/2012 (1)
Waste Treatment Plant Supervisors	Local 818, AFSCME, AFL-CIO	3	6/30/2012 (1)
Non-Bargaining	Not affiliated	45	N/A
	<b>Subtotal - General Government</b>	<b>204</b>	
<b>Board of Education</b>			
Clerical/Custodial/Maintenance	Local 1303, AFSCME, AFL-CIO	67	6/30/2013
Teachers	Vernon Education Association	338	6/30/2014
School Administrators	Vernon School Administrators Association	21	6/30/2015
School Nurses	Vernon School Nurses' Association	9	6/30/2013
Cafeteria	United Food & Commercial Workers, Local 919, AFL-CIO	33	6/30/2014
Plant Operation Supervisors	Local 818, Council #4, Supervisors	2	6/30/2012
Service Aids & Teacher Assistants	Vernon Federation of Paraprofessionals	144	6/30/2014
Librarians/Media Managers/Assistants	Local 1303-279, AFSCME, AFL-CIO	9	6/30/2013
Non-Bargaining	Not affiliated	26	N/A
	<b>Subtotal -Board of Education</b>	<b>649</b>	
	<b>Total</b>	<b>853</b>	

(1) In negotiations.

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

## SECTION III - ECONOMIC AND DEMOGRAPHIC DATA

### Population Trends

<u>Year</u>	<u>Town of Vernon</u>	<u>Tolland County</u>	<u>State of Connecticut</u>
1970	27,237	103,440	3,032,217
1980	27,974	114,823	3,107,576
1990	29,841	128,699	3,287,116
2000	28,063	136,364	3,405,565
2010	29,179	152,691	3,574,097

Source: U.S. Bureau of Census.

### Age Characteristics of Population

<u>Age</u>	<u>Town of Vernon</u>		<u>Tolland County</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 5	1,663	5.7	6,999	4.6	202,106	5.7
5 - 9	1,523	5.2	8,435	5.5	222,571	6.2
10 - 14	1,515	5.2	9,627	6.3	240,265	6.7
15 - 19	1,559	5.3	13,880	9.1	250,834	7.0
20 - 24	2,023	6.9	16,575	10.9	227,898	6.4
25 - 34	4,433	15.2	15,511	10.2	420,377	11.8
35 - 44	3,699	12.7	19,663	12.9	484,438	13.6
45 - 54	4,528	15.5	25,181	16.5	575,597	16.1
55 - 59	1,942	6.7	10,241	6.7	240,157	6.7
60 - 64	1,741	6.0	8,359	5.5	203,295	5.7
65 - 74	2,365	8.1	10,249	6.7	254,944	7.1
75 - 84	1,463	5.0	5,470	3.6	166,717	4.7
85 and over	725	2.5	2,501	1.6	84,898	2.4
<b>Total</b>	<u>29,179</u>	<u>100.0</u>	<u>152,691</u>	<u>100.0</u>	<u>3,574,097</u>	<u>100.0</u>

Source: U.S. Bureau of Census, Census 2010.

### Selected Wealth and Income Indicators

	<u>Median Family</u>		<u>Per Capita Income</u>	
	<u>(2000)</u>	<u>(2010)</u>	<u>(2000)</u>	<u>(2010)</u>
Town of Vernon	\$59,599	\$76,392	\$25,150	\$34,630
Tolland County	70,856	91,631	25,474	33,108
Connecticut	65,521	84,170	28,766	36,775
United States	49,600	62,363	21,690	27,041

Source: U.S. Bureau of Census.

### Income Distribution

	<u>Town of Vernon</u>		<u>Tolland County</u>		<u>State of Connecticut</u>	
	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>
\$ -0- to 9,999	157	1.9	532	1.4	28,163	3.1
10,000 to 14,999	66	0.8	368	1.0	18,987	2.1
15,000 to 24,999	362	4.4	1,295	3.4	48,016	5.3
25,000 to 34,999	532	6.4	1,751	4.6	57,101	6.3
35,000 to 49,999	1,085	13.1	3,494	9.1	91,930	10.1
50,000 to 74,999	1,835	22.1	6,717	17.5	155,098	17.0
75,000 to 99,999	1,517	18.3	7,167	18.7	142,615	15.6
100,000 to 149,999	1,723	20.8	9,824	25.6	190,257	20.9
150,000 to 199,999	684	8.3	4,438	11.6	81,689	9.0
200,000 or more	328	4.0	2,761	7.2	97,797	10.7
	<u>8,289</u>	<u>100.0</u>	<u>38,347</u>	<u>100.0</u>	<u>911,653</u>	<u>100.0</u>

Source: U.S. Bureau of the Census, American Community Survey, 2006-2010.

## Educational Attainment

<b>Educational Attainment Group</b>	<b>Town of Vernon</b>		<b>Tolland County</b>		<b>State of Connecticut</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
Less than 9th grade	763	3.7	2,026	2.1	112,149	4.7
9th to 12th grade	1,316	6.3	5,399	5.7	167,250	7.0
High School graduate	6,051	29.0	25,723	27.0	685,158	28.6
Some college, no degree	4,350	20.8	17,939	18.8	415,439	17.3
Associates degree	1,999	9.6	9,050	9.5	174,712	7.3
Bachelor's degree	3,597	17.2	19,028	20.0	476,316	19.9
Graduate or professional degree	2,825	13.5	16,020	16.8	367,259	15.3
<b>Total</b>	<b>20,901</b>	<b>100.0</b>	<b>95,185</b>	<b>100.0</b>	<b>2,398,283</b>	<b>100.0</b>
Percent of High School Graduates		90.1%		92.2%		88.4%
Percent of College Graduates		30.7%		36.8%		35.2%

Source: U.S. Bureau of Census, American Community Survey, 2006-2010.

## Employment by Industry

<b>Employment Sector</b>	<b>Town of Vernon</b>		<b>Tolland County</b>		<b>State of Connecticut</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
Agriculture, Forestry, Fishing, Hunting & Mining	23	0.1	414	0.5	6,592	0.4
Manufacturing	906	5.4	5,099	6.3	112,301	6.4
Construction	2,178	12.9	9,229	11.5	207,476	11.8
Wholesale Trade	274	1.6	2,231	2.8	47,436	2.7
Retail Trade	1,882	11.2	8,225	10.2	195,667	11.1
Transportation, Warehousing & Utilities	583	3.5	2,912	3.6	67,556	3.8
Information	327	1.9	1,656	2.1	46,077	2.6
Finance, Insurance & Real Estate	2,020	12.0	7,266	9.0	167,484	9.5
Professional, Scientific & Management	1,939	11.5	7,328	9.1	189,671	10.7
Educational Services & Health Care	4,183	24.8	23,593	29.3	438,801	24.9
Arts, Entertainment, Recreation & Food Services	1,255	7.4	5,788	7.2	140,551	8.0
Other Service (including nonprofit)	648	3.8	3,049	3.8	78,859	4.5
Public Administration	649	3.8	3,733	4.6	67,078	3.8
<b>Total Labor Force, Employed</b>	<b>16,867</b>	<b>100.0</b>	<b>80,523</b>	<b>100.0</b>	<b>1,765,549</b>	<b>100.0</b>

Source: U.S. Bureau of Census, American Community Survey, 2006-2010.

## Major Employers

<b>Name of Employer</b>	<b>Nature of Entity</b>	<b>Estimated Number of Employees</b>
Town of Vernon	Municipality	853
Rockville General Hospital	General hospital and specialized health	521
Visiting Nurse and Health Services	Nursing, therapy and supporting services	458
Stop & Shop	Retail grocery supermarket	320
Price Chopper	Retail grocery supermarket	221
State of Connecticut	Court, family and child services	204
New England Mechanical Services	HVAC engineering, contracting and	200
Vernon Manor	Convalescent and elderly care	175
Fox Hill Nursing and Rehabilitation	Convalescent and elderly care	171
Rein's Delicatessen	Restaurant	160
<b>Total</b>		<b>3,283</b>

Source: Town of Vernon, Economic Development Coordinator.

## Unemployment Rate Statistics

<u>Yearly Average</u>	<u>Town of Vernon</u>	<u>Hartford Labor Market</u>	<u>State of Connecticut</u>	<u>United States</u>
2002	3.9%	4.5%	4.3%	5.8%
2003	5.4%	5.9%	5.5%	5.8%
2004	4.6%	5.2%	4.9%	5.5%
2005	4.5%	5.1%	4.9%	5.1%
2006	4.1%	4.4%	4.6%	4.6%
2007	4.3%	4.7%	4.5%	4.6%
2008	5.4%	5.9%	5.8%	5.8%
2009	7.5%	8.1%	8.0%	9.3%
2010	8.4%	9.1%	9.0%	9.6%
2011	8.0%	8.9%	8.8%	9.0%

### 2012 Monthly

January	7.9%	8.4%	8.5%	8.8%
February	7.7%	8.1%	8.2%	8.7%

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

## Number and Value of Building Permits

<u>Fiscal Year</u>	<u>Residential</u>		<u>Commercial/Industrial</u>		<u>All Other</u>		<u>Total Building Permits</u>	
	<u>Permit</u>	<u>Value</u>	<u>Permits</u>	<u>Value</u>	<u>Permits</u>	<u>Value</u>	<u>Permit</u>	<u>Value</u>
2012 <sup>(1)</sup>	2	\$ 206,000	49	\$3,767,635	1,127	\$11,386,659	1,178	\$15,360,294
2011	23	2,569,000	103	4,583,919	1,668	13,263,268	1,794	20,416,187
2010	34	5,618,507	99	4,408,402	1,717	13,352,039	1,850	23,378,948
2009	27	3,759,546	66	1,901,260	1,373	15,661,565	1,466	21,322,371
2008	43	9,817,719	69	3,870,742	1,613	21,958,018	1,725	35,646,479
2007	69	11,632,730	174	5,694,247	1,574	17,991,124	1,817	35,318,101
2006	51	8,109,961	163	12,272,007	1,480	2,846,258	1,694	23,228,226
2005	56	9,331,922	222	16,580,000	1,518	4,769,331	1,796	30,681,253
2004	64	8,138,600	178	11,048,981	1,385	7,665,025	1,627	26,852,606
2003	77	9,111,045	91	6,398,806	1,529	9,050,273	1,697	24,560,124

(1) As of January 31, 2012.

Source: Town of Vernon, Office of Building Inspections

## Number of Dwelling Units

<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>% Increase 1990-2000</u>	<u>% Increase 1990-2010</u>	<u>% Increase 1980-2010</u>
13,896	12,867	12,748	10,611	8.00%	9.01%	30.96%

Source: U.S. Bureau of Census.

## Characteristics of Housing Units

<b>Value of Owner Occupied</b>	<b>Town of Vernon</b>		<b>Tolland County</b>		<b>State of Connecticut</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
\$ 0 to \$ 50,000	226	2.9	648	1.6	13,644	1.5
50,000 to 99,999	351	4.6	847	2.0	18,668	2.0
100,000 to 149,999	660	8.6	2,230	5.4	56,161	6.0
150,000 to 199,999	1,774	23.0	6,120	14.7	122,274	13.0
200,000 to 299,999	3269	42.4	15,875	38.1	267,519	28.5
300,000 to 499,999	1099	14.3	13,011	31.3	280,008	29.8
500,000 to 999,999	274	3.6	2613	6.3	134,075	14.3
1,000,000 and over	51	0.7	271	0.7	47,635	5.1
<b>Total</b>	<b>7,704</b>	<b>100.0</b>	<b>41,615</b>	<b>100.0</b>	<b>939,984</b>	<b>100.0</b>
Median Value	221,700	-	266,100		296,500	

Source: U.S. Bureau of Census, American Community Survey, 2006-2010.

## Age Distribution of Housing

<b>Year Structure Built</b>	<b>Town of Vernon</b>		<b>Tolland County</b>		<b>State of Connecticut</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
1939 or earlier	2,444	18.1	8,987	15.7	351,823	23.8
1940 to 1949	488	3.6	2,728	4.8	109,487	7.4
1950 to 1959	1,865	13.8	7,351	12.8	225,730	15.3
1960 to 1969	2,936	21.7	9,049	15.8	198,079	13.4
1970 to 1979	2,387	17.6	8,678	15.1	202,661	13.7
1980 to 1989	1,789	13.2	8,900	15.5	189,562	12.8
1990 to 1999	704	5.2	5,852	10.2	108,780	7.4
2000 to 2004	582	4.3	4,145	7.2	61,101	4.1
2005 or later	341	2.5	1,604	2.8	28,434	1.9
<b>Total housing units</b>	<b>13,536</b>	<b>100.0</b>	<b>57,294</b>	<b>100.0</b>	<b>1,475,657</b>	<b>100.0</b>

Source: U.S. Bureau of Census, American Community Survey, 2006-2010.

## Breakdown of Land Use

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

Source: Town of Vernon.

**SECTION IV - INDEBTEDNESS**

**Computation of Statutory Debt Limit**

As of April 11, 2012 (Pro Forma)

Total fiscal year 2011 tax collections (including interest and lien fees)	\$57,398,049
State Reimbursement for Revenue Loss on Tax Relief for the Elderly	<u>-</u>
Base for Establishing Debt Limit	<u><u>\$57,398,049</u></u>

**Debt Limit**

	<u>General Purpose</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Unfunded Past Pension</u>	<u>Total Debt</u>
(2.25 times base)	\$ 129,145,610					
(4.50 times base)		\$ 258,291,221				
(3.75 times base)			\$ 215,242,684			
(3.25 times base)				\$ 186,543,659		
(3.00 times base)					\$ 172,194,147	
(7.00 times base)						\$ 401,786,343

**Indebtedness** (Including The Notes)

Bonds Payable	\$ 14,788,000	\$ 27,851,000	\$ 1,056,000	\$ -	\$ -	\$ 43,695,000
Refunded Bonds	(12,330,000)	(23,016,000)	(844,000)			(36,190,000)
The Bonds ( <i>This Issue</i> )	11,724,000	22,168,000	793,000	-		34,685,000
The Notes ( <i>This Issue</i> )	-	3,730,000	-	-	-	3,730,000
State of Connecticut						
Clean Water Fund Project						
Loan Obligations (PLO)	-	-	7,546,973	-	-	7,546,973
Authorized but Unissued						
Debt	<u>2,787,974</u>	<u>7,686,928</u>	<u>3,613,560</u>	<u>-</u>	<u>-</u>	<u>14,088,462</u>
Gross Direct Debt	16,969,974	38,419,928	12,165,533	-	-	67,555,435
Overlapping Debt:						
Bolton Lakes Regional Water Pollution Control Authority (1)	-	-	2,737,386			2,737,386
Less receivables:						
Intergovernmental (2)	-	-	(1,619,814)			(1,619,814)
School grants (3)	<u>-</u>	<u>(5,631,793)</u>		<u>-</u>	<u>-</u>	<u>(5,631,793)</u>
Total Net Direct and Overlapping Debt	<u>16,969,974</u>	<u>32,788,135</u>	<u>13,283,105</u>	<u>-</u>	<u>-</u>	<u>63,041,214</u>
Excess of Limit Over Outstanding and Authorized Debt	<u>\$ 112,175,636</u>	<u>\$ 225,503,086</u>	<u>\$ 201,959,579</u>	<u>\$ 186,543,659</u>	<u>\$ 172,194,147</u>	<u>\$ 338,745,129</u>

- (1) Reflects Town's estimated 29% share of total project costs less anticipated federal and state grants. The Town expects to assess the benefitting property owners for a portion of the Town's net project cost. See "Summary of Municipal Services – Water Pollution Control Authority" and "Overlapping Indebtedness" herein.
- (2) Includes the principal portion of Clean Water Fund PLO allocable to the towns of Ellington, Manchester, South Windsor and Tolland which as of April 11, 2012, totaled \$1,619,814. See "Clean Water Fund" herein.
- (3) The Town presently has a number of school construction projects underway. To date, the Town has received \$26,532,017 in progress payments from the State of Connecticut. The Town expects to receive additional progress payments in the amount of \$5,515,950. The Town also receives school construction subsidy grants which are paid over the life of the outstanding school bonds issued for projects approved prior to July 1, 1996. The grants representing the principal portion of the outstanding bonds are estimated to be \$115,843. See "School Construction Projects" herein.

Source: Town Officials

**Calculation of Net Direct Debt**  
 As of April 11, 2012 (Pro Forma)

<b>Bonded Debt:</b>	
Refunded Bonds	\$(36,190,000)
The Bonds ( <i>This Issue</i> )	34,685,000
General Purpose	14,788,000
Schools	27,851,000
Sewers	1,056,000
State of Connecticut Clean Water Fund PLO	<u>7,546,973</u>
<b>Total Bonded Debt</b> (1)	49,736,973
<b>Short-Term Debt:</b>	
The Notes ( <i>This Issue</i> )	<u>3,730,000</u>
<b>Total Short Term Debt</b>	
<b>Total Direct Debt</b>	53,466,973
<b>Exclusions:</b>	
School grants receivable	(115,843)
Intergovernmental receivable (2)	<u>(1,619,814)</u>
<b>Net Direct Debt</b>	51,731,316
<b>Overlapping Debt:</b>	
Bolton Lakes Regional WPCA (3)	<u>2,737,386</u>
<b>Net Direct Plus Overlapping Debt</b>	<u><u>\$ 54,468,702</u></u>

- (1) Does not include authorized but unissued debt of \$14,088,462.
- (2) As of April 11, 2012, the towns of Ellington, Manchester, South Windsor and Tolland's allocable share of the principal portion of the Town of Vernon's State of Connecticut Clean Water Fund PLO 200-C totaled \$1,619,814. Please see "Clean Water Fund Program" herein.
- (3) Reflects Town's estimated 29% share of total project costs less anticipated federal and state grants. The Town expects to assess the benefitting property owners for a portion of the Town's net project cost. See "Summary of Municipal Services – Water Pollution Control Authority" and "Overlapping Indebtedness" herein.

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## Current Debt Ratios

As of April 11, 2012 (Pro Forma)

Total Direct Debt	\$ 53,466,973
Net Direct Debt	\$ 51,731,316
Net Direct Plus Overlapping Debt	\$ 54,468,702
Population (1)	29,179
Net Taxable Grand List (10/1/10)	\$1,914,573,272
Estimated Full Value	\$2,488,839,353
Equalized Net Taxable Grand List (2009) (2)	\$2,462,690,474
Per Capita Income (2010) (3)	\$ 34,630

### Total Direct Debt:

Per Capita	\$1,832.38
To Net Taxable Grand List	2.79%
To Estimated Full Value	2.79%
To Equalized Net Taxable Grand List	2.17%
Per Capita to Per Capita Income	5.29%

### Net Direct Debt:

Per Capita	\$1,772.90
To Net Taxable Grand List	2.70%
To Estimated Full Value	2.08%
To Equalized Net Taxable Grand	2.10%
Per Capita to Per Capita Income	5.12%

### Net Direct Plus Overlapping Debt:

Per Capita	\$1,866.71
To Net Taxable Grand List	2.84%
To Estimated Full Value	2.19%
To Equalized Net Taxable Grand List	2.21%
Per Capita to Per Capita Income	5.39%

(1) U.S. Bureau of Census.

(2) Office of Policy and Management, State of Connecticut

(3) U.S. Bureau of Census.

## Historical Debt Statement

	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>
Population (1)	29,179	30,182	29,839	29,620	29,622
Net taxable grand list	\$1,894,638,804	\$1,890,699,101	\$1,702,120,658	\$1,491,278,140	\$1,311,102,718
Estimated full value	\$2,706,626,863	\$2,700,998,716	\$2,431,600,940	\$2,130,397,343	\$1,873,003,883
Equalized net taxable grand list (2)	\$2,462,690,474	\$2,455,538,731	\$2,491,857,824	\$2,017,416,957	\$2,848,133,122
Per capita income (3)	\$ 34,630	\$ 34,630	\$ 25,150	\$ 25,150	\$ 25,150
Short-term debt	\$ 4,220,000	\$ 3,710,000	\$ 3,710,000	\$ 11,925,000	\$ 20,986,000
Long-term debt	\$ 55,250,599	\$ 55,050,277	\$ 57,686,643	\$ 49,659,440	\$ 31,459,236
Total Direct Indebtedness	\$ 59,470,599	\$ 58,760,277	\$ 61,396,643	\$ 61,584,440	\$ 52,445,236
Net Direct Debt	\$ 57,272,379	\$ 55,967,450	\$ 58,015,180	\$ 57,454,428	\$ 47,555,171
Overlapping Debt	\$ 2,078,628	\$ 2,078,628	\$ -	\$ -	\$ -
Net Direct Plus Overlapping Debt	\$ 59,351,007	\$ 58,046,078	\$ 58,015,180	\$ 57,454,428	\$ 47,555,171

(1) U.S. Bureau of Census.

(2) Office of Policy and Management, State of Connecticut

(3) U.S. Bureau of Census.

## Historical Debt Ratios

<b>Total Direct debt:</b>	<b>2010-11</b>	<b>2009-10</b>	<b>2008-09</b>	<b>2007-08</b>	<b>2006-07</b>
Per capita	\$2,038.13	\$1,946.86	\$2,057.60	\$2,079.15	\$1,770.48
To net taxable grand list	3.14%	3.11%	3.61%	4.13%	4.00%
To estimated full value	2.20%	2.18%	2.52%	2.89%	2.80%
To equalized net taxable grand list	2.41%	2.39%	2.46%	3.05%	1.84%
Debt per capita to per capita income	5.89%	5.62%	8.18%	8.27%	7.04%
<b>Net Direct debt:</b>					
Per capita	\$1,962.79	\$1,854.33	\$1,944.27	\$1,939.72	\$1,605.40
To net taxable grand list	3.02%	2.96%	3.41%	3.85%	3.63%
To estimated full value	2.12%	2.07%	2.39%	2.70%	2.54%
To equalized net taxable grand list	2.33%	2.28%	2.33%	2.85%	1.67%
Debt per capita to per capita income	5.67%	5.35%	7.73%	7.71%	6.38%
<b>Net Direct Plus Overlapping debt:</b>					
Per capita	\$2,034.03	\$1,923.20	\$1,944.27	\$1,939.72	\$1,605.40
To net taxable grand list	3.13%	3.07%	3.41%	3.85%	3.63%
To estimated full value	2.19%	2.15%	2.39%	2.70%	2.54%
To equalized net taxable grand list	2.41%	2.36%	2.33%	2.85%	1.67%
Debt per capita to per capita income	5.87%	5.55%	7.73%	7.71%	6.38%

## Outstanding Short-Term Indebtedness

With this issue, the Town will have \$3,730,000 in outstanding Bond Anticipation Notes maturing October 11, 2012.

## Capital Leases

The Town has entered into a capital lease agreement for the purchase of a mid-mount platform aerial ladder truck, police cruisers and an asphalt reclamation box. The present value of future minimum lease payment as of April 12, 2012 is estimated to be \$46,109. These payments are not included in outstanding bonded debt schedules herein.

## Overlapping Indebtedness

The Town of Vernon, along with the Town of Bolton, is a member of the Bolton Lakes Regional Water Pollution Control Authority (the "BLRWPCA") which has the authority to issue debt, constituting overlapping debt of the Town. The BLRWPCA currently has outstanding a State of Connecticut Clean Water Fund Interim Funding Obligation ("IFO") dated September 30, 2009, due June 30, 2014 in the amount of \$7,167,683 and two United States Department of Agriculture serial revenue bonds; the first of which is in the amount of \$1,716,500, is dated December 15, 2010 and has a final maturity of December 15, 2050, and the second is in the amount of \$2,924,000, is dated September 1, 2011 and has a final maturity of September 1, 2051. It is anticipated that BLRWPCA will receive Federal and State grants some of which will be applied to reduce the current Clean Water Fund IFO. The Town's estimated share of project costs after the application of grants is expected to be approximately \$2,737,000. The Town expects to issue assessments to the benefitting property owners which would further reduce the Town's net share of costs to approximately \$1,297,000.

## Clean Water Fund Program

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

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

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

On December 31, 1997, the Town permanently financed the upgrade and expansion of the Vernon Waste Water Treatment Plant (Clean Water Fund PLO 200-C) with \$27,635,550 State of Connecticut Clean Water Fund ("CWF") project loan obligation. The permanently financed loan obligation, payable monthly through December 31, 2016, carries a 2.00% interest rate. The Town is responsible for debt service payments on the loan obligation, although the Towns of Ellington, Manchester, South Windsor and Tolland are obligated to provide principal and interest payments in installments through December 31, 2016 on their share of the debt. As of April 11, 2012, the surrounding towns' share of the debt was \$1,619,814 in principal and \$79,508 in interest.

The Town of Vernon has the following Clean Water loans outstanding as of April 11, 2012:

<u>Project</u>	<u>Original 2% Loan Amount</u>	<u>Principal Amount Outstanding</u>
CWF PLO 244-C	\$ 649,740	\$ 21,658
CWF PLO 200-C (1)	27,635,550	7,525,315
	<u>\$ 28,285,290</u>	<u>\$ 7,546,973</u>

(1) As of April 11, 2012, the towns of Ellington, Manchester, South Windsor and Tolland's allocable share of the principal portion of Clean Water Fund PLO 200-C totaled \$1,619,814.

## Legal Requirements for Approval of Borrowing

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

## **Temporary Financing**

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

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

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

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

During Fiscal Year 2005, the Town began a comprehensive capital improvement program encompassing both public infrastructure and school facilities projects. At a referendum held on November 2, 2004 a Town improvement bond package consisting of seven separate referenda questions totaling \$37,622,000 was presented to the voters for approval. The voters subsequently approved three of the projects totaling \$21,609,000; including \$19,103,000 for road, sidewalk and bridge replacements; \$1,295,000 for waste treatment plant improvements; and \$1,211,000 for sewer system improvements.

Additionally, at a referendum held on March 29, 2005 a school building and facilities bond package consisting of four separate referenda questions totaling \$70,704,000 was presented to the voters for approval. The voters subsequently approved three projects totaling \$68,322,000; including \$34,657,000 for additions and renovations to Rockville High School; \$11,519,000 for renovations to Vernon Center Middle School and \$22,146,000 for additions and renovations to the Town's five elementary schools. The Town does not expect to go to referendum in the future for the lone unapproved school project but intends to finance the project through the Town's annually budgeted capital improvement program. For the approved school projects, the Town expects to receive proportional progress payments from the State of Connecticut for approximately 68.93% of eligible costs. Presently, the Town estimates its net share of project costs to be approximately \$38,169,000. Please see "School Construction Projects" herein for more information.

By concurrent ordinances (the "Enabling Ordinances") adopted in April 2003, the Towns of Bolton and Vernon established the Bolton Lakes Regional Water Pollution Control Authority (the "BLRWPCA") pursuant to Sections 22a-500 through 22a-519, inclusive, of the Connecticut General Statutes, for the purpose of constructing sewers in the Route 44 corridor and around Bolton Lake. The BLRWPCA is authorized pursuant to the Enabling Ordinances to act as a regional water pollution control authority and to construct, maintain and operate a regional sewerage system to serve portions of the two towns designated in the Enabling Ordinances. The BLRWPCA project is anticipated to cost \$21,699,000, of which the Town's estimated share is 29% share, or approximately \$6,293,000. It is anticipated that the Town's remaining local share after the application of available grants will be \$2,737,000. It is expected that special benefit assessments will be utilized to further reduce the Town's share of the project costs. The Town estimates that its share local share after benefit assessments will be \$1,297,000. Project construction commenced in October 2009 and will be completed by December 2012. See "Summary of Municipal Services – Water Pollution Control Authority"

## Capital Improvement Plan

The Mayor annually prepares an updated six-year capital improvement program. The plan is a systematic program to add or replace capital items for each department within the General Government and Board of Education. The 2012-2017 Plan projects a total of \$45,844,767 in spending for projects and equipment, of which approximately \$450,000 is expected to be financed through the issuance of bonds. A copy of the most recent capital improvement program is available from the Finance Office.

	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>Total</u>
<b><u>SUMMARY OF PROGRAMS</u></b>							
Total Projects	\$ 2,122,088	\$12,906,033	\$ 6,570,394	\$15,777,935	\$ 797,500	\$ 167,500	\$38,341,450
Total Equipment	<u>2,187,100</u>	<u>872,200</u>	<u>482,410</u>	<u>479,250</u>	<u>495,200</u>	<u>2,987,157</u>	<u>7,503,317</u>
<b>Total Program Costs</b>	<b><u>\$ 4,309,188</u></b>	<b><u>\$13,778,233</u></b>	<b><u>\$ 7,052,804</u></b>	<b><u>\$16,257,185</u></b>	<b><u>\$ 1,292,700</u></b>	<b><u>\$3,154,657</u></b>	<b><u>\$45,844,767</u></b>
<b><u>SOURCES OF FINANCING</u></b>							
General Fund Impact	\$ 242,200	\$ 337,200	\$ 3,942,670	\$13,673,565	\$ 555,500	\$ 592,000	\$19,343,135
LoCIP Grants	367,088	240,000	646,640	240,000	240,000	240,000	1,973,728
Other Sources	338,000	9,884,263	277,994	214,200	287,200	137,157	11,138,814
Capital and Non-Recurring	106,000	14,000	-	-	-	-	120,000
Grant Applications (various)	1,227,000	3,047,770	1,920,000	1,691,920	-	-	7,886,690
Lease Purchase	1,994,900	175,000	185,500	185,500	210,000	2,185,500	4,936,400
Bonds	<u>34,000</u>	<u>80,000</u>	<u>80,000</u>	<u>252,000</u>	<u>-</u>	<u>-</u>	<u>446,000</u>
<b>Total Funding Sources</b>	<b><u>\$ 4,309,188</u></b>	<b><u>\$13,778,233</u></b>	<b><u>\$ 7,052,804</u></b>	<b><u>\$16,257,185</u></b>	<b><u>\$ 1,292,700</u></b>	<b><u>\$3,154,657</u></b>	<b><u>\$45,844,767</u></b>

## School Construction Projects

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

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

Under the new program, the State of Connecticut will make proportional progress payments for eligible construction costs during the construction of the following projects at the estimated reimbursement rates shown below:

<u>Project</u>	<u>Total Appropriation</u>	<u>Estimated Reimbursement Rate (%)</u>	<u>Total Estimated Grant</u> <sup>(1)</sup>
Rockville High School Project	\$ 34,657,000	68.93	\$15,613,582
Vernon Center Middle School Project	11,519,000	68.93	5,596,154
Various Elementary School Additions and Renovations	<u>22,146,000</u>	68.93	<u>10,838,231</u>
<b>Total</b>	<b><u>\$ 68,322,000</u></b>		<b><u>\$32,047,967</u></b>

- (1) Estimated grants receivable are based upon eligibility of project costs. Eligible costs to be determined at completion of a post-project audit. As of April 11, 2012 the Town has received \$26,532,017 in progress payment grants for these projects.

## Authorized but Unissued Debt

<u>Project</u>	<u>Amount of Total Authorization</u>	<u>Prior Bonds</u>	<u>Paydowns/ Grants Received</u>	<u>Notes Maturing 4/11/2012</u>	<u>The Notes This Issue</u>	<u>Authorized But Unissued Debt</u>
Road Reconstruction, Drainage Improv.						
Sidewalk & Bridge Replacement	\$ 19,103,000	\$ 17,126,000	\$ 371,026	\$ -	\$ -	\$ 1,605,974
Sewer System Improvements	1,211,000	1,049,000	104,054	-	-	57,946
Rockville High School Project (1)	34,657,000	16,197,000	12,462,300	2,180,000	2,160,000	3,837,700
Vernon Center Middle School Project (1)	11,519,000	5,224,000	5,417,366	774,000	280,000	597,634
Various Elementary School Additions and Renovations (1)	22,146,000	8,889,000	8,715,406	1,266,000	1,290,000	3,251,594
Phoenix Street Bridge Replacement	1,182,000	-	-	-	-	1,182,000
Bolton Lakes Regional WPCA (2)	6,293,000	2,737,386	-	-	-	3,555,614
<b>Total All Projects</b>	<b>\$ 96,111,000</b>	<b>\$ 51,222,386</b>	<b>\$ 27,070,152</b>	<b>\$ 4,220,000</b>	<b>\$ 3,730,000</b>	<b>\$ 14,088,462</b>

- (1) The Town expects progress payment grants from the State of Connecticut which will reduce the authorized but unissued debt by a similar amount. Please see "School Construction Projects" herein.
- (2) Reflects Town's estimated 29% share of total project costs less anticipated federal and state grants. The Town expects to assess the benefitting property owners for a portion of the Town's net project cost. See "Summary of Municipal Services – Water Pollution Control Authority" and "Overlapping Indebtedness" herein.

## Combined Schedule of Long Term Debt through Maturity

As of April 11, 2012 (Pro Forma)

<u>Fiscal Year</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total Payments</u>	<u>Refunded Bonds</u>	<u>Principal This Issue</u>	<u>Principal All Issues</u>
2012 (1)	\$ 4,395,261	\$ 1,910,149	\$ 6,305,410	\$ -	\$ -	\$ 4,395,261
2013	4,256,643	1,758,057	6,014,700	(550,000)	695,000	4,401,643
2014	4,139,052	1,616,532	5,755,584	(1,640,000)	1,610,000	4,109,052
2015	4,225,621	1,490,175	5,715,796	(1,700,000)	1,655,000	4,180,621
2016	4,257,828	1,372,994	5,630,822	(1,700,000)	1,645,000	4,202,828
2017	3,681,194	1,257,995	4,939,189	(2,600,000)	2,485,000	3,566,194
2018	3,005,000	1,160,431	4,165,431	(2,750,000)	2,625,000	2,880,000
2019	3,180,000	1,059,044	4,239,044	(2,925,000)	2,785,000	3,040,000
2020	3,180,000	948,831	4,128,831	(2,925,000)	2,775,000	3,030,000
2021	3,180,000	833,744	4,013,744	(2,925,000)	2,785,000	3,040,000
2022	3,180,000	714,019	3,894,019	(2,925,000)	2,790,000	3,045,000
2023	3,280,000	588,094	3,868,094	(3,025,000)	2,890,000	3,145,000
2024	3,280,000	457,294	3,737,294	(3,025,000)	2,885,000	3,140,000
2025	2,305,000	326,494	2,631,494	(2,050,000)	1,940,000	2,195,000
2026	2,305,000	234,375	2,539,375	(2,050,000)	1,930,000	2,185,000
2027	2,050,000	140,250	2,190,250	(2,050,000)	1,915,000	1,915,000
2028	1,350,000	55,688	1,405,688	(1,350,000)	1,275,000	1,275,000
<b>Total</b>	<b>\$ 55,250,599</b>	<b>\$ 15,924,165</b>	<b>\$ 71,174,764</b>	<b>\$ (36,190,000)</b>	<b>\$ 34,685,000</b>	<b>\$ 53,745,599</b>

- (1) Includes principal payments of \$4,008,626 and interest payments of \$1,873,058 previously paid in Fiscal Year 2012 between July 1, 2011 and April 11, 2012.

Source: Annual audited financial statements.

**Schedule of General Fund Bonded Debt through Maturity**

As of April 11, 2012 (Pro Forma)

<b>Fiscal Year</b>	<b>Principal Payments</b>	<b>Interest Payments</b>	<b>Total Payments</b>	<b>Refunded Bonds</b>	<b>Principal This Issue</b>	<b>Principal All Issues</b>
2012 <sup>(1)</sup>	\$ 2,860,000	\$ 1,750,260	\$ 4,610,260	\$ -	\$ -	\$ 2,860,000
2013	2,710,000	1,629,056	4,339,056	(550,000)	695,000	2,855,000
2014	2,575,000	1,518,544	4,093,544	(1,640,000)	1,610,000	2,545,000
2015	2,630,000	1,423,756	4,053,756	(1,700,000)	1,655,000	2,585,000
2016	2,630,000	1,338,781	3,968,781	(1,700,000)	1,645,000	2,575,000
2017	2,855,000	1,253,169	4,108,169	(2,600,000)	2,485,000	2,740,000
2018	3,005,000	1,160,431	4,165,431	(2,750,000)	2,625,000	2,880,000
2019	3,180,000	1,059,044	4,239,044	(2,925,000)	2,785,000	3,040,000
2020	3,180,000	948,831	4,128,831	(2,925,000)	2,775,000	3,030,000
2021	3,180,000	833,744	4,013,744	(2,925,000)	2,785,000	3,040,000
2022	3,180,000	714,019	3,894,019	(2,925,000)	2,790,000	3,045,000
2023	3,280,000	588,094	3,868,094	(3,025,000)	2,890,000	3,145,000
2024	3,280,000	457,294	3,737,294	(3,025,000)	2,885,000	3,140,000
2025	2,305,000	326,494	2,631,494	(2,050,000)	1,940,000	2,195,000
2026	2,305,000	234,375	2,539,375	(2,050,000)	1,930,000	2,185,000
2027	2,050,000	140,250	2,190,250	(2,050,000)	1,915,000	1,915,000
2028	1,350,000	55,688	1,405,688	(1,350,000)	1,275,000	1,275,000
<b>Total</b>	<b>\$46,555,000</b>	<b>\$15,431,829</b>	<b>\$61,986,829</b>	<b>\$(36,190,000)</b>	<b>\$34,685,000</b>	<b>\$45,050,000</b>

(1) Includes principal payments of \$2,860,000 and interest payments of \$1,750,260 previously paid in Fiscal Year 2012 between July 1, 2011 and April 11, 2012.

Source: Annual audited financial statements.

**Schedule of State of Connecticut Clean Water Fund Debt through Maturity**

As of April 11, 2012 (Pro Forma)

<b>Fiscal Year</b>	<b>Principal Payments</b>	<b>Interest Payments</b>	<b>Total Payments</b>
2012 <sup>(1)</sup>	\$ 1,535,261	\$ 159,889	\$1,695,150
2013	1,546,643	129,001	1,675,644
2014	1,564,052	97,988	1,662,040
2015	1,595,621	66,419	1,662,040
2016	1,627,828	34,213	1,662,041
2017	826,194	4,826	831,020
<b>Total</b>	<b>\$ 8,695,599</b>	<b>\$ 492,336</b>	<b>\$9,187,935</b>

(1) Includes principal payments of \$1,148,626 and interest payments of \$122,798 previously paid in Fiscal Year 2012 between July 1, 2011 and April 11, 2012.

Source: Annual audited financial statements.

## SECTION V - FINANCIAL DATA

### Accounting Policies

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

### Basis of Accounting

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

### Audit

Pursuant to the provisions of the Municipal Auditing Act (Chapter 111 of the Connecticut General Statutes) and the Town of Vernon Charter, the Town is obligated to undergo an annual examination by an independent certified public accountant. The current auditors, J.H. Cohn LLP of Farmington, Connecticut were appointed by the Town Council and are required to conduct their examination under the guidelines issued by the State of Connecticut Office of Policy & Management, who receive a copy of said Audit Report when completed.

The most recent annual audit covers the fiscal year ended June 30, 2011, a portion of which is included in this document and made a part hereof as Appendix A. Included in Appendix A are the Town's Basic Financial Statements, Notes to the Financial Statements and Required Supplemental Information, together with the report of the independent auditor as prepared by J.H. Cohn LLP, Independent Certified Public Accountants. The information contained in "Appendix A" is not the whole audit report. Individuals wishing a complete document should contact the Finance Officer of the Town of Vernon, Connecticut.

### Certificate of Achievement for Excellence in Financial Reporting

The Town of Vernon's Comprehensive Annual Financial Reports ("CAFR") for fiscal years 1995 through 2010 were awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Financial Officers Association of the United States and Canada ("GFOA"). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

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

### Budgetary Procedure

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

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

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

### Supplemental Appropriations

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

### Employee Pension Systems

The Town maintains three single-employer defined benefit retirement plans which cover substantially all full-time employees, except for the groups covered by the Connecticut State Teachers' Retirement Plan, and members of the Town's Volunteer Fire Department based upon certain service criteria. The pension plan for the Volunteer Fire Department was established effective January 1, 2000 and is known as the Town of Vernon Length of Service Award Program (LOSAP). As of January 1, 2011, the date of the most recent full valuations, approximately 918 active and retired persons were in the plans (including the Volunteer Fire LOSAP).

Based upon a January 1, 2011 valuation, the combined accumulated plan benefits and assets are as follows:

#### Schedule of Funding Progress

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Over (Unfunded) AAL (UAAL) (a) - (b)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(a) - (b) / (c)]</b>
<b><u>Police</u></b>						
2011	\$ 16,862,650	\$29,969,970	\$(13,107,320)	56.3%	\$ 4,352,823	-301.1%
2010 (1)	16,898,080	27,986,776	(11,088,696)	60.4%	4,350,681	-254.9%
2009 (2)	15,349,405	24,985,131	(9,635,726)	61.4%	4,181,987	-230.4%
2008	17,438,418	23,957,282	(6,518,864)	72.8%	3,927,066	-166.0%
2007	16,600,997	22,516,606	(5,915,609)	73.7%	3,701,061	-159.8%
<b><u>Town</u></b>						
2011	\$ 28,199,302	\$49,873,997	(21,674,695)	56.5%	\$14,247,198	-152.1%
2010 (1)	26,751,553	46,632,119	(19,880,566)	57.4%	14,074,891	-141.2%
2009 (2)	24,412,641	40,929,548	(16,516,907)	59.6%	13,857,289	-119.2%
2008	23,916,877	38,366,205	(14,449,328)	62.3%	13,408,005	-107.8%
2007	21,441,511	35,308,131	(13,866,620)	60.7%	12,743,672	-108.8%
<b><u>LOSAP</u></b>						
2011	\$ 1,148,440	\$ 873,498	\$ 274,942	131.5%	N/A	N/A
2010	1,018,412	845,758	172,654	120.4%	N/A	N/A
2009	745,780	806,210	(60,430)	92.5%	N/A	N/A
2008	962,663	1,079,832	(117,169)	89.1%	N/A	N/A
2007	809,550	990,973	(181,423)	81.7%	N/A	N/A

- (1) Effective January 1, 2010, the Assumed Investment Return was reduced from 8.0% to 7.5%; the Asset Valuation Method was changed to the Deferred Recognition Method without phase-in; and the amortization balances were refreshed over a 30 year period.
- (2) Effective January 1, 2009, the Assumed Investment Return was reduced from 8.5% to 8.0%; the Actuarial Cost Method was changed from the Frozen Entry Age Normal Cost to Projected Credit Unit Method; the Amortization Methodology was changed from level dollar to level percentage of payroll and the Mortality Table was changed to the RP 2000.

**Schedule of Employer Contributions**

Fiscal Year	Police		Town		LOSAP	
	Actuarial Required Contribution	Percentage Contributed	Actuarial Required Contribution	Percentage Contributed	Actuarial Required Contribution	Percentage Contributed
2012 <sup>(1)</sup>	\$ 1,240,074	110.2%	\$ 1,704,215	117.3%	\$ 34,123	100.0%
2011	1,057,949	100.0%	1,502,551	100.0%	44,431	100.0%
2010	1,025,928	100.0%	1,509,046	100.0%	120,129	100.0%
2009	1,107,688	100.0%	1,750,787	100.0%	83,206	100.0%
2008	1,020,600	100.0%	1,677,731	100.0%	97,968	100.0%

(1) Adopted Budget

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

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

**Other Post Employment Benefits**

The Town administers 3 single-employer, post retirement healthcare plans for Town, Police and Board of Education employees. The plans provide medical, dental and prescription benefits for eligible retirees and their spouses. Benefits and contributions are established by contract and may be amended by union negotiations. The Town's contribution is actuarially determined on an annual basis using the projected unit credit method. Currently, employees do not contribute to the plans. The Town established an irrevocable trust for OPEB effective June 2011.

The following presents historical information regarding the post-employment benefit funding. The Town's most recent valuation was July 1, 2010. Please see "Appendix A - Financial Statements" herein for more information regarding the Town's OPEB liabilities.

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Over (Unfunded) AAL (UAAL) (a) - (b)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(a) - (b) / (c)]
<b><u>Police Plan</u></b>						
2010	\$ 60,000	\$ 2,269,000	\$(2,209,000)	2.6%	\$ 3,394,227	-65.1%
2008	-	3,071,000	(3,071,000)	0.0%	3,352,315	-91.6%
<b><u>Town Plan</u></b>						
2010	\$ -	\$ 1,893,000	\$(1,893,000)	0.0%	\$ 8,240,567	-23.0%
2008	-	2,128,000	(2,128,000)	0.0%	8,275,348	-25.7%
<b><u>Board of Education</u></b>						
2010	\$ -	\$ 6,193,000	\$(6,193,000)	0.0%	\$30,026,823	-20.6%
2008	-	8,194,000	(8,194,000)	0.0%	28,991,599	-28.3%

**Schedule of Employer Contributions**

<u>Fiscal Year</u>	<u>Police</u>		<u>Town</u>		<u>Board of Education</u>	
	<u>Actuarial Required Contribution</u>	<u>Percentage Contributed</u>	<u>Actuarial Required Contribution</u>	<u>Percentage Contributed</u>	<u>Actuarial Required Contribution</u>	<u>Percentage Contributed</u>
	2012 (1)	\$ 239,000	43.9%	\$ 224,000	57.1%	\$ 560,000
2011	270,000	77.4%	223,000	52.5%	669,000	61.7%
2010	259,000	61.8%	215,000	45.1%	643,000	61.0%
2009	249,000	57.0%	206,000	38.3%	618,000	52.4%

(1) Adopted Budget

**Investment Policies and Procedures**

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

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

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

**Assessment Practices**

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

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

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

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

The Town's most recent general revaluation was for the grand list dated October 1, 2006, effective fiscal year 2007-08. However, the Town Council at the time elected to phase-in the revaluation over a three-year period. Under Section 12-62 of the Connecticut General Statutes, the Town must do a revaluation every five years based on generally accepted mass appraisal methods and a revaluation by physical inspection no later than ten years from the preceding physical inspection. Public Act 09-60 permits any municipality required to effect a revaluation of real property under Section 12-62 of the Connecticut General Statutes for the 2008, 2009 or 2010 assessment years upon approval of its legislative body, to delay such revaluation until the 2011 assessment year. Any required revaluation subsequent to such a delayed revaluation shall recommence at the point in the schedule required pursuant to Section 12-62 that the municipality was following prior to such delay. Prior to the completion of each revaluation, the Assessor shall conduct a field review. The Town is in the process of completing a revaluation for the grand list dated October 1, 2011, which will be effective fiscal year 2012-13. Currently, the Town estimates that as a result of the revaluation, the value of the grand list will decline by approximately 9.2%, pending Board of Assessment Appeals revisions.

### Tax Collection Procedure

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

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

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

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

### Real Property Tax Levies and Collections

<b>Fiscal Ending 30-Jun</b>	<b>Net Taxable Grand List</b>	<b>Tax Rate (In Mills)</b>	<b>Total Adjusted Tax Levy</b>	<b>Percent Collected of Each FY</b>	<b>Uncollected Taxes</b>	
					<b>End of Each FY</b>	<b>As of 6/30/11</b>
2012 (1)	\$1,914,573,272	29.90	\$57,428,863	In process	In process	In process
2011	1,894,638,804	30.02	57,184,120	98.8%	\$ 699,198	\$ 699,198
2010	1,890,669,111	28.42	53,909,593	98.8%	641,526	257,085
2009	1,702,120,658	30.28	51,858,264	98.6%	629,236	144,525
2008 (2)	1,491,278,140	32.91	49,658,052	98.2%	887,100	81,243
2007	1,311,102,718	36.73	48,559,054	98.2%	854,868	37,154
2006	1,284,989,136	35.79	46,489,780	98.6%	652,038	19,146
2005	1,253,950,246	35.33	44,861,109	98.6%	632,176	14,756
2004	1,244,453,932	33.54	42,154,104	98.7%	567,721	11,648
2003	1,218,580,572	32.23	39,719,850	98.5%	592,700	11,193

(1) Adopted Budget.

(2) Revaluation, phased-in over 3 years.

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

**Taxable Grand List**

(Thousands of Dollars)

<b>Grand List Dated</b>	<b>Real Property</b>	<b>Personal Property</b>	<b>Motor Vehicle Property</b>	<b>Gross Taxable Grand List</b>	<b>Less Exemption</b>	<b>Net Taxable Grand List</b>
10/01/10 <sup>(1)</sup>	\$1,682,235	\$ 84,559	\$ 165,126	\$1,931,920	\$ 17,347	\$ 1,914,573
10/01/09	1,673,775	81,908	157,390	1,913,073	18,434	1,894,639
10/01/08	1,671,701	77,116	157,558	1,906,375	15,676	1,890,699
10/01/07	1,661,927	74,659	162,849	1,899,435	197,314	1,702,121
10/01/06 <sup>(2)</sup>	1,639,886	73,695	160,502	1,874,083	382,805	1,491,278
10/01/05	1,092,385	74,198	158,195	1,324,778	13,675	1,311,103
10/01/04	1,078,604	71,476	148,805	1,298,885	13,896	1,284,989
10/01/03	1,057,327	68,150	139,728	1,265,205	11,255	1,253,950
10/01/02	1,046,539	66,929	144,467	1,257,935	13,481	1,244,454
10/01/01	1,027,850	65,277	140,966	1,234,093	15,512	1,218,581

(1) Adopted Budget.

(2) Revaluation, phased-in over 3 years.

Source: Town of Vernon Assessor's Office.

**Real Property Breakdown by Category**

(Thousands of Dollars)

<b>Grand List</b>	<b>Residential Property</b>	<b>Comm./Indus Property</b>	<b>All Other</b>	<b>Total Real Property</b>
10/01/10 <sup>(1)</sup>	\$1,270,682	\$ 402,280	\$ 9,273	\$1,682,235
10/01/09	1,262,353	401,015	10,407	1,673,775
10/01/08	1,254,849	404,763	12,089	1,671,701
10/01/07	1,244,641	403,696	13,590	1,661,927
10/01/06 <sup>(2)</sup>	1,236,455	393,213	10,218	1,639,886
10/01/05	774,365	301,430	16,590	1,092,385
10/01/04	760,656	294,457	23,491	1,078,604
10/01/03	754,075	285,067	18,185	1,057,327
10/01/02	745,787	283,750	17,002	1,046,539
10/01/01	734,572	277,683	15,595	1,027,850

(1) Adopted Budget.

(2) Revaluation, phased-in over 3 years.

Source: Town of Vernon Assessor's Office.

*[The remainder of this page intentionally left blank]*

## Largest Taxpayers

The following table sets forth the ten largest taxpayers in the Town per the Grand List dated October 1, 2010:

<u>Name of Taxpayer</u>	<u>Nature of Business</u>	<u>Assessment</u>	<u>Estimated Tax Levy</u>
Chapman and The Mansions LLC	Land and Apartments	\$ 47,754,460	\$ 1,427,858
Tri City Improvements, LLC	Shopping center	30,295,590	905,838
Evandro Santini & Woodbrook LLC	Land and Apartments	21,516,740	643,351
Connecticut Water Company	Utility	20,011,880	598,355
Connecticut Light & Power / Yankee Gas	Utility	19,421,229	580,695
CE Vernon II LLC	Shopping center	15,571,120	465,576
Chapman Acres LLC	Apartments	9,004,930	269,247
Boston Rockville/Boston Vernon	Shopping centers and Land	8,662,150	258,998
Parkwest Residents Association	Apartments	7,684,030	229,753
Kerensky, Schneider (Risley Trust)	Commercial / Residential	6,855,180	204,970
<b>Total</b>		<u>\$ 186,777,309</u> <sup>(1)</sup>	<u>\$ 5,584,642</u> <sup>(2)</sup>

(1) Represents 9.7% of the net taxable grand list of \$1,914,573,272 dated October 1, 2010.

(2) Represents 9.7% of the adopted tax levy of \$57,428,863 for fiscal year 2011-12.

Source: Town of Vernon, Assessor's Office.

## Revenues

The Town derives its revenues from a direct tax levy on property, State and Federal aid, various fees and charges, and certain miscellaneous sources. Town revenues are summarized for fiscal years ended 2007-2011 in "Statement of Revenues, Expenditures and Changes in Fund Balance (GAAP Basis) - General Fund" herein.

## Property Tax Revenues

<u>Fiscal</u>	<u>Total Revenues &amp; Transfers Out</u>	<u>Property Tax Revenues</u>	<u>Property Tax as a % of Total Revenues &amp; Transfers Out</u>
2012 <sup>(1)</sup>	\$ 79,293,749	\$57,102,998	72.0%
2011	84,898,068	57,387,268	67.6%
2010	80,857,245	54,241,727	67.1%
2009	79,585,050	52,186,924	65.6%
2008 <sup>(2)</sup>	91,277,477	49,913,095	54.7%
2007	75,594,524	48,717,250	64.4%
2006	72,862,680	46,735,710	64.1%
2005	68,362,871	45,044,605	65.9%
2004	66,837,136	42,462,509	63.5%
2003	63,890,725	40,001,072	62.6%

(1) Adopted Budget, budgetary basis, excludes on-behalf payments to the Connecticut State Teachers' Retirement System.

(2) Includes \$16,476,243 of on-behalf payments to the Connecticut State Teachers' Retirement System. Amount is significantly higher than prior years due to the State of Connecticut issuing Pension Obligation Bonds to fund the plan in FY 2007-08.

Source: Annual audited financial statements and adopted budget for fiscal year 2011-12.

## Intergovernmental Revenues

<u>Fiscal Year</u>	<u>Total Revenues &amp; Transfers Out</u>	<u>Intergovernmental Revenue</u>	<u>Intergovernmental Revenue as a % of Total Revenue &amp; Transfers Out</u>
2012 <sup>(1)</sup>	\$ 79,293,749	\$ 19,825,798	25.0%
2011	84,898,068	24,575,878	28.9%
2010	80,857,245	23,875,558	29.5%
2009	79,585,050	24,670,932	31.0%
2008 <sup>(2)</sup>	91,277,477	37,347,200	40.9%
2007	75,594,524	22,279,357	29.5%
2006	72,862,680	21,967,367	30.1%
2005	68,362,871	19,768,402	28.9%
2004	66,837,136	19,789,386	29.6%
2003	63,890,725	20,442,373	32.0%

(1) Adopted Budget, budgetary basis, excludes on-behalf payments to the Connecticut State Teachers' Retirement System.

(2) Includes \$16,476,243 of on-behalf payments to the Connecticut State Teachers' Retirement System. Amount is significantly higher than prior years due to the State of Connecticut issuing Pension Obligation Bonds to fund the plan in FY 2007-08.

Source: Annual audited financial statements and adopted budget for fiscal year 2011-12.

## Expenditures

<u>Fiscal Year</u>	<u>Education</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Town Wide</u>	<u>Maintenance &amp; Development</u>
2012 <sup>(1)</sup>	59.9%	3.6%	9.8%	8.9%	6.7%
2011	61.8%	3.6%	9.2%	8.7%	6.8%
2010	61.4%	3.7%	9.6%	7.6%	6.8%
2009	62.2%	3.8%	9.3%	7.8%	7.2%
2008	67.5% <sup>(2)</sup>	3.2%	8.0%	6.6%	6.0%
2007	61.7%	3.6%	9.2%	8.0%	6.8%
2006	63.4%	3.7%	9.5%	8.3%	7.0%
2005	62.8%	3.5%	9.7%	8.2%	6.9%
2004	62.9%	4.1%	9.5%	7.8%	6.5%
2003	61.9%	3.9%	10.3%	6.9%	7.2%

(1) Adopted Budget, budgetary basis, excludes on-behalf payments to the Connecticut State Teachers' Retirement System.

(2) Includes \$16,476,243 of on-behalf payments to the Connecticut State Teachers' Retirement System. Amount is significantly higher than prior years due to the State of Connecticut issuing Pension Obligation Bonds to fund the plan in FY 2007-08.

Source: Annual audited financial statements and adopted budget for fiscal year 2011-12.

## Recent Financial Operations

On October 29-30, 2011 the Town experienced a severe snowstorm, which resulted in tree damage requiring local emergency disaster relief efforts. To finance the response, recovery and cleanup from the storm, the Town Council approved a combination of emergency and additional appropriations of approximately \$3,600,000. Following the storm, the President of the United States issued a major disaster declaration for portions of Connecticut, including the Town. As a result of the major disaster declaration, the Town is eligible for 75% reimbursement by FEMA and the Town estimates its net share of costs after reimbursement to be \$880,000. The Town is finalizing its application to FEMA and anticipates reimbursement in calendar 2012.

**Comparative General Fund Operating Statement**  
 Budget and Actual (Budgetary Basis)

	<b>Fiscal Year 2010-11</b>			<b>Fiscal Year</b>
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>	<b>2011-12 Adopted Budget</b>
<b>REVENUES</b>				
Property taxes	\$56,908,175	\$57,387,268	\$ 479,093	\$ 57,102,988
Intergovernmental	19,630,706	20,710,835	1,080,129	19,825,798
Charges for services	1,018,100	1,386,203	368,103	1,097,790
Licenses and permits	415,300	491,675	76,375	583,876
Fines and penalties	11,200	10,193	(1,007)	10,630
Investment income	53,040	27,708	(25,332)	150,110
Other	448,208	739,529	291,321	299,922
<b>Total Revenues</b>	<b>78,484,729</b>	<b>80,753,411</b>	<b>2,268,682</b>	<b>79,071,114</b>
<b>OTHER FINANCING SOURCES</b>				
Operating transfer in	236,730	279,614	42,884	222,635
<b>Total revenues and other financing sources</b>	<b>78,721,459</b>	<b>81,033,025</b>	<b>2,311,566</b>	<b>\$ 79,293,749</b>
<b>EXPENDITURES</b>				
Current:				
General government	3,455,825	3,376,451	79,374	\$ 2,859,641
Community development	225,359	225,042	317	295,907
Public safety	8,138,341	8,011,909	126,432	7,760,286
Maintenance and development	6,049,228	5,982,887	66,341	5,304,177
Human services	972,512	962,721	9,791	948,790
Parks, recreation and culture	1,375,016	1,358,432	16,584	1,338,619
Town-wide	7,621,551	7,482,238	139,313	7,064,959
Education	48,878,711	48,825,343	53,368	47,462,358
Capital improvements	124,125	124,125	-	192,200
Debt service	4,257,774	4,254,738	3,036	6,066,812
<b>Total expenditures</b>	<b>81,098,442</b>	<b>80,603,886</b>	<b>494,556</b>	<b>79,293,749</b>
<b>OTHER FINANCING USES</b>				
Operating transfers out	1,525,468	1,578,773	(53,305)	-
<b>Total expenditures and other financing uses</b>	<b>82,623,910</b>	<b>82,182,659</b>	<b>441,251</b>	<b>79,293,749</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (3,902,451)</u>	<u>(1,149,634)</u>	<u>\$ 2,752,817</u>	<u>\$ -</u>
Prior year encumbrances liquidated		1,800,970		
Increase (Decrease) in Unreserved Undesignated Fund Balance		<u>\$ 651,336</u>		

Sources: Annual audited financial statement; Vernon Finance Department.

**Comparative Balance Sheets - General Fund**

Fiscal Years Ended:	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 323,970	\$ 240,097	\$ 697,928	\$ 40,340	\$ 8,870,779
Investments	10,287,126	10,350,750	10,364,088	10,443,021	2,436,623
Receivables:					
Property taxes	1,305,826	1,329,106	1,373,298	1,281,734	1,370,094
Grants and other	1,820,165	1,433,194	966,108	891,434	632,077
Due from other funds	1,353,258	1,263,191	1,954,903	4,092,563	2,255,427
<b>TOTAL ASSETS</b>	<u>\$15,090,345</u>	<u>\$14,616,338</u>	<u>\$15,356,325</u>	<u>\$16,749,092</u>	<u>\$15,565,000</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts and other payables	\$ 927,733	\$ 1,138,836	\$ 1,817,271	\$ 1,513,258	\$ 1,327,943
Accrued wages and benefits	221,947	175,219	277,649	559,911	748,115
Due to other funds	1,886,412	1,258,402	1,209,431	2,464,181	804,219
Deferred revenues	2,913,758	2,518,040	2,146,305	1,780,291	1,600,781
Unearned revenue	-	-	-	4,722	5,877
<b>TOTAL LIABILITIES</b>	<u>5,949,850</u>	<u>5,090,497</u>	<u>5,450,656</u>	<u>6,322,363</u>	<u>4,486,935</u>
<b>FUND BALANCES</b>					
Reserved for encumbrances	916,263	1,595,231	1,538,649	1,833,779	-
Unreserved:					
Designated for compensated absences	322,000	322,000	322,000	322,000	-
Undesignated	7,902,232	7,608,610	8,045,020	8,270,950	-
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	2,122,970
Unassigned	-	-	-	-	8,955,095
<b>TOTAL FUND BALANCES</b>	<u>9,140,495</u>	<u>9,525,841</u>	<u>9,905,669</u>	<u>10,426,729</u>	<u>11,078,065</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$15,090,345</u>	<u>\$14,616,338</u>	<u>\$15,356,325</u>	<u>\$16,749,092</u>	<u>\$15,565,000</u>

Source: Annual audited financial statements.

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

Fiscal Years Ended:	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>REVENUES</b>					
Property taxes	\$48,717,250	\$49,913,095	\$52,186,924	\$54,241,727	\$57,387,268
Intergovernmental	22,279,357	37,347,200	24,670,932	23,875,558	24,575,878
Charges for service	2,778,048	2,739,440	1,838,020	2,016,025	1,888,071
Investment income	871,920	670,210	199,312	42,113	27,708
Other local revenues	<u>697,122</u>	<u>383,640</u>	<u>429,986</u>	<u>439,966</u>	<u>739,529</u>
<b>TOTAL REVENUES</b>	<u>75,343,697</u>	<u>91,053,585</u>	<u>79,325,174</u>	<u>80,615,389</u>	<u>84,618,454</u>
<b>EXPENDITURES</b>					
Current:					
General government	2,750,317	2,903,470	3,026,387	3,003,175	3,047,360
Community development	297,715	228,828	217,126	222,003	210,671
Public safety	6,952,435	7,288,175	7,381,590	7,698,462	7,774,406
Maintenance and development	5,162,350	5,445,696	5,681,841	5,451,295	5,757,991
Human services	824,362	837,812	899,092	923,368	958,938
Parks, recreation and culture	1,677,953	1,773,120	1,305,429	1,338,415	1,343,872
Town-wide	6,002,591	5,961,569	6,167,528	6,138,804	7,321,967
Education	46,567,372	61,340,447	49,284,455	49,302,826	52,089,429
Capital outlay	63,015	296,916	117,423	3,091,374	4,053,738
Debt service	<u>1,399,968</u>	<u>2,379,422</u>	<u>3,254,029</u>	<u>264,740</u>	<u>109,587</u>
<b>TOTAL EXPENDITURES</b>	<u>71,698,078</u>	<u>88,455,455</u>	<u>77,334,900</u>	<u>77,434,462</u>	<u>82,667,959</u>
Excess (deficiency) of revenues over expenditures	<u>3,645,619</u>	<u>2,598,130</u>	<u>1,990,274</u>	<u>3,180,927</u>	<u>1,950,495</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	250,827	223,892	259,876	241,856	279,614
Operating transfers out	<u>(3,767,629)</u>	<u>(2,436,676)</u>	<u>(1,870,322)</u>	<u>(2,901,723)</u>	<u>(1,578,773)</u>
Net other financing sources (uses)	<u>(3,516,802)</u>	<u>(2,212,784)</u>	<u>(1,610,446)</u>	<u>(2,659,867)</u>	<u>(1,299,159)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>					
	<u>128,817</u>	<u>385,346</u>	<u>379,828</u>	<u>521,060</u>	<u>651,336</u>
Fund Balance - Beginning of year	<u>9,011,678</u>	<u>9,140,495</u>	<u>9,525,841</u>	<u>9,905,669</u>	<u>10,426,729</u>
Fund Balance - End of year	<u>\$ 9,140,495</u>	<u>\$ 9,525,841</u>	<u>\$ 9,905,669</u>	<u>\$10,426,729</u>	<u>\$11,078,065</u>

Source: Annual audited financial statements.

## SECTION VI - ADDITIONAL INFORMATION

### **Litigation**

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

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

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

The Town will enter into Continuing Disclosure Agreements with respect to the Bonds and Notes, substantially in the form attached as Appendices C and D, respectively, to this Official Statement (the "Continuing Disclosure Agreements"), to provide, or cause to be provided (i) annual financial information and operating data with respect to the Bonds within eight months of the end of the fiscal year, (ii) timely notice of the occurrence of certain material events within 10 days of the occurrence of such event with respect to the Bonds and the Notes; and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement with respect to the Bonds. The underwriter's obligation to purchase the Bonds and Notes shall be conditioned upon its receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreements for Bonds and Notes.

The Town has previously undertaken in Continuing Disclosure Agreements entered into for the benefit of holders of certain of its general obligation bonds and notes to provide certain annual financial information and events of notices pursuant to Rule 15c2-12(b)(5). To date the Town has not failed to meet any of its undertakings under such agreements, with the exception of a failure to file the fiscal year ending June 30, 2007 financial statements in a timely manner due to the implementation of the infrastructure reporting requirements of GASB Statement 34. The Town filed interim financial statements on February 28, 2008 and a Material Event Notice for its failure to make a timely filing on April 7, 2008. The Town filed its audited financial statements on June 10, 2008.

### **Financial Advisor**

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

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

Upon the delivery of the Bonds and the Notes, the winning bidder or bidders will be furnished with the following:

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

4. The approving opinion of Day Piney LLP, Bond Counsel, of Hartford, Connecticut;
5. Executed Continuing Disclosure Agreements for the Bonds and Notes in substantially the forms attached hereto as Appendices C and D, respectively; and
6. Such documents or certifications as set forth in the Bond Purchase Agreement entered into between the Town and the Underwriter.

The Town of Vernon has prepared an Official Statement for the Bonds which is dated April 5, 2012. The Town deems such Official Statement final as of its date for the purposes of SEC Rule 15c2-12(b)(1), but is subject to revision or amendment. The Town will make available to the Underwriter a reasonable number of copies of the Official Statement within seven business days of the signing of the Bond Purchase Agreement.

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

### **Concluding Statement**

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

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

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

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

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

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

## **TOWN OF VERNON, CONNECTICUT**

BY: /s/ George F. Apel  
**George F. Apel**  
*Mayor*

BY: /s/ John D. Ward  
**John D. Ward**  
*Town Administrator*

BY: /s/ James M. Luddecke  
**James M. Luddecke**  
*Finance Officer and Treasurer*

**Dated: April 5, 2012**

**APPENDIX A - AUDITED FINANCIAL STATEMENTS**

**TOWN OF VERNON, CONNECTICUT**

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**June 30, 2011**

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Appendix A - Financial Statements - is taken from the Comprehensive Annual Report of the Town of Vernon for the Fiscal Year ending June 30, 2011 as presented by the Auditors. This appendix does not include all schedules or the management transmittal letter made in such report. A copy of the complete report is available upon request to the Finance Officer, Town of Vernon, Connecticut.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Town Council  
Town of Vernon, Connecticut

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Vernon, Connecticut, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Vernon, Connecticut, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 1, 2012, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the general fund budgetary comparison information, Vernon Retirement and Other Post Employment Benefit Plans, Schedule of Funding Progress, and Schedule of Employer Contributions on Pages 22 through 36 and Pages 96 through 109, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Vernon, Connecticut's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Vernon, Connecticut's basic financial statements. The introductory, trend and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Farmington, Connecticut  
February 1, 2012



OFFICE OF THE  
FINANCE DEPARTMENT

# TOWN OF VERNON

14 PARK PLACE, VERNON, CT 06066  
Tel: (860) 870-3690  
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E-mail: [jluddecke@vernon-ct.gov](mailto:jluddecke@vernon-ct.gov)

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

This discussion and analysis of the Town of Vernon, Connecticut's (Town) financial performance is provided by management to provide an overview of the Town's financial activities for the fiscal year ended June 30, 2011. Please read this MD&A in conjunction with the transmittal letter and the Town's financial statements, Exhibits A to K.

### FINANCIAL HIGHLIGHTS

- The Town's total net assets increased as a result of this year's operations. Net assets of our business-type activities increased by \$1.212 million, or 7.84%; while net assets of our governmental activities increased by \$2.08 million, or 1.97%.
- During the year, the Town generated taxes and revenues that were \$2.08 million more than the \$95.359 million in expenses and transfers for governmental activities.
- In the Town's business-type activities, revenues increased to \$7.04 million (increase of 12.8%) while expenses increased to \$5.83 million (increase of 2.52%).
- Total combined cost of Town governmental and business activities increased by \$4.01 million from \$97.18 million to \$101.19 million.
- The General Fund reported a fund balance this year of \$11.08 million, inclusive of unassigned fund balance in the amount of \$8.96 million.
- On April 12, 2011, bond anticipation notes of \$4.220 million were issued for improvements to school facilities; and a fifteen-year bond issue of \$3.755 million, maturing April 1, 2026, allocated as follows: \$2.155 million for public improvements and \$1.600 million for improvements to school facilities.
- The resources available were \$651 thousand more than expenditures for the General Fund. This was accomplished by effectively managing appropriations by means of spending and hiring controls, increased collection in building permits and the collection of current and prior taxes.
- The tax collection rate against the original levy was 98.7%.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (Exhibits A and B, respectively) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements are presented in Exhibits C to J. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

### Government-Wide Financial Statements

The analysis of the Town as a whole begins with Exhibit A and B, found in the Basic Financial Statements section of this report. The statement of net assets and the statement of activities report information about the Town as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. The Town's net assets, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other non-financial factors, however, such as changes in the Town's property tax base and the condition of the Town's capital assets, to assess the overall health of the Town.

In the statement of net assets and the statement of activities, we divide the Town into two types of activities:

- *Governmental activities* — Most of the Town's basic services are reported here, including education, public safety, maintenance and development of streets and buildings, sanitation, human services, recreation, public improvements, community planning and development, and general administration. Property taxes, charges for services, and state and federal grants finance most of these activities.
- *Business - type activities* — The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's operation of the wastewater treatment facility and rentals at Center 375 are reported here.

***Fund Financial Statements***

The fund financial statements begin with Exhibit C and provide detailed information about the most significant funds — not the Town as a whole. Some funds are required to be established by Charter. However, the Town Council establishes many other funds to help control and manage financial activities for particular purposes (like the Ambulance Services Fund, Sewer Assessments Fund, and Cemetery Operations) or to show that it is meeting legal responsibilities for using funds for those purposes, and other money (like grants received for education from the State and Federal governments and accounted for in the Special Revenue Fund). The Town's funds are divided into three categories; governmental, proprietary and fiduciary.

- *Governmental funds (Exhibits C, D and E)* — Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.
- *Proprietary funds (Exhibits F, G and H)* — 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 assets and the statement of activities. In fact, the Town's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. Internal service funds (the other component of proprietary funds) are used to report activities that provide supplies and services for the Town's other programs and activities — such as the Town's Data Processing Internal Service Fund.
- *Fiduciary funds (Exhibits I and J)* — The Town is the trustee, or fiduciary, for its employees' pension and Other Post Employment Benefit plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the Town's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**NET ASSETS**

The Town's combined net assets increased from a year ago from \$120.9 million to \$124.1 million. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Town's governmental and business-type activities.

<b>JUNE 30, 2011 AND 2010</b>						
<b>In Thousands</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Current and other assets	\$ 27,644	\$ 27,439	\$ 6,644	\$ 5,312	\$ 34,288	\$ 32,751
Capital assets, net of accumulated						
depreciation, as restated	153,443	152,221	11,053	11,344	164,496	163,565
Total assets	181,087	179,660	17,697	16,656	198,784	196,316
Non-current liabilities						
outstanding	58,656	59,189	405	765	59,061	59,954
Other liabilities	14,954	15,074	626	437	15,580	15,511
Total liabilities	73,610	74,263	1,031	1,202	74,641	75,465
Net assets:						
Invested in capital assets,						
net of related debt	95,834	93,272	11,053	11,344	106,887	104,616
Restricted	4,910	7,961	-	-	4,910	7,961
Unrestricted	6,733	4,164	5,613	4,110	12,346	8,274
Total Net Assets	<u>\$ 107,477</u>	<u>\$ 105,397</u>	<u>\$ 16,666</u>	<u>\$ 15,454</u>	<u>\$ 124,143</u>	<u>\$ 120,851</u>

**Governmental Activities**

Net assets of the Town's *governmental activities* increased by \$2.08 million or 1.97%, (\$107.477 million compared to \$105.397 million). Unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements — changed from \$4.164 million, at June 30, 2010, to \$6.733 million at the end of this year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### **Governmental Activities, continued**

The change in governmental net assets resulted primarily because of the following factors:

- 1) The increase of \$205 thousand in current and other assets is primarily due to the \$211 increase in restricted assets of the town's permanent funds.
- 2) Capital assets, net of accumulated depreciation, increased by \$1.222 million and that change is a combination of the addition of current year capital purchases and construction in progress, against the depreciation expense of existing assets.
- 3) Long-term liabilities decreased by \$533 thousand, including reductions of \$690 thousand in long-term debt, \$178 thousand in compensated absences and retirement obligations, \$73 thousand in claims payables, offset by an increase to the Net Other Post Employment Benefit Obligation of \$408.
- 4) Current liabilities decreased by \$120 thousand, due to an approximate \$1.3 million increase in the current portion of long-term debt, offset by a reduction to accounts, retirement and other payables of approximately \$1.2 million and further offset by an approximate \$204 thousand decrease in unearned revenue.

The largest portion of the Town's net assets, \$95.834 million or 89.17%, reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. An additional portion of the Town's net assets, \$4.910 million or 4.57%, represents resources that are subject to restrictions on how they may be used.

### **Business-Type Activities**

In 2011, the net assets of *business-type activities* increased by \$1.212 million or 7.84%, (\$16.666 million compared to \$15.454 million). The majority of this change includes an increase in sewer use charges of \$459 thousand, due primarily to a significant increase in treated flow, the result of a very hot summer, receipt of an energy rebate of \$380 thousand, net of an increase in expenses from the prior year of \$120 thousand. Center 375 expenses increased by \$23 thousand from the prior year, contributing to the Fund's \$50 thousand decrease in net assets.

Although there are unrestricted net assets of \$5.613 million, these funds, however, cannot be used to make up for any decreases reported in governmental activities. The Town generally can only use these net assets to finance the continuing operations of the wastewater treatment facility and Center 375.

### **CHANGES IN NET ASSETS**

The Town's total revenues were \$104.479 million. The total cost of all programs and services was \$101.187 million. Our analysis below separately considers the operations of governmental and business-type activities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**TABLE 2**  
**CHANGES IN NET ASSETS**  
**In Thousands**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 4,447	\$ 4,562	\$ 6,654	\$ 6,195	\$ 11,101	\$ 10,757
Operating grants and contributions	30,020	30,313			30,020	30,313
Capital grants and contributions	2,770	3,850			2,770	3,850
General revenues:						
Property taxes	57,509	54,100			57,509	54,100
Grants and contributions not restricted to specific programs	1,223	1,259			1,223	1,259
Investment income	282	192	6	10	288	202
Miscellaneous	1,188	900	380		1,568	900
Transfers				36	-	36
Total revenues	97,439	95,176	7,040	6,241	104,479	101,417
Program expenses:						
General government	5,633	6,003			5,633	6,003
Community and development	2,058	1,632			2,058	1,632
Public safety	12,481	12,144			12,481	12,144
Maintenance and development	10,406	9,435			10,406	9,435
Human services	1,404	1,446			1,404	1,446
Park, recreation, and culture	2,611	2,487			2,611	2,487
Education	58,846	56,255			58,846	56,255
Interest on long-term debt	1,920	2,056			1,920	2,056
Sewer			5,608	5,488	5,608	5,488
Rental			220	197	220	197
Transfers		36			-	36
Total program expenses	95,359	91,494	5,828	5,685	101,187	97,179
Increase (decrease) in net assets	\$ 2,080	\$ 3,682	\$ 1,212	\$ 556	\$ 3,292	\$ 4,238

## Governmental Activities

As noted earlier, net assets from governmental activities increased \$2.08 million. Since the Town began preparing a statement of net assets as of June 30, 2003, this is the sixth increase in the nine-year period.

On the revenue side, key factors to the overall increase were as follows:

- Property tax revenues, which comprises 59.0% of the Town's governmental activities revenues, increased as a result of the increase in the adopted budget and related levy to fund the increased appropriations.
- Charges for services decreased by \$115 thousand, due to decreases in town clerk receipts of \$89 thousand, ambulance emergency medical service fees of \$27 thousand, education tuition receipts of \$75 thousand, offset partially by increases of \$63 thousand in building permits and \$20 thousand in parks program charges.
- Operating grants and contributions decreased by \$293 thousand, a result of a decrease in grant funded costs of improvements paid by the town on behalf of non-town owned properties, although there were increases to special education grants of \$217 thousand and to cafeteria grants of \$66 thousand.
- Capital grants and contributions decreased by \$1.08 million due primarily to a reduction in bridge and road reconstruction and school construction, offset by grant funded park improvements.
- Unrestricted investment earnings increased by \$90 thousand, reflecting an increase in the market value of invested assets.

For governmental activities, expenses increased \$3.865 million, or 4.22%, from the previous year. Of the total expenses of \$95.359 million, 61.7% are for educational services; 13.1% for public safety; 10.9% for maintenance and development; and 5.9% for general government.

Major expense factors include:

- The cost of educational services increased by \$2.591 million due primarily to increased instructional costs of \$928 thousand, special education costs of \$822 thousand and benefit costs of \$790 thousand.
- General government costs decreased by \$370 thousand, due primarily to the transfer, disposal and depreciation of general government capital assets.
- Public safety costs increased by \$337 thousand for police and traffic authority operating costs, increased police pension and other post employment benefit costs, offset partially by reduced fire and ambulance benefit costs.
- Maintenance and development costs increased by \$971 thousand due to a significant increase in snow removal costs of \$456 thousand, offset partially by decreased refuse and recycling collection expenses of \$169 thousand.
- Interest on long-term debt decreased by \$136 thousand.

Table 3 presents the cost of each of the Town's five largest programs — education, public safety, town wide, (which includes items such as benefits and property insurance), maintenance and development of streets and buildings, general government administration, and all other services — as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Town's taxpayers and other general revenues by each of these functions.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**TABLE 3**  
**GOVERNMENTAL ACTIVITIES**  
**In Thousands**

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Education	\$ 58,846	\$ 56,255	\$ 28,579	\$ 25,552
Public safety	12,481	12,144	11,177	10,832
Maintenance and development	10,406	9,435	8,315	6,274
General government	5,633	6,003	4,415	4,661
Interest on long-term debt	1,920	2,056	1,562	1,698
All others	6,073	5,601	4,074	3,716
Totals	\$ 95,359	\$ 91,494	\$ 58,122	\$ 52,733

***Business-type Activities***

Revenues of the Town's business-type activities (see Table 2) increased by 12.80 percent, or \$799 thousand, (\$7.04 million in 2011 compared to \$6.24 million in 2010) and expenses increased by 2.52 percent or \$143 thousand. The factors influencing these results: There was an increase in sewer use charges of \$459 thousand, the result of increased flows due to a very hot summer, an energy rebate receipt of \$380 thousand, which nets to \$344 thousand as compared to miscellaneous revenue and transfers in 2010; offset by a decrease of \$4 thousand in investment income.

An increase in expenses of \$143 thousand is comprised of a decrease in utility costs of \$244 thousand, offset by increases in depreciation expense of \$48 thousand, wage and benefit costs of \$143 thousand and of \$206 thousand in other operating costs including repair and maintenance, supplies and materials and general and administrative. The Fund also experienced a loss of disposal of capital assets of \$9 thousand.

## TOWN FUNDS FINANCIAL ANALYSIS

### *Governmental Funds*

As the Town completed the year, its governmental funds (as presented in the balance sheet - Exhibit C) reported a combined fund balance of \$15.57 million, which is an increase of \$1.05 million from last year's total. Of total fund balance, \$8.98 million is non-spendable, committed or restricted because it has been committed for construction contracts, is set aside for capital projects and equipment, trust funds, special assessment debt service and inventory.

Included in this year's total change in fund balance is an increase of \$651 thousand in the Town's General Fund. The unassigned fund balance, which assigned \$33 thousand for encumbrances less than the prior year, reflects an overall increase of \$684 thousand. The unassigned fund balance of the General Fund at June 30, 2011 is \$8.955 million, which represents 11.29% of estimated revenues for the ensuing year. Maintaining adequate fund balance reserves allows the Town flexibility when budgets are restricted, emergency funds are needed, and prevents cash flow problems and the related costs that can result. It is essential to have reserves available to provide funding support for major capital projects that await reimbursement from grant or bond proceeds. Also, income earned by keeping the funds invested assists in limiting the need for future tax increases. The primary reasons for the General Fund's increase include some of the areas discussed in the governmental activities analysis, highlights on the following page, and as reported in Exhibit D.

The increase in fund balance of the town's other major governmental funds, the Public Bond Improvement and School Bond Improvement Funds, totaled \$1,924,275 for the fiscal year due to project bond and other proceeds exceeding expenditures. The resulting fund balance deficit totaling \$4,042,668 (School Bond Improvement Fund) will be funded by future bonding and intergovernmental revenues. The Debt Service Fund collects annual contributions from area municipalities equal to their share of annual debt service payments relative to the latest upgrade to the Waste Treatment Plant (WTP) facility. The Town's annual contribution of the WTP debt service is transferred in from the General Fund. The Debt Service Fund receivable balance represents area municipality future debt service contributions.

In addition, other changes in fund balances in Nonmajor Governmental Funds should be noted: in the *Special Revenue Fund* there was a decrease of \$261 thousand, with net increase in fund balance of \$32 thousand in the Ambulance Medical Services, \$94 thousand in the Sewer Connection, \$50 thousand in the Town Aid Road and \$53 thousand in the Cafeteria and decreases in fund balances of \$14 thousand in the Parks and Recreation and \$486 thousand in the Sewer Assessments Funds. The Nonmajor Capital Projects Fund had a decrease of \$1.470 million including a decrease in fund balance in the Education Capital Non-Recurring Fund of \$199 thousand and a decrease in fund balance in the Town Capital Non-Recurring Fund of \$1.271 million. Design and construction costs of the other Nonmajor capital projects funds were fully funded by federal and state grants; and the Permanent Trust Fund increased by \$212 thousand due primarily to investment performance in the cemetery and school memorial trusts.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### *Proprietary Funds*

The Town accounts for five proprietary funds, two as Business-Type activities and three as Governmental Activities - Internal Service Funds, which are reported in Exhibits F, G and H. The Sewer User Fund and Center 375 are established as self-supporting Business-Type activities that reported a change in assets that amounted to a \$1.176 million increase. The **Sewer User Fund** is established for the operation and maintenance of the wastewater treatment plant. Quarterly bills for sewer usage and interest earned on investments generate its resources. The net increase to the Sewer User Fund net assets is \$1.226 million. This increase is a result of increased fees of \$459 thousand and an energy rebate of \$380 thousand, net of an increase in expenses of \$139 thousand, including increased wages and benefits of \$154 thousand. The October 1, 2010 sewer user rate was not increased from the October 1, 2009 rate of \$5.69 per 1,000 gallons of metered water, however, a significant increase in treated flow resulted in additional revenue. The October 1, 2011 sewer user rate was not increased. The plant is in the fourteenth year of operation since major renovations, and the facility itself is reported in the General Government activities.

**Center 375** is a former elementary school renovated for the rental of office space to private firms and to Town departments. The renovation was conducted in a manner that would enable the Town to restore the building back to a school if enrollments so demanded. The result of the year's activity decreased net assets by \$50 thousand.

The **Internal Service Fund** is supported by department budgets. The **Data Processing Fund** serves both the Town and school administrations, which equally support its operating expenses. The future needs of the department require continual upgrades to the various computer systems, as well as maintaining a network for sharing common software and databases. Net assets increased by \$181 thousand primarily as a result of a \$187 capital contribution. The **Workers' Compensation Fund** provides for self-insurance of workers' compensation and is supported by contributions from the General and Sewer User Funds, as well as investment income. For fiscal year-end June 30, 2011, revenues exceeded expenses by \$160 thousand, decreasing the prior year net assets deficit from \$1.066 million to a deficit of \$906 thousand. Sustaining the revenue was a one-time transfer in of \$429 thousand from the Sewer Assessment Fund. Claims incurred for fiscal year 2010/11 increased from the prior year from \$431 thousand to \$687 thousand. The allocation of adequate contributions in the next year to meet financial demands is based on actual experience. The **Medical Self-Insurance Fund**, which became effective January 1, 2006, provides medical prescription coverage for employees and retirees. Effective July 1, 2007, dental coverage for general government employees and retirees became self-insured. The fund is supported by contributions from all covered participants and employer contributions. Contribution amounts are based upon historical experience of claims incurred and paid, and third-party administrators process the claims. At June 30, 2011, net assets were \$235 thousand, an increase of \$204 thousand from the prior year, primarily due to a change in prescription plan provisions and the third party administrator.

### *General Fund Budgetary Highlights*

Differences between the original budget and the final amended budget amounted to an increase of \$3.902 million. Included in that amount is \$1.759 million of encumbrances carried forward from the previous fiscal year, of which \$1.553 million were expended and \$206 thousand liquidated and re-appropriated; and \$2.143 million of current year budget amendments that can be classified as follows:

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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*Pass-through additional appropriations* are those supported by revenue and other sources, amounting to \$1.287 million during the year, with the majority of that amount, \$982 thousand related to excess special education grants and school use activities; \$153 thousand for collections remitted to the state of Connecticut by the Town Clerk for the farmland and historic preservation act; \$14 thousand for youth service part-time wages; \$124 thousand in police special services pay; and \$14 thousand for other items. Although these additional appropriations had revenue and other funding sources, they were legally appropriated from fund balance.

*Other additional appropriations* amounting to \$856 thousand were taken from net assets for items such as emergency management equipment, \$26 thousand; other capital improvements, \$89 thousand (including \$12.5 thousand for demolition), legal fees, \$136 thousand; firefighting vehicle repairs, \$15 thousand; park maintenance costs, \$20 thousand; and miscellaneous costs, \$31 thousand. There were also additional appropriations for snow removal and related equipment maintenance amounting to \$539 thousand, of which subsequent funding of \$342 thousand from insurance proceeds and federal relief offset those costs.

Actual final expenditures totaled \$80.38 million and can be summarized as follows. The budgetary unexpended, unencumbered resulted in a favorable amount of \$441 thousand. Contained within this amount are favorable variances of \$79 thousand in general government; \$40 thousand for police; \$66 thousand for public works; \$15 thousand for parks and recreation maintenance; \$20 thousand for FICA and \$92 thousand for group insurance, the result of applicable wages and employment, due primarily to not replacing vacancies; firefighting had a \$59 favorable variance, primarily due to a \$46 thousand favorable variance in the required employer LOSAP contribution; other favorable variances include \$15 thousand for municipal insurance; and \$9 thousand for youth and senior services. The Town's General Government implemented a conditional hiring freeze to address the significant snow removal costs; and wages for compensated absences and four days of a fifty-third pay week combined for \$344 thousand that required additional funding over the original budget. The hiring freeze produced savings to address the funding needed in the wage accounts.

On the revenue side, final actual revenues exceeded the original budget by \$2.312 million due to favorable (unfavorable) variances in the following categories: special education excess expenditure grants of \$975 thousand; with all other intergovernmental revenue above original estimates by \$105 thousand, comprised mostly of \$80 thousand from FEMA for snow removal relief. Other revenues in excess of estimates include \$479 thousand in tax collections due to effective pursuit of current and prior taxes; charges for services were above estimates by \$368 thousand due in most part to the farmland preservation surcharge, \$153 thousand, police special services, \$187 thousand, and school use fees, \$37 thousand, which in turn are appropriated to cover the respective costs. Town Clerk recording fees were below projections by \$36 thousand. Licenses and permits were above projections by \$76 thousand due to increased building permits. The decrease in interest rates produced a shortfall of (\$25) thousand in investment income and transfers in from other funds were above original estimates by \$42 thousand, due to accumulated bond interest from capital projects. Other revenue, which includes items such as insurance reimbursements and proceeds from the sale of property, exceeded estimates by \$291 thousand due primarily to snowstorm damage insurance receipts.

The Town's General Fund total of both revenue and expenditures differs from the amounts in Exhibit D and as reported in the budgetary basis comparison in the required supplementary information by \$3.865 million. This amount represents the on-behalf payments of the State of Connecticut contributions to the Teachers' Retirement System.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

At June 30, 2011, the Town had \$164.5 million invested in a broad range of capital assets, net of depreciation, including land, buildings, park facilities, vehicles and equipment, roads, bridges, storm water drainage and sewer lines (see Table 4). This amount represents a net increase (including additions and deductions) of \$932 thousand, or .57%, over last year.

**TABLE 4**  
**CAPITAL ASSETS AT YEAR-END (NET OF DEPRECIATION)**  
**In Thousands**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 8,382	\$ 8,382	\$ 1,268	\$ 1,268	\$ 9,650	\$ 9,650
Construction in progress	83,864	81,200		611	83,864	81,811
Intangible - computer software	171	329	41	45	212	374
Buildings and improvements	23,444	24,331	1,626	1,755	25,070	26,086
Improvements other than building	1,774	1,946	52	58	1,826	2,004
Machinery and Equipment	7,979	9,222	2,322	1,660	10,301	10,882
Infrastructure	27,829	26,810	5,744	5,947	33,573	32,757
<b>Total</b>	<b>\$ 153,443</b>	<b>\$ 152,220</b>	<b>\$ 11,053</b>	<b>\$ 11,344</b>	<b>\$ 164,496</b>	<b>\$ 163,564</b>

Additions to total capital assets for the 2010-11 year were \$5.508 million net of construction-in-progress reductions. Deductions to capital assets include \$4.566 million in depreciation expense and \$10 thousand in the disposal of capital assets. Construction-in-progress of \$83.864 million is for the following (in thousands):

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

*Capital Assets (continued)*

Road & bridge reconstruction projects	\$	20,958
Animal control facility expansion		46
School additions & renovations		60,901
Park improvements		917
Town office improvements		61
Sewer system improvements		981
		<u>981</u>
Total Construction-in-Progress		<u><u>\$83,864</u></u>

More detailed information about the Town's capital assets is presented in Notes I. C and III. C to the financial statements.

*Long-term debt*

At June 30, 2011 the Town had \$55.326 million in bonds, notes, and lease purchase obligations outstanding versus \$55.238 million last year, an increase of \$88 thousand or .16% - as shown in Table 5.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
General obligation bonds (backed by the Town)	\$ 46,555	\$ 44,840	\$ -	\$ -	\$ 46,555	\$ 44,840
Promissory notes	8,696	10,210	-	-	8,696	10,210
Lease purchases	75	188	-	-	75	188
Totals	<u>\$ 55,326</u>	<u>\$ 55,238</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,326</u>	<u>\$ 55,238</u>
Bond anticipation notes	<u>\$ 4,220</u>	<u>\$ 3,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,220</u>	<u>\$ 3,710</u>

Long-term debt principal payments of \$3.77 million were made during the year.

The Town's Aa2 general obligation bond rating was reviewed and reaffirmed by Moody's Investors on March 23, 2011, as part of a recalibration to a global rating scale. The Town's rating prior to May 1, 2010 was A-1. The Aa2 rating is not an upgrade, according to Moody's, but in essence an equivalent rating which has been assigned and re-affirmed to the Town's debt since 1994.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### *Long-term debt (continued)*

The State limits the amount of general obligation debt that towns can issue, utilizing a formula determined under State Statutes based on type of debt and tax base. The Town's outstanding general obligation debt is significantly below this \$401.8 million state-imposed limit.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Town's long-term liabilities is presented in Note III.-F to the financial statements.

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

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2011-2012 budget tax rates and fees that will be charged for the business-type activities. One of those factors is the economy. The unemployment rate for the Town at year-end was 8.4%, unchanged from a year ago. This compares with the State's unemployment rate of 9.1% and the national rate of 9.3 %.

Although inflation in the Northeast Urban area has consistently been more than the national Consumer Price Index (CPI) for all urban consumers - U.S. towns' rate, the Town's CPI increase was 3.36% for fiscal year 2011 compared with the average U.S. town rate of 3.56%.

These indicators were taken into account when adopting the General Fund budget for fiscal year 2012. Total appropriations in the General Fund budget are \$79.294 million, an increase of \$572 thousand over the original 2011 budget. Property taxes, supported by the growth of 1.05% in the net taxable assessed valuation, total \$57.103 million, a revenue increase of \$195 thousand from 2011 levels. In the next fiscal year, the estimated aid from the State of Connecticut is expected to increase by \$195 thousand to \$19.826 million, representing 25.0% of total revenue in the General Fund.

The Town will use these increases in revenues to finance programs currently offered and to offset the effect that we expect price increases will have on program costs. Increased funding for capital improvements and debt service constitute the major increases in the 2011-12 budget, as the General Government and Education sections of the budget combined for a \$195 thousand decrease. Within those sections is increased aid for technology and community development. There was little in the way of new programs in the General Fund, with the exception of a continuation of a policy concerning fuel conservation; the sharing of employees between several general government offices; and the implementation of automated refuse and recycling services. Health insurance plans for all employee bargaining groups have been further redesigned to provide present and future budgetary relief, in addition to increasing the cost sharing to participants; and procuring new providers through competitive negotiations. Technology advances, most notably a town wide connectivity infrastructure, is progressing, with the combined effort of both the general government and school system. This project is expected to improve departmental operations and provide internal and public access to information.

From a financial perspective and as detailed in this annual financial report, the Town of Vernon successfully addressed the many financial obstacles of 2010-11 through prudent, conservative fiscal management without a serious interruption of services. The 2011-12 Town budget experienced an overall 0.73% increase in appropriations with a decrease of .12 mils in the tax rate from 30.02 to 29.90.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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Understanding the economic conditions; the anticipation of a new bond issue and master lease for rolling stock; and a modest increase in revenue other than taxes, a decrease in the operational budget was accomplished. Vernon will continue to address the difficult budgetary and economic times through sound management, well-managed fund balances and an active attention to its economic development program.

Concerning the Town's business-type activities, much attention has been given in the past and will continue in the future to preserve favorable unrestricted net assets. As in all areas, most especially the waste treatment facility, the elevated cost of energy resources is a major concern. In December of 2011, the Town Council approved a power purchase agreement to establish a 5-acre 1 megawatt solar farm in town to provide power to the treatment plant in hopes of further reduced energy costs for the next two decades.

### **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

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

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# **Basic Financial Statements**

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**TOWN OF VERNON, CONNECTICUT**

**STATEMENT OF NET ASSETS  
JUNE 30, 2011**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash.....	\$ 12,325,128	\$ 65,570	\$ 12,390,698
Investments.....	7,915,066	4,936,444	12,851,510
<b>Receivables (net):</b>			
Property taxes.....	837,138		837,138
Intergovernmental.....	2,341,263		2,341,263
Other.....	1,962,282	1,242,823	3,205,105
Internal balances.....	(398,871)	398,871	-
Other assets.....	91,015		91,015
<b>Total current assets.....</b>	<b>25,073,021</b>	<b>6,643,708</b>	<b>31,716,729</b>
<b>Noncurrent assets:</b>			
<b>Restricted assets (permanent):</b>			
Cash.....	100,818		100,818
Investments.....	1,808,558		1,808,558
<b>Total restricted assets.....</b>	<b>1,909,376</b>	<b>-</b>	<b>1,909,376</b>
<b>Receivables (net):</b>			
Property taxes.....	546,517		546,517
Intergovernmental.....	115,843		115,843
<b>Total receivables (net).....</b>	<b>662,360</b>	<b>-</b>	<b>662,360</b>
<b>Capital assets (net of accumulated depreciation):</b>			
Land.....	8,381,925	1,267,840	9,649,765
Construction in progress.....	83,863,666		83,863,666
Intangible assets (net of accumulated amortization).....	170,827	40,672	211,499
Buildings and improvements.....	23,444,384	1,626,542	25,070,926
Improvements other than buildings.....	1,773,451	51,732	1,825,183
Machinery and equipment.....	7,978,886	2,321,958	10,300,844
Infrastructure.....	27,829,481	5,743,887	33,573,368
<b>Total capital assets (net of accumulated depreciation).....</b>	<b>153,442,620</b>	<b>11,052,631</b>	<b>164,495,251</b>
<b>Total noncurrent assets.....</b>	<b>156,014,356</b>	<b>11,052,631</b>	<b>167,066,987</b>
<b>TOTAL ASSETS.....</b>	<b>181,087,377</b>	<b>17,696,339</b>	<b>198,783,716</b>

(Continued)

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

**TOWN OF VERNON, CONNECTICUT**

**STATEMENT OF NET ASSETS  
JUNE 30, 2011**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>LIABILITIES</b>			
<b>LIABILITIES:</b>			
<b>Current liabilities:</b>			
Accounts payable.....	\$ 2,445,139	\$ 515,527	\$ 2,960,666
Accrued payroll and related liabilities.....	748,115		748,115
Accrued interest payable.....	711,323		711,323
Unearned revenue.....	7,613		7,613
Bond anticipation notes.....	4,220,000		4,220,000
Bond and notes payable.....	4,395,261		4,395,261
Capital lease payable.....	29,286		29,286
Compensated absences.....	1,035,779	110,231	1,146,010
Retirement obligations.....	784,611		784,611
Claims payable and other.....	577,178		577,178
<b>Total current liabilities.....</b>	<b>14,954,305</b>	<b>625,758</b>	<b>15,580,063</b>
<b>Noncurrent liabilities:</b>			
Bonds and notes payable and related liabilities.....	50,855,338		50,855,338
Capital lease payable.....	46,109		46,109
Compensated absences.....	3,164,264	370,252	3,534,516
Retirement obligations.....	2,464,152		2,464,152
Claims payable and other.....	736,922		736,922
Net OPEB obligation.....	1,389,331	34,707	1,424,038
<b>Total noncurrent liabilities.....</b>	<b>58,656,116</b>	<b>404,959</b>	<b>59,061,075</b>
<b>TOTAL LIABILITIES.....</b>	<b>73,610,421</b>	<b>1,030,717</b>	<b>74,641,138</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	95,834,210	11,052,631	106,886,841
<b>Restricted for:</b>			
<b>Endowments:</b>			
Nonexpendable.....	1,909,376		1,909,376
Community development.....	361,873		361,873
Maintenance and development.....	2,103,563		2,103,563
Education.....	534,712		534,712
Unrestricted.....	6,733,222	5,612,991	12,346,213
<b>TOTAL NET ASSETS.....</b>	<b>\$ 107,476,956</b>	<b>\$ 16,665,622</b>	<b>\$ 124,142,578</b>

(Concluded)

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

## TOWN OF VERNON, CONNECTICUT

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government.....	\$ 5,633,603	\$ 821,502	\$ 4,683	\$ 392,435	\$ (4,414,983)	\$	\$ (4,414,983)
Community development.....	2,057,937	9,434	633,009		(1,415,494)		(1,415,494)
Public safety.....	12,480,725	1,254,690	49,276		(11,176,759)		(11,176,759)
Maintenance and development.....	10,405,706	569,932	117,469	1,403,023	(8,315,282)		(8,315,282)
Human services.....	1,403,991				(1,403,991)		(1,403,991)
Parks, recreation and culture.....	2,610,713	712,592	643,841		(1,254,280)		(1,254,280)
Education.....	58,846,481	1,078,802	28,213,875	975,040	(28,578,764)		(28,578,764)
Interest on long-term debt.....	1,920,229		357,752		(1,562,477)		(1,562,477)
Total governmental activities.....	95,359,385	4,446,952	30,019,905	2,770,498	(58,122,030)	-	(58,122,030)
Business-type activities:							
Sewer user.....	5,607,772	6,484,860				877,088	877,088
Center 375 (building rental).....	220,378	169,113				(51,265)	(51,265)
Total business-type activities.....	5,828,150	6,653,973	-	-	-	825,823	825,823
Total.....	\$ 101,187,535	\$ 11,100,925	\$ 30,019,905	\$ 2,770,498	\$ (58,122,030)	\$ 825,823	\$ (57,296,207)
General revenues:							
Property taxes.....					\$ 57,508,605	\$	\$ 57,508,605
Grants and contributions not restricted to specific programs.....					1,223,183		1,223,183
Investment income.....					281,909	5,869	287,778
Miscellaneous.....					1,188,309	379,659	1,567,968
Total general revenues.....					60,202,006	385,528	60,587,534
Change in Net Assets.....					2,079,976	1,211,351	3,291,327
Net Assets at July 1, 2010.....					105,396,980	15,454,271	120,851,251
Net Assets at June 30, 2011.....					\$ 107,476,956	\$ 16,665,622	\$ 124,142,578

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

TOWN OF VERNON, CONNECTICUT

GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011

	General	Debt Service	Public Bond Improvements	School Bond Improvements	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash	\$ 8,870,779	\$	\$ 1,306,796	\$ 37,583	\$ 1,742,944	\$ 11,958,102
Investments	2,436,623	1,229		6,191	5,862,382	8,306,425
Receivables (net):						
Taxes	1,370,094					1,370,094
Grants and other receivables	632,077			285,509	1,539,520	2,457,106
Other		1,861,809			9,479	1,871,288
Due from other funds	2,255,427		661,000		144,767	3,061,194
Inventory					32,145	32,145
<b>Total Assets</b>	<b>\$ 15,565,000</b>	<b>\$ 1,863,038</b>	<b>\$ 1,967,796</b>	<b>\$ 329,283</b>	<b>\$ 9,331,237</b>	<b>\$ 29,056,354</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts and other payables	\$ 1,327,943	\$	\$ 28,664	\$ 58,102	\$ 993,815	\$ 2,408,524
Accrued wages and benefits	748,115					748,115
Accrued interest payable				17,583		17,583
Due to other funds	804,219	1,229	1,548	76,266	1,090,010	1,973,272
Bond anticipation note payable				4,220,000		4,220,000
Deferred revenue	1,600,781	1,861,809			648,215	4,110,805
Unearned revenue	5,877				1,736	7,613
<b>Total liabilities</b>	<b>4,486,935</b>	<b>1,863,038</b>	<b>30,212</b>	<b>4,371,951</b>	<b>2,733,776</b>	<b>13,485,912</b>
<b>Fund balances:</b>						
Nonspendable					1,941,521	1,941,521
Restricted					3,000,148	3,000,148
Committed			1,937,584		2,099,885	4,037,469
Assigned	2,122,970				443,291	2,566,261
Unassigned	8,955,095			(4,042,668)	(887,384)	4,025,043
<b>Total fund balances</b>	<b>11,078,065</b>	<b>-</b>	<b>1,937,584</b>	<b>(4,042,668)</b>	<b>6,597,461</b>	<b>15,570,442</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 15,565,000</b>	<b>\$ 1,863,038</b>	<b>\$ 1,967,796</b>	<b>\$ 329,283</b>	<b>\$ 9,331,237</b>	<b>\$ 29,056,354</b>

(Continued)

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

**TOWN OF VERNON, CONNECTICUT**

**RECONCILIATION OF FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2011**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (EXHIBIT A) ARE DIFFERENT FROM THE GOVERNMENTAL FUND BALANCE SHEET. THE DETAILS OF THIS DIFFERENCE ARE AS FOLLOWS:

TOTAL FUND BALANCE (EXHIBIT C, PAGE 1).....	\$	15,570,442
CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS:		
Beginning capital assets.....		151,828,191
Current capital asset additions.....		5,077,078
Depreciation expense.....		(3,943,380)
Disposal and sale of capital assets.....		(2,887)
OTHER LONG-TERM ASSETS ARE NOT AVAILABLE TO PAY FOR CURRENT PERIOD EXPENDITURES AND, THEREFORE, ARE DEFERRED IN THE FUNDS:		
Property tax and sewer assessment interest and lien accrual.....		588,561
Property tax, sewer assessment, and community development block grant receivable - accrual basis change.....		4,110,805
Allowance for doubtful accounts.....		(575,000)
INTERNAL SERVICE FUNDS ARE USED BY MANAGEMENT TO CHARGE THE COST OF MEDICAL INSURANCE PREMIUMS TO INDIVIDUAL DEPARTMENTS:		
The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.....		(344,613)
SOME LIABILITIES, INCLUDING BONDS PAYABLE, ARE NOT DUE AND PAYABLE IN THE CURRENT PERIOD AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS:		
Bonds and notes payable.....		(46,555,000)
Accrued interest payable.....		(693,740)
State of Connecticut clean water notes.....		(8,695,599)
Compensated absences.....		(4,174,413)
Capital leases.....		(75,395)
Net OPEB liability.....		(1,389,331)
Retirement obligations.....		(3,248,763)
NET ASSETS OF GOVERNMENTAL ACTIVITIES.....	\$	<u>107,476,956</u>

(Concluded)

## TOWN OF VERNON, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	General	Debt Service	Public Bond Improvements	School Bond Improvements	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Property taxes	\$ 57,387,268	\$	\$	\$	\$	\$ 57,387,268
Intergovernmental	24,575,878			975,040	8,187,018	33,737,936
Assessments					51,769	51,769
Charges for services	1,888,071				2,561,414	4,449,485
Gifts and contributions		357,752			76,728	434,480
Income on investments	27,708	1,229	63	626	251,331	280,957
Other	739,529		1,000	60	395,951	1,136,540
<b>Total revenues</b>	<b>84,618,454</b>	<b>358,981</b>	<b>1,063</b>	<b>975,726</b>	<b>11,524,211</b>	<b>97,478,435</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	3,047,360				6,131	3,053,491
Community development	210,671				1,743,089	1,953,760
Public safety	7,774,406				993,497	8,767,903
Maintenance and development	5,757,991				344,709	6,102,700
Human services	958,938				85,111	1,044,049
Parks, recreation and culture	1,343,872				714,203	2,058,075
Townwide	7,321,967					7,321,967
Education	52,089,429				6,001,245	58,090,674
Debt service	4,053,738	1,662,040	4,853	17,583		5,738,214
Capital outlay	109,587		223,059	2,559,335	2,873,063	5,765,044
<b>Total expenditures</b>	<b>82,667,959</b>	<b>1,662,040</b>	<b>227,912</b>	<b>2,576,918</b>	<b>12,761,048</b>	<b>99,895,877</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>1,950,495</b>	<b>(1,303,059)</b>	<b>(226,849)</b>	<b>(1,601,192)</b>	<b>(1,236,837)</b>	<b>(2,417,442)</b>
<b>Other Financing Sources (Uses):</b>						
Issuance of debt			2,155,000	1,600,000		3,755,000
Premium				39,712		39,712
Lease purchase of equipment					106,412	106,412
Transfers in	279,614	1,304,288		42,000	274,485	1,900,387
Transfers out	(1,578,773)	(1,229)	(50,050)	(34,346)	(664,518)	(2,328,916)
<b>Total other financing sources (uses)</b>	<b>(1,299,159)</b>	<b>1,303,059</b>	<b>2,104,950</b>	<b>1,647,366</b>	<b>(283,621)</b>	<b>3,472,595</b>
<b>Net Change in Fund Balances</b>	<b>651,336</b>	<b>-</b>	<b>1,878,101</b>	<b>46,174</b>	<b>(1,520,458)</b>	<b>1,055,153</b>
<b>Fund Balances at July 1, 2010</b>	<b>10,426,729</b>		<b>59,483</b>	<b>(4,088,842)</b>	<b>8,117,919</b>	<b>14,515,289</b>
<b>Fund Balances at June 30, 2011</b>	<b>\$ 11,078,065</b>	<b>\$ -</b>	<b>\$ 1,937,584</b>	<b>\$ (4,042,668)</b>	<b>\$ 6,597,461</b>	<b>\$ 15,570,442</b>

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

**TOWN OF VERNON, CONNECTICUT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES  
(EXHIBIT B) ARE DUE TO:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (EXHIBIT D)..... \$ 1,055,153

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay.....	5,077,078
Depreciation expense.....	<u>(3,943,380)</u>
Total.....	<u>1,133,698</u>

The net effect of various miscellaneous transactions involving capital assets (i. e., sales, trade-ins and donations) is to increase net assets. In the Statement of Activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold..... (2,887)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds and revenues recognized in the Fund Financial Statements are not recognized in the statement of activities:

School building grant receipts.....	231,686
Change in property tax, sewer assessment, and community development block grant receivable - accrual basis change.....	(499,113)
Change in property tax and sewer assessment interest and lien revenue.....	<u>40,425</u>
Total .....	<u>(227,002)</u>

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Debt issued or incurred:	
General obligation bond.....	(3,755,000)
Capital lease.....	(106,412)
Net OPEB obligation.....	(407,677)
Principal repayments:	
General obligation bonds and notes payable.....	3,554,678
Capital lease payable.....	<u>219,111</u>
Total .....	<u>(495,300)</u>

(Continued)

**TOWN OF VERNON, CONNECTICUT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences.....	\$ (79,839)
Retirement obligations.....	112,172
Accrued interest payable.....	<u>4,484</u>
Total .....	<u>36,817</u>
Internal Service Funds are used by management to charge costs of various self-insured risk premiums and Data Processing operation to individual departments.....	<u>578,545</u>
The net revenue of the activities of the Internal Service Fund is reported with governmental activities.....	<u>952</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (EXHIBIT B) .....	<u>\$ 2,079,976</u>

(Concluded)

**EXHIBIT F**

**TOWN OF VERNON, CONNECTICUT**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2011**

	Business-Type Activities			Governmental Activities
	Sewer User	Center 375	Total	Internal Service Funds
<b>Assets:</b>				
<b>Current assets:</b>				
Cash	\$ 51,706	\$ 13,864	\$ 65,570	\$ 467,844
Investments	3,813,084	1,123,360	4,936,444	1,417,199
Receivables (net)	1,242,823		1,242,823	15,512
Prepaid Expense			-	58,870
<b>Total current assets</b>	<b>5,107,613</b>	<b>1,137,224</b>	<b>6,244,837</b>	<b>1,959,425</b>
<b>Capital assets (net):</b>				
Land and land improvements	838,180	645,711	1,483,891	
Buildings and plant	4,172,081	1,870,657	6,042,738	
Machinery and equipment	8,631,143	24,644	8,655,787	213,838
Infrastructure	10,519,700		10,519,700	186,576
Intangible - computer software	49,000		49,000	387,278
Accumulated depreciation	(14,391,031)	(1,307,454)	(15,698,485)	(304,074)
<b>Capital assets (net)</b>	<b>9,819,073</b>	<b>1,233,558</b>	<b>11,052,631</b>	<b>483,618</b>
<b>Total assets</b>	<b>14,926,686</b>	<b>2,370,782</b>	<b>17,297,468</b>	<b>2,443,043</b>
<b>Liabilities:</b>				
<b>Current liabilities:</b>				
Accounts and other payables	450,893	64,634	515,527	36,615
Claims payable			-	577,178
Due to other funds	39,734		39,734	1,042,902
Accrued compensated absences	110,231		110,231	13,116
<b>Total current liabilities</b>	<b>600,858</b>	<b>64,634</b>	<b>665,492</b>	<b>1,669,811</b>
<b>Noncurrent liabilities:</b>				
Claims payable			-	736,922
Accrued compensated absences	370,252		370,252	12,514
Net OPEB obligation	34,707		34,707	
<b>Total noncurrent liabilities</b>	<b>404,959</b>	<b>-</b>	<b>404,959</b>	<b>749,436</b>
<b>Total liabilities</b>	<b>1,005,817</b>	<b>64,634</b>	<b>1,070,451</b>	<b>2,419,247</b>
<b>Net Assets:</b>				
Invested in capital assets	9,819,073	1,233,558	11,052,631	483,618
Unrestricted	4,101,796	1,072,590	5,174,386	(459,822)
<b>Total Net Assets</b>	<b>\$ 13,920,869</b>	<b>\$ 2,306,148</b>	<b>16,227,017</b>	<b>\$ 23,796</b>
Adjustment to reflect the consolidation of internal service fund activities related to proprietary funds.....			438,605	
<b>Net assets of Business-type activities (Exhibit A).....</b>			<b>\$ 16,665,622</b>	

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

**TOWN OF VERNON, CONNECTICUT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Business-Type Activities</u>			<u>Governmental</u>
	<u>Sewer</u>	<u>Center</u>	<u>Total</u>	<u>Internal</u>
	<u>User</u>	<u>375</u>		<u>Service Funds</u>
Operating Revenues:				
Charges for services	\$ 5,853,462	\$ 169,113	\$ 6,022,575	\$ 1,370,101
Gifts and contributions			-	2,310,949
Other:				
Septic fees	631,398		631,398	
Insurance reimbursements and other fees			-	69,330
<b>Total operating revenues</b>	<b>6,484,860</b>	<b>169,113</b>	<b>6,653,973</b>	<b>3,750,380</b>
Operating Expenses:				
Wages and benefits	2,229,121		2,229,121	362,423
Repairs, maintenance and rentals	297,633	22,191	319,824	148,969
Utilities	1,847,254	36,667	1,883,921	12,148
Supplies and materials	470,653	45,429	516,082	980
General and administrative	319,365	64,104	383,469	152,785
Claims incurred			-	3,045,126
Depreciation	478,844	43,303	522,147	100,007
<b>Total operating expenses</b>	<b>5,642,870</b>	<b>211,694</b>	<b>5,854,564</b>	<b>3,822,438</b>
Operating Income (Loss)	841,990	(42,581)	799,409	(72,058)
Nonoperating Revenues (Expenses):				
Transfers In			-	428,529
Investment income	4,330	1,539	5,869	952
Insurance and Other Reimbursements	379,659		379,659	
Loss on disposal of capital assets		(8,684)	(8,684)	
<b>Net Nonoperating Revenues (Expenses)</b>	<b>383,989</b>	<b>(7,145)</b>	<b>376,844</b>	<b>429,481</b>
Income (loss) before capital contribution	1,225,979	(49,726)	1,176,253	357,423
Capital contributed from government			-	186,976
Change in Net Assets	1,225,979	(49,726)	1,176,253	544,399
Net Assets at July 1, 2010	12,694,890	2,355,874		(520,603)
Net Assets at June 30, 2011	<u>\$ 13,920,869</u>	<u>\$ 2,306,148</u>		<u>\$ 23,796</u>
Adjustment to reflect the consolidation of internal service fund activities related to proprietary funds.....			35,098	
Net assets of Business-type activities (Exhibit B).....			<u>\$ 1,211,351</u>	

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

## TOWN OF VERNON, CONNECTICUT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities			Governmental
	Sewer User	Center 375	Total	Activities Internal Service Funds
<b>Cash Flows from Operating Activities:</b>				
Service charges collected	\$ 5,653,263	\$ 169,113	\$ 5,822,376	\$ 1,379,580
Contributions collected			-	2,311,076
Other operating revenues collected	571,547		571,547	27,276
Cash payments for employee wages and benefits	(2,345,570)		(2,345,570)	(357,975)
Cash payments for goods and services	(3,089,151)	(113,904)	(3,203,055)	(229,702)
Cash payments for other operating expenses			-	(3,215,195)
Cash payments of due to balance			-	807,260
Net cash provided by operating activities	790,089	55,209	845,298	722,320
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Purchase of capital assets	(222,993)	(16,455)	(239,448)	(4,370)
<b>Cash Flows from Investing Activities:</b>				
Investment income	4,330	1,539	5,869	952
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfer from other funds			-	428,529
Insurance and Other Reimbursements	379,659		379,659	
Net cash provided by noncapital activities	379,659	-	379,659	428,529
Net Increase (Decrease) in Cash and Cash Equivalents	951,085	40,293	991,378	1,147,431
Cash and Cash Equivalents at July 1, 2010	2,913,705	1,096,931	4,010,636	737,612
Cash and Cash Equivalents at June 30, 2011	3,864,790	1,137,224	5,002,014	1,885,043
Cash Equivalents Reported as Investments	(3,813,084)	(1,123,360)	(4,936,444)	(1,417,199)
Cash and Cash Equivalents, June 30, 2011	\$ 51,706	\$ 13,864	\$ 65,570	\$ 467,844
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used) in Operating Activities:</b>				
Operating income (loss)	\$ 841,990	\$ (42,581)	\$ 799,409	\$ (72,058)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Add:				
Depreciation expense	478,844	43,303	522,147	100,007
Decrease in due from other funds			-	12,260
Decrease in prepaid expense			-	25,358
Increase in accounts payable		55,219	55,219	4,225
Increase in claims payable			-	24,154
Increase in accrued absences			-	4,631
Increase in due to other funds			-	924,773
Increase in OPEB obligation	18,361		18,361	
Deduct:				
Increase in accounts receivable	(260,050)		(260,050)	(15,512)
Decrease in accounts / claims payable	(178,612)		(178,612)	(285,518)
Decrease in accrued absences	(65,777)		(65,777)	
Decrease in due to other funds	(44,667)	(732)	(45,399)	
Net adjustments to operating income (loss)	(51,901)	97,790	45,889	794,378
Net Cash Provided by (Used in) Operating Activities	\$ 790,089	\$ 55,209	\$ 845,298	\$ 722,320

Schedule of noncash investing, capital and financing activities:

\$46,641 of Center 375 capital assets, with \$37,957 of accumulated depreciation, were disposed of during the year.

The Town also contributed \$186,976 of capital assets to the Data Processing Fund during the year.

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

TOWN OF VERNON, CONNECTICUTSTATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2010 AND JUNE 30, 2011

	Pension Trust Funds December 31, 2010	Other Post Employment Benefits Trust Fund June 30, 2011	Private Purpose Trust Fund June 30, 2011	Agency Fund June 30, 2011
Assets:				
Cash	\$	\$	18,663	\$
			231,664	\$
				527,988
Investments, at fair value (pooled):				
Certificates of deposit			120,422	
Pooled fixed income		216,225	8,345	205,758
Mutual funds:				
Domestic equity	19,308,164			
International equity	4,420,931			
Corporate bond	6,234,951		115,351	
International bond	106,861			
Money market	16,871			
Guarenteed investment account	14,485,228			
Total investments	44,573,006	216,225	244,118	205,758
Accounts receivable		3,689	33,548	
Total assets	44,573,006	238,577	509,330	733,746
Liabilities:				
Accounts and other payables	31,903		12	733,746
Due to other Funds		5,286		
Unearned Revenue	704,066	173,291		
Total Liabilities	735,969	178,577	12	733,746
Net Assets:				
Held in trust for pension and OPEB benefits and other purposes	\$	\$	509,318	\$
	43,837,037	60,000		

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

TOWN OF VERNON, CONNECTICUT

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010 AND JUNE 30, 2011**

	Pension Trust Funds December 31, 2010	Other Post Employment Benefits Trust Fund June 30, 2011	Private Purpose Trust Fund June 30, 2011
Additions:			
Contributions:			
Employer	\$ 2,604,841	\$ 60,000	\$
Employee	1,232,063		
Retirees		1,353,705	
State		165,700	
Private			23,293
Other		263	
Total contributions	3,836,904	1,579,668	23,293
Net investment income	4,054,823	1	11,452
Total additions	7,891,727	1,579,669	34,745
Deductions:			
Benefit payments/annuity purchases	3,678,415	1,519,669	
Refund of contributions	71,754		
Administrative expense	156,607		
Awards			32,347
Total deductions	3,906,776	1,519,669	32,347
Change in Net Assets	3,984,951	60,000	2,398
Net Assets at January 1 and July 1, 2010	39,852,086		506,920
Net Assets at December 31, 2010 and June 30, 2011	\$ 43,837,037	\$ 60,000	\$ 509,318

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

TOWN OF VERNON, CONNECTICUTNOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011HISTORY AND ORGANIZATION

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

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

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or 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, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

The various funds included in the financial statements are described below:

**Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed.

*General Fund* is the primary operating fund of the Town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal grants, licenses, permits, charges for services and interest income.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Government-Wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

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

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

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

*Permanent Funds* are used to report 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.

**Proprietary Funds**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. These funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The following are the Town's proprietary funds:

*Enterprise Funds* account for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Sewer User Fund and Center 375 Fund are the Town's enterprise funds.

*Internal Service Funds* account for the financing of goods or services provided by one department to other departments or agencies of the Town on a cost-reimbursement basis. The Data Processing Fund, Workers' Compensation Fund and the Medical Self-Insurance Fund are the Town's internal service funds.

**Fiduciary Funds**

Fiduciary funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations and other governments. Fiduciary funds are not included in the government-wide statements. The fiduciary funds are as follows:

*Pension Trust Funds* account for the accumulation of resources to be used for retirement annuity payments in accordance with contract amounts and times in the future.

*Other Post Employment Benefits Trust Fund* accounts for the accumulation of funds to be used for payments of retiree health insurance in accordance with employee bargaining contracts.

*Private Purpose Trust Fund* accounts for the receipt of private donations to be used for awards to individual students of the Vernon school system.

*Agency Funds* are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation. The School Activity Fund, Miscellaneous Activity Fund and the Bid Bond Deposit Fund are the Town's agency funds.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds do not have a measurement focus but are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, expenditure reimbursement type grants, certain intergovernmental revenues, charges for services, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

The Town reports the following major governmental funds:

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

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

The Public Bond Improvements Fund, a capital projects fund, accounts for costs to reconstruct certain town roads, sidewalks and bridges, and other improvements, as authorized by Town referendum.

The School Bond Improvements Fund, a capital projects fund, accounts for the costs associated with additions and renovation of Vernon schools, as authorized by Town referendum.

The Town reports the following major proprietary funds:

The Sewer User Fund accounts for the activity of the waste treatment plant. The types of revenues recorded in this fund are charges for services, connection and other fees.

The Center 375 Fund accounts for the rents collected and related property expenses.

TOWN OF VERNON, CONNECTICUT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

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

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

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

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

**C. Assets, Liabilities, and Net Assets or Equity**

**1. Deposits and Investments**

Deposits - The Town's cash and cash equivalents consist of cash on hand, demand deposits, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - In general, State of Connecticut Statutes allow the Town to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any state or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. Investment income is recorded in the fund in which it was earned.

TOWN OF VERNON, CONNECTICUT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities, and Net Assets or Equity (Continued)**

**1. Deposits and Investments (continued)**

The Town's pension funds do not have an investment policy; however, the Town has agreements with the investment advisors, who manage the investment portfolios at the direction of the Town's Pension Board and have full authority for the investment and reinvestment of pension fund assets.

Investments for the Town are reported at fair value.

**2. Receivables and Payables**

**a. Interfunds**

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

**b. Property Taxes and Other Receivables**

In the government-wide financial statements, all trade, property tax, sewer use, sewer assessment, and loan receivables are shown net of an allowance for uncollectibles. Allowance percentages range from 10 to 64 percent of outstanding receivable balances, and are calculated based upon prior collections.

Property taxes are levied on assessed property as of October 1. Taxes are billed the following July and are due in two installments, July 1 and January 1, with the exception of motor vehicle taxes which are billed and due on July 1. Taxes become delinquent 30 days after the installment is due. Liens are effective on the assessment date and are continued by filing prior to the end of the fiscal year following the due date.

Property taxes receivable at June 30 are recorded in the General Fund as deferred revenue since they are not considered to be available to finance expenditures of the current fiscal year, except that receivables collected within 60 days after June 30 have been recorded as revenue.

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

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities, and Net Assets or Equity (Continued)**

**3. Inventories and Prepaid Items**

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

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

**4. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	45
Building improvements	10-30
Machinery and equipment	5-25
Computer software	5-10
Computer equipment	7-10
Vehicles	4-25
Infrastructure	15-50

**5. Compensated Absences**

Certain employees are compensated by a prescribed formula for absence due to vacation or sickness. The eligibility for vacation pay vests, and unused sick leave may only be accumulated to be used for future absences, although unused sick leave may be paid upon termination, death or retirement. The liability at June 30, 2011 is calculated by multiplying the current accumulated vacation and sick days earned and payable by the employees' current daily rate of pay. The Town's share of social security and medicare payroll taxes (7.65%) has been estimated and added to the compensated absences accrual in accordance with the provisions of GASB Statement No. 16. The General Fund is the primary source of funding for compensated absences.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities, and Net Assets or Equity (Continued)**

**6. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any significant applicable bond premium or discount. Significant bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

**7. Fund Equity and Net Assets**

In the **government-wide financial statements**, net assets are classified into the following categories:

Invested in Capital Assets, Net of Related Debt

This category presents the net assets that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purposes, and unspent bond proceeds, are excluded.

Restricted Net Assets

This category presents the net assets restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted Net Assets

This category presents the net assets of the Town which are not restricted.

In the **fund financial statements**, fund balances are classified into the following categories:

Nonspendable

This category presents amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted

This category presents amounts that can be spent only for specific purposes because of enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****C. Assets, Liabilities, and Net Assets or Equity (Continued)****7. Fund Equity and Net Assets (Continued)**Committed

This category presents amounts that can be used only for specific purposes determined by a formal action of the highest level of decision-making authority for the Town. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by Town Council.

Assigned

This category presents amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Intent can be expressed by the governing body (Town Council) or by an official (Finance Director).

Unassigned

This category presents amounts that do not meet the criteria above and are available for any purpose. This category is only reported in the general fund for positive amounts and in any other fund that has a fund balance deficit.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless Town Council has provided otherwise in its commitment or assignment actions.

**8. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including disclosures of contingent assets and liabilities and reported revenues, expenses and expenditures during the fiscal year.

**9. Reclassifications**

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

TOWN OF VERNON, CONNECTICUT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

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**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

*Budgetary Process* - The Town adheres to the following procedures in establishing the budgetary data included in the General Fund financial statements. The operating budget includes proposed expenditures and the means of financing them.

No later than March 15, the Mayor must submit an appropriated budget to the Town Council for review. The Town Council must hold two or more public hearings, the last of which shall be the annual Town Meeting, not later than April 30. The Town Council shall approve a budget to be presented at the Annual Town Meeting. The budget becomes effective only after it has been approved by a majority vote of qualified voters present and voting at the annual Town Meeting. The vote may neither increase nor decrease the budget as approved by Town Council. Within five days after the adoption of the budget, the Council must set the mill rate for the coming fiscal year.

*Budgetary Policies* - The Town Council is authorized to transfer any unencumbered appropriation balance or portion thereof from one department to another; however, such transfers must occur subsequent to March 31. Transfers within account classifications of a single department are approved by the Town's Finance Officer. Individual additional appropriations of less than 1/10 of 1% of the total budgeted expenditures are approved by Town Council. The Vernon Board of Education is authorized, under State law, to make any transfers necessary within the education budget at their discretion. Authorization for additional appropriations exceeding 1/10 of 1% of total budgeted expenditures requires a public hearing followed by Town Council approval in a special Town meeting. Revised budget amounts are reported as amended by the Town Council during the course of the year. Additional appropriations of \$2,143,414 were authorized during the fiscal year along with reappropriations of \$1,759,038. The legal level of control, the level at which expenditures may not legally exceed appropriations, is at the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**B. Donor Restricted Endowments**

The Town has received certain endowments for perpetual care of the cemetery and memorial maintenance. The amounts are reflected in net assets as restricted for endowments. Investment income, including appreciation of \$409,284 for the Cemetery Fund and \$-0- for the Memorial Fund, is approved for expenditure by the individual Boards of the benefiting activities.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**C. Capital Projects Authorizations**

The following is a summary of certain construction project funds at June 30, 2011:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended To Date</u>	<u>Remaining Authorization</u>
<u>General Government</u>			
ADA Building Improvements	\$ 152,984	\$ 50,712	\$ 102,272
Town Hall and Other Renovations	666,121	243,041	423,080
<u>Public Safety</u>			
Animal Control Shelter expansion	58,000	45,653	12,347
Animal Control Shelter caging	17,000		17,000
Animal Control Shelter incinerator	48,100		48,100
<u>Maintenance and Development</u>			
Road Reconstruction	17,398,471	16,581,543	816,928
Storm Drainage	204,000		204,000
Bridges	13,489,721	6,198,233	7,291,488
Sidewalk Reconstruction	125,000	165,583	(40,583)
Waste Water Treatment Improvements	1,250,000		1,250,000
Sewer System Improvements	1,148,257	1,055,535	92,722
<u>Parks and Recreation</u>			
Valley Falls Park Improvements	82,000	61,310	20,690
Talcottville Enhancements	578,838	542,324	36,514
Fox Hill Tower Renovation	9,754	9,754	-
Community Arts Center	1,800,000	303,521	1,496,479

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**C. Capital Projects Authorizations (Continued)**

The following is a summary of certain construction project funds at June 30, 2011:

<u>Education</u>			
Rockville High School Photo Lab	\$ 308,591	\$ 305,341	\$ 3,250
Rockville High School Track Resurfacing	50,000	44,000	6,000
Central Administration Repointing / Rero	337,186	337,186	-
RHS Additions & Renovations	34,657,000	30,610,565	4,046,435
VCMS Renovations	11,519,000	10,781,703	737,297
Elementary School Additions & Renovations:			
Center Road School	4,420,600	4,280,467	140,133
Lake Street School	5,828,800	4,956,649	872,151
Maple Street School	3,743,200	2,642,266	1,100,934
Northeast School	3,556,000	2,932,058	623,942
Skinner Road School	4,597,400	4,010,659	586,741
Total	\$ 106,046,023	\$ 86,158,103	\$ 19,887,920

\* Project completed during the fiscal year.

**D. Deficit Equity Balances**

The following funds had a deficit equity balance at June 30, 2011:

Nonmajor Funds:

Special Revenue Funds:

Public Safety Complex Grant-in-Aid Fund	\$ 860,500
Parks and Recreation Programs Fund	17,495
Talcottville Enhancements Fund	9,389

Internal Service Fund:

Workers' Compensation	906,301
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The deficit in the Public Safety Complex Grant-in-Aid Fund will be eliminated through the receipt of future transfers from other funds. The deficit in the Parks and Recreation Programs Fund will be eliminated by future collection of fund revenues. The deficit in the Talcottville Enhancements Fund will be funded by future grant receipts. The deficit in the Workers' Compensation Fund will be eliminated by future charges to other funds.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES**

**A. Cash and Investments**

Deposits - Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2011, \$0- of the Town's bank balance of \$15,077,910 (including certificates of deposit and money market accounts) was exposed to custodial credit risk.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act permanently increased the insurance coverage offered by the Federal Deposit Insurance Corporation (FDIC) to \$250,000 per depositor. Additionally, amounts held in non-interest bearing transaction accounts are fully guaranteed by the FDIC from December 31, 2010 through December 31, 2012. The Town had amounts in excess of \$250,000 in a single bank during the year. Amounts over \$250,000 are not insured by the FDIC. These balances fluctuate during the year and can exceed this \$250,000 limit. Management regularly monitors the financial institution, together with its cash balances, and tries to keep this potential risk to a minimum.

At June 30, 2011, the Town's investments (including restricted investments) consisted of the following:

TYPE OF INVESTMENT	FAIR VALUE	INVESTMENT MATURITIES (IN YEARS)				
		N/A	LESS THAN 1	1-5 YEARS	5-10 YEAR	OVER 10
Mutual Funds:						
Domestic Equity .....	\$19,981,264	\$19,981,264	\$	\$	\$	\$
International Equity .....	4,565,645	4,565,645				
International Corporate Bond Fund	106,861				106,861	
Corporate Bond.....	6,933,497			877,661	5,737,897	317,939
Money Market.....	61,962		61,962			
Certificates of Deposit .....	149,639		149,639			
Pooled Fixed Income.....	13,615,079		13,615,079			
Guaranteed Income Account .....	14,485,228				14,485,228	
TOTAL.....	\$59,899,175	\$24,546,909	\$13,826,680	\$ 877,661	\$20,329,986	\$ 317,939

Subsequent to year end, the financial markets have experienced volatility that caused a decline in the value of investments held at year end. While such declines may be temporary, investment values are subject to market fluctuations, and the timing of any such recovery is unknown at the present time.

Interest rate risk - The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk - The Town has no investment policy that would limit its investment choices due to credit risk other than State Statutes governing investments in obligations of any State or political subdivision or in obligations of the State of Connecticut or political subdivision.

TOWN OF VERNON, CONNECTICUT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**A. Cash and Investments (Continued)**

The Town's investments in pooled fixed income, fixed income mutual funds and bond mutual funds had average ratings as follows by Standard & Poor's.

AVERAGE RATING	POOLED FIXED INCOME	INTERNATIONAL CORPORATE BOND FUND	MONEY MARKET MUTUAL FUNDS	CORPORATE BOND MUTUAL FUNDS	GUARANTEED INCOME ACCOUNT
AAA .....	\$ 13,615,079	\$ 49,904	\$	\$ 4,142,393	\$
AA .....		26,918		1,134,044	14,485,228
A .....		13,197		491,258	
B .....		673		315,838	
BB .....		1,400		526,793	
BBB .....		9,169		237,752	
CCC .....				71,231	
Unrated .....		5,600	61,962	14,188	
TOTAL .....	<u>\$ 13,615,079</u>	<u>\$ 106,861</u>	<u>\$ 61,962</u>	<u>\$ 6,933,497</u>	<u>\$ 14,485,228</u>

Custodial credit risk - Custodial credit risk 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 investment or collateral securities that are in the possession of an outside party.

At June 30, 2011, the Town's investments were in mutual funds and other pooled investments and, therefore, not subject to custodial credit risk.

**B. Receivables**

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables for the Town's government-wide financial statements with allowances for uncollectible accounts as of June 30, 2011, including the applicable allowances for uncollectible accounts, are presented below.

	PROPERTY TAXES		
	TAXES	INTEREST AND LIEN FEES	TOTAL
Current portion .....	<u>\$ 753,552</u>	<u>\$ 83,586</u>	<u>\$ 837,138</u>
Long-term portion .....	\$ 616,542	\$ 504,975	\$ 1,121,517
Less allowance for uncollectibles .....	<u>( 225,000)</u>	<u>( 350,000)</u>	<u>( 575,000)</u>
Net long-term portion .....	<u>\$ 391,542</u>	<u>\$ 154,975</u>	<u>\$ 546,517</u>

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**B. Receivables (Continued)**

	SEWER USER	AMBULANCE MEDICAL SERVICES
Receivable amount.....	\$ 1,359,909	\$ 904,761
Less allowance for uncollectibles.....	<u>( 117,086)</u>	<u>( 452,380)</u>
Net receivable .....	<u>\$ 1,242,823</u>	<u>\$ 452,381</u>

There was no allowance applied to the sewer assessment receivable since the amounts are liened and the lien stays with the property and not the owner.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	UNAVAILABLE	UNEARNED
Delinquent property taxes receivable .....	\$ 1,183,556	\$
Loans.....	186,523	
Inter-municipal.....	1,951,109	
Special assessments and ambulance.....	461,692	1,707
Taxes collected in advance.....		5,877
Intergovernmental (grants).....		29
School building grant.....	327,925	
Other .....		
TOTALS .....	<u>\$ 4,110,805</u>	<u>\$ 7,613</u>

TOWN OF VERNON, CONNECTICUT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2011, for Governmental Activities was as follows:

	BALANCE JULY 1, 2010	INCREASES	DECREASES	BALANCE JUNE 30, 2011
<u>Capital Assets, not being depreciated:</u>				
Land.....	\$ 8,381,925	\$	\$	\$ 8,381,925
Construction in progress.....	81,200,021	4,883,102	2,219,457	83,863,666
Total capital assets, not being depreciated.....	89,581,946	4,883,102	2,219,457	92,245,591
<u>Capital Assets, being depreciated:</u>				
Land improvements.....	5,276,714	13,449		5,290,163
Buildings and improvements.....	47,939,920	62,908		48,002,828
Machinery and equipment.....	41,112,708	354,852	53,820	41,413,740
Intangibles - computer software.....	387,278			387,278
Infrastructure.....	51,783,617	2,173,569	43,150	53,914,036
Total capital assets, being depreciated.....	146,500,237	2,604,778	96,970	149,008,045
Total capital assets.....	236,082,183	7,487,880	2,316,427	241,253,636
<u>Less accumulated depreciation for:</u>				
Land improvements.....	3,330,821	185,891		3,516,712
Buildings and improvements.....	23,609,027	949,417		24,558,444
Machinery and equipment.....	31,798,254	1,687,533	50,933	33,434,854
Intangibles - computer software.....	150,633	65,818		216,451
Infrastructure.....	24,972,977	1,154,728	43,150	26,084,555
Total accumulated depreciation.....	83,861,712	4,043,387	94,083	87,811,016
Total Capital Assets, being depreciated, net.....	62,638,525	(1,438,609)	2,887	61,197,029
Governmental Activities Capital Assets, net.....	\$ 152,220,471	\$ 3,444,493	\$ 2,222,344	\$ 153,442,620

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**C. Capital Assets (Continued)**

Capital asset activity for the year ended June 30, 2011, for Business-Type Activities was as follows:

	BALANCE JULY 1, 2010	INCREASES	DECREASES	BALANCE JUNE 30, 2011
<u>Capital Assets, not being Depreciated:</u>				
Land.....	\$ 1,267,840	\$	\$	\$ 1,267,840
Construction-in-Progress.....	610,813	175,879	786,692	-
Total capital assets, not being depreciated.....	1,878,653	175,879	786,692	1,267,840
<u>Capital Assets, being depreciated:</u>				
Buildings and system.....	6,052,354	3,570	13,186	6,042,738
Improvements other than building.....	216,051			216,051
Machinery and equipment.....	7,842,551	846,691	33,455	8,655,787
Intangibles - computer software.....	49,000			49,000
Infrastructure.....	10,519,700			10,519,700
Total Capital Assets, being Depreciated.....	24,679,656	850,261	46,641	25,483,276
Total capital assets.....	26,558,309	1,026,140	833,333	26,751,116
<u>Less accumulated depreciation for:</u>				
Buildings and system.....	4,297,826	124,963	6,593	4,416,196
Improvements other than building.....	158,013	6,306		164,319
Machinery and equipment.....	6,182,021	183,172	31,364	6,333,829
Intangibles - computer software.....	3,500	4,828		8,328
Infrastructure.....	4,572,935	202,878		4,775,813
Total Accumulated Depreciation.....	15,214,295	522,147	37,957	15,698,485
Total Capital Assets, being Depreciated, net.....	9,465,361	328,114	8,684	9,784,791
Business-Type Activities Capital Assets, net.....	\$ 11,344,014	\$ 503,993	\$ 795,376	\$ 11,052,631

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**C. Capital Assets (Continued)**

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

Governmental activities:	
General government	\$ 1,513,028
Community development	330
Public safety	425,147
Maintenance and development	1,343,182
Human services	1,320
Parks and recreation	193,559
Education	<u>566,821</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 4,043,387</u>
Business-type activities:	
Sewer use	\$ 478,844
Rental of building	<u>43,303</u>
 Total Depreciation Expense - Business-type Activities	 <u>\$ 522,147</u>

**D. Interfund Receivables, Payables and Transfers**

Interfund transfers:

	<u>Transfers In</u>				<u>Total Out</u>
	<u>General Fund</u>	<u>Debt Service</u>	<u>School Bond Improvements</u>	<u>Nonmajor Funds</u>	
Transfers out:					
General Fund	\$	\$ 1,304,288	\$	\$ 274,485	\$ 1,578,773
Debt Service	1,229				1,229
Public Bond Improvements	8,050		42,000		50,050
School Bond Improvements	34,346				34,346
Nonmajor Governmental	235,989				235,989
Internal Service Fund				428,529	<u>428,529</u>
 Total Transfers In	 <u>\$ 279,614</u>	 <u>\$ 1,304,288</u>	 <u>\$ 42,000</u>	 <u>\$ 703,014</u>	 <u>\$ 2,328,916</u>

Interfund transfers primarily are the result of moving General Fund or other fund revenues to finance programs or projects that may or must be accounted for in a separate fund.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**D. Interfund Receivables, Payables and Transfers (Continued)**

At June 30, 2011, the amounts due to and from other funds were as follows:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
	<u>                    </u>	<u>                    </u>
General Fund	\$ 2,255,427	\$ 804,219
Special Revenue Funds:		
Dog License Fund	1,008	608
Insurance Exchange		178
Town Clerk Special	31	
Town Aid Road		256
Ambulance Medical Services		21,727
Vernon Cemetery Commission	6,361	8,469
Sewer Assessment		278
Public Safety Complex		860,500
CDBG Small Cities		698
Parks and Recreation Programs		26,609
Talcottville Enhancements		25,965
Miscellaneous Grants	65,840	37,536
Miscellaneous Special Revenue		6,000
Debt Service Fund		1,229
Capital Projects Funds:		
Public Bond Improvements	661,000	1,548
School Bond Improvements		76,266
Town Capital & Non-Recurring	18,221	
Education Capital & Non-Recurring	53,306	85,300
River Street Bridge Renovations		4,023
Spring Street Bridge		2,363
Phoenix Street Bridge		9,500
Trust Fund:		
Other Post Employment Trust Fund		5,286
Proprietary Funds:		
Enterprise Funds:		
Sewer User Fund		39,734
Internal Service Funds:		
Workers' Compensation Fund		575,000
Medical Self-Insurance Fund		316,000
Data Processing Fund		151,902
	<u>                    </u>	<u>                    </u>
Total	\$ <u>3,061,194</u>	\$ <u>3,061,194</u>

Interfund balances are the result of interfund transfers, reimbursements or loans outstanding at June 30, 2011.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**E. Short-Term Obligations - Bond Anticipation Notes**

**Bond Anticipation Notes:**

<u>PROJECT</u>	<u>BALANCE JULY 1, 2010</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE JUNE 30, 2011</u>
Public Bond Improvements Fund.....	\$ 740,000	\$ 1,800,000	\$ 2,540,000	\$ -
School Bond Improvements Fund.....	2,970,000	15,070,000	13,820,000	4,220,000
Total Bond Anticipation Notes.....	<u>\$ 3,710,000</u>	<u>\$ 16,870,000</u>	<u>\$ 16,360,000</u>	<u>\$ 4,220,000</u>

On September 15, 2010, the Town issued \$6,270,000 of bond anticipation notes (BANs) to retire \$3,710,000 of BANs maturing on September 15, 2010. These BANs matured on January 19, 2011, and were issued at an interest rate of 1.00%, a yield of .414%, and at premium of \$12,656. Of the \$6,270,000, \$900,000 were issued to fund short-term road, bridge, sidewalk and drainage improvements (general purposes) and \$5,370,000 were issued to fund short-term school renovation costs. The \$6,270,000 BANs maturing on January 19, 2011, were retired with the issuance of a \$6,380,000 BAN issuance maturing on April 12, 2011. This BAN was issued at an interest rate of 1.0%, a yield of .4389%, and at a premium of \$8,252 and was issued to fund \$900,000 of short-term road, bridge, sidewalk and drainage improvements (general purposes) and \$5,480,000 of short-term school renovation costs. On April 12, 2011, the Town issued permanent financing and temporary financing to retire the April 12, 2011 maturing BAN. Another BAN was issued on this date for \$4,220,000 to fund short-term school renovation costs at 2.00% interest, with a yield of .5220% and at a premium of \$62,198. This June 30, 2011, outstanding BAN matures April 12, 2012, and is expected to be permanently financed with school bond financing in April 2012. BAN premiums were and will be utilized to offset BAN interest expense.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**F. Changes in Long-Term Obligations**

**1. Summary of Changes**

Long-term liability activity for the year ended June 30, 2011, was as follows:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2011</b>	<b>Due Within One Year</b>
Governmental activities:					
Bonds:					
General purpose	\$ 13,927,000	\$ 2,155,000	\$ 574,000	\$ 15,508,000	\$ 720,000
Schools	29,300,000	1,600,000	1,177,000	29,723,000	1,872,000
Sewers	1,613,000		289,000	1,324,000	268,000
<b>Total bonds payable and related liabilities</b>	<b>44,840,000</b>	<b>3,755,000</b>	<b>2,040,000</b>	<b>46,555,000</b>	<b>2,860,000</b>
Notes:					
State of Connecticut					
Clean Water Fund	10,210,277		1,514,678	8,695,599	1,535,261
Lease purchases:					
Fire Truck:					
Aerial ladder	188,094		188,094	-	
Police Cruisers		67,500	22,903	44,597	21,974
Asphalt Reclaimer Box		38,912	8,114	30,798	7,312
<b>Total lease purchases</b>	<b>188,094</b>	<b>106,412</b>	<b>219,111</b>	<b>75,395</b>	<b>29,286</b>
Compensated absences:					
Town	3,026,247	279,671	293,217	3,012,701	691,977
Board of Education	1,068,327	169,910	76,525	1,161,712	330,686
Internal Service Fund	20,999	4,631		25,630	13,116
<b>Total compensated absences</b>	<b>4,115,573</b>	<b>454,212</b>	<b>369,742</b>	<b>4,200,043</b>	<b>1,035,779</b>

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**F. Changes in Long-Term Obligations (Continued)**

**I. Summary of Changes (Continued)**

All long-term obligations are generally liquidated by the general fund or debt service fund.

\* \$34,707 of the net OPEB obligation is recorded in the Sewer User Fund

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2011</b>	<b>Due Within One Year</b>
Retirement obligations:					
Town:					
Net OPEB obligation*	\$ 435,654	\$ 475,899	\$ 326,000	\$ 585,553	\$
Board of Education:					
Net OPEB obligation	546,000	670,778	413,000	803,778	
Estimated retirement pay	1,908,058	346,636	424,941	1,829,753	280,000
Early retirement pay	1,429,215	377,908	423,602	1,383,521	469,122
Healthcare termination benefits	23,662	37,394	25,567	35,489	35,489
Total education retirement obligations	3,906,935	1,432,716	1,287,110	4,052,541	784,611
Total retirement obligations	4,342,589	1,908,615	1,613,110	4,638,094	784,611
Risk management:					
Claims payable	1,401,129	3,045,126	3,132,155	1,314,100	577,178
Total Governmental Activities Long-Term Liabilities	\$ 65,097,662	\$ 9,269,365	\$ 8,888,796	\$ 65,478,231	\$ 6,822,115

\* \$16,346 of the net OPEB obligation is recorded in the Sewer User Fund at 7/1/10 and \$34,707 at 6/30/11.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**F. Changes in Long-Term Obligations (Continued)**

**1. Summary of Changes (Continued)**

<u>Debt Type</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding June 30, 2011</u>
<u>Bonded Debt</u>					
General Purpose Bonds:					
Public Improvements	02/15/07	02/15/27	3.875 - 5.75%	\$ 9,251,000	\$ 7,847,000
Public Improvements	02/01/08	02/01/28	3.50 - 5.50%	5,000,000	4,786,000
Public Improvements	02/01/09	02/01/24	2.50 - 4.50%	720,000	720,000
Public Improvements	04/12/11	04/01/26	2.00 - 3.75%	2,155,000	2,155,000
Total General Purpose Bonds					<u>15,508,000</u>
School Bonds:					
School Renovations	02/04/04	09/15/12	1.00 - 5.00%	3,125,000	483,000
School Improvements	02/15/07	02/15/27	3.875 - 5.75%	2,515,000	2,131,000
School Renovations	02/01/08	02/01/28	3.50 - 5.50%	16,040,000	15,354,000
School Renovations	02/14/08	02/01/28	3.50 - 5.50%	10,155,000	10,155,000
School Renovations	04/12/11	04/01/26	2.00 - 3.75%	1,600,000	1,600,000
Total School Bonds					<u>29,723,000</u>
Sewer Bonds:					
Sewer Ordinance #167	02/04/04	09/15/12	1.00 - 5.00%	2,085,000	437,000
Sewer System Improvements	02/15/07	02/15/27	3.875 - 5.75%	1,049,000	887,000
Total Sewer Bonds					<u>1,324,000</u>
Total Bonded Debt					<u>\$ 46,555,000</u>
<u>Notes Payable</u>					
State of Connecticut:					
Clean Water Fund 211-C	02/20/92	05/30/11	2.0%	199,611	\$ -
Clean Water Fund 244-C	05/28/93	11/30/12	2.0%	649,740	46,023
Clean Water Fund 200-C	12/31/97	12/31/16	2.0%	27,635,550	8,649,576
Total Notes Payable					<u>\$ 8,695,599</u>
<u>Lease Purchases</u>					
Aerial ladder	09/15/01	09/15/11	4.23%	802,330	\$ -
Police Cruisers	2/1/2011	3/1/2013	2.95%	67,500	44,597
Asphalt Reclaimer Box	2/1/2011	3/1/2015	3.45%	38,912	30,798
Total Lease Purchases					<u>\$ 75,395</u>

TOWN OF VERNON, CONNECTICUT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**F. Changes in Long-Term Obligations (Continued)**

**1. Summary of Changes (Continued)**

The following is a summary of general long-term debt principal maturities:

Fiscal Year Ending June 30	General Purpose	Bonded Debt					Lease Purchase	Total All Debt
		School	Sewer	Total	Notes Payable			
2012	\$ 720,000	\$ 1,872,000	\$ 268,000	\$ 2,860,000	\$ 1,535,261	\$ 29,286	\$ 4,424,547	
2013	788,000	1,664,000	258,000	2,710,000	1,546,643	30,188	4,286,831	
2014	920,000	1,598,000	57,000	2,575,000	1,564,052	7,826	4,146,878	
2015	942,500	1,630,500	57,000	2,630,000	1,595,621	8,095	4,233,716	
2016	942,500	1,630,500	57,000	2,630,000	1,627,828		4,257,828	
2017	981,000	1,817,000	57,000	2,855,000	826,194		3,681,194	
2018	989,000	1,959,000	57,000	3,005,000			3,005,000	
2019	1,014,000	2,109,000	57,000	3,180,000			3,180,000	
2020	1,014,000	2,109,000	57,000	3,180,000			3,180,000	
2021	1,014,000	2,109,000	57,000	3,180,000			3,180,000	
2022	1,014,000	2,109,000	57,000	3,180,000			3,180,000	
2023	1,037,000	2,186,000	57,000	3,280,000			3,280,000	
2024	1,037,000	2,186,000	57,000	3,280,000			3,280,000	
2025	974,000	1,274,000	57,000	2,305,000			2,305,000	
2026	974,000	1,274,000	57,000	2,305,000			2,305,000	
2027	827,000	1,166,000	57,000	2,050,000			2,050,000	
2028	320,000	1,030,000		1,350,000			1,350,000	
Total	\$ 15,508,000	\$ 29,723,000	\$ 1,324,000	\$ 46,555,000	\$ 8,695,599	\$ 75,395	\$ 55,325,994	

The following is a summary of general long-term debt interest maturities:

Fiscal Year Ending June 30	General Purpose	Bonded Debt					Lease Purchase	Total All Debt
		School	Sewer	Total	Notes Payable			
2012	\$ 594,563	\$ 1,109,406	\$ 46,291	\$ 1,750,260	\$ 159,889	\$ 2,379	\$ 1,912,528	
2013	561,632	1,030,107	37,316	1,629,055	129,001	1,477	1,759,533	
2014	529,757	956,653	32,134	1,518,544	97,988	549	1,617,081	
2015	496,912	896,990	29,854	1,423,756	66,419	279	1,490,454	
2016	464,093	847,115	27,574	1,338,782	34,213		1,372,995	
2017	430,908	796,966	25,294	1,253,168	4,826		1,257,994	
2018	396,396	741,021	23,014	1,160,431			1,160,431	
2019	361,283	676,956	20,805	1,059,044			1,059,044	
2020	324,784	605,451	18,596	948,831			948,831	
2021	287,123	530,305	16,316	833,744			833,744	
2022	248,564	451,418	14,036	714,018			714,018	
2023	208,740	367,598	11,756	588,094			588,094	
2024	167,361	280,528	9,405	457,294			457,294	
2025	125,982	193,458	7,054	326,494			326,494	
2026	86,941	142,733	4,703	234,377			234,377	
2027	47,314	90,585	2,351	140,250			140,250	
2028	13,200	42,488		55,688			55,688	
Total	\$ 5,345,553	\$ 9,759,778	\$ 326,499	\$ 15,431,830	\$ 492,336	\$ 4,684	\$ 15,928,850	

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**III. DETAILED NOTES (CONTINUED)****F. Changes in Long-Term Obligations (Continued)****2. Termination Benefits**

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

**School Administrators**

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

Currently, there are 4 former school administrators receiving this benefit. The cost to the Town, net of participant contributions, for the 2010/11 fiscal year is \$25,567. A liability of \$35,489, presented in government-wide financial statements, for this benefit is calculated based upon the discounted present value of future unadjusted premiums and includes a healthcare cost trend of 11.78% and an investment yield of .14%.

In addition to healthcare termination benefits, cash payments are available to school administrator early retirees. Also, there are 12 former school administrators receiving this benefit. The cost to the Town for the 2010/11 fiscal year is \$123,602. A liability of \$426,286, presented in government-wide financial statements, for this benefit is calculated based upon the discounted present value of expected future benefits and an .14% yield of investments that are expected to be used to finance such benefit payments.

**School Teachers**

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

There are 80 former teachers receiving this benefit. The cost to the Town for the 2010/11 fiscal year is \$300,000. A liability of \$957,235, presented in government-wide financial statements, for this benefit is calculated based upon the discounted present value of expected future benefits and an .14% yield of investments that are expected to be used to finance such benefit payments.

**3. Capital Leases**

Capital lease for the purchase of an aerial ladder fire truck was prepaid in full during fiscal year 2010/11. The only leases outstanding at June 30, 2011 were for three police cruisers and an asphalt reclaimer box. The present value of future minimum lease payments amounts to \$75,395 at June 30, 2011.

The amount of assets capitalized under Capital Leases totaled \$106,412 at June 30, 2011.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**F. Changes in Long-Term Obligations (Continued)**

**4. Statutory Debt Limitations**

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

<u>CATEGORY</u>	<u>DEBT LIMIT</u>	<u>NET INDEBTEDNESS</u>	<u>BALANCE</u>
General purpose .....	\$ 129,145,610	\$ 17,485,000	\$ 111,660,610
Schools .....	258,291,221	67,407,075	190,884,146
Sewers .....	215,242,684	11,468,113	203,774,571
Urban renewal .....	186,543,659		186,543,659
Pension deficit.....	172,194,147		172,194,147

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation, \$401,786,343.

The indebtedness reflected above includes bonds outstanding in addition to the amount of bonds authorized and unissued against which bond anticipation notes are issued and outstanding. School building grants receivable of \$327,925 for bond principal are reflected as deductions in the computation of net indebtedness, as are \$8,486 of sewer assessment receivable.

**5. Authorized/Unissued Bonds**

At a referendum held on November 4, 2004, Public Bond Improvements of \$21,609,000 were authorized to fund \$19,103,000 of roads, sidewalk and bridge reconstruction projects, \$1,295,000 of waste treatment plant improvements and \$1,211,000 of sewer system improvements. Of the \$21,609,000 authorization, \$18,175,000 of bonds has been issued and \$0 of BANs remain issued and outstanding. The remaining unissued Public Bond Improvements authorization is \$3,434,000 as of June 30, 2011.

At a referendum held on March 29, 2005, School Bond Improvements of \$68,322,000 were authorized to fund \$34,657,000 of additions and renovations to Rockville High School, \$11,519,000 of renovations to Vernon Center Middle School and \$22,146,000 of additions and renovations to the Town's five elementary schools. Of the \$68,322,000 authorization, \$30,310,000 of bonds has been issued and \$4,220,000 of BANs remain issued and outstanding. The remaining unissued School Bond Improvements authorization is \$33,792,000 as of June 30, 2011.

**6. Prior Year Advanced Refunding**

In prior years, the Town defeased General Obligation Bonds by creating a separate irrevocable trust. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore is no longer counted in computing Town's debt for statutory debt limit purposes. As of June 30, 2011, the amount of defeased debt outstanding amounted to \$910,000.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**III. DETAILED NOTES (CONTINUED)**

**G. Restricted Net Assets**

The amount of restricted net assets, which were restricted by enabling legislation, totaled \$1,943,834 at June 30, 2011.

**H. Fund Balance Classifications:**

Fund balances components at June 30, 2011 were for the following purposes:

FUND BALANCE COMPONENT	GENERAL FUND	PUBLIC BOND IMPROVEMENTS	SCHOOL BOND IMPROVEMENTS	NONMAJOR FUNDS	TOTAL
<b><u>NONSPENDABLE:</u></b>					
Permanent fund principal.....	\$	\$	\$	\$ 1,909,376	\$ 1,909,376
Inventory/prepaid items.....				32,145	32,145
TOTAL NONSPENDABLE.....	-	-	-	1,941,521	1,941,521
<b><u>RESTRICTED:</u></b>					
Community development.....				361,873	361,873
Maintenance and development.....				2,103,563	2,103,563
Education.....				534,712	534,712
TOTAL RESTRICTED.....	-	-	-	3,000,148	3,000,148
<b><u>COMMITTED:</u></b>					
General government.....				185,866	185,866
Public safety.....				27,431	27,431
Education.....				122,746	122,746
Construction contracts.....		1,768,138			1,768,138
Approved projects.....		169,446		1,763,842	1,933,288
TOTAL COMMITTED.....	-	1,937,584	-	2,099,885	4,037,469
<b><u>ASSIGNED:</u></b>					
Compensated absences.....	322,000				322,000
General government.....	690,362			338,849	1,029,211
Community development.....	14,371				14,371
Public safety.....	237,503			31,339	268,842
Maintenance and development.....	239,434			2,696	242,130
Human services.....	3,783				3,783
Parks, recreation and culture.....	14,560			70,407	84,967
Education.....	600,957				600,957
TOTAL ASSIGNED.....	2,122,970	-	-	443,291	2,566,261
UNASSIGNED.....	8,955,095		(4,042,668)	(887,384)	4,025,043
TOTAL.....	\$ 11,078,065	\$ 1,937,584	\$ (4,042,668)	\$ 6,597,461	\$ 15,570,442

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION**

**A. Risk Management**

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

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

Workers' compensation claims transactions for the past two fiscal years are summarized below:

	<b><u>Fiscal Year Ending June 30,</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
Claims payable, July 1	\$ 1,311,111	\$ 1,266,314
Incurred claims, current year	648,760	630,246
Claims adjustments, prior years	<u>38,375</u>	<u>(199,544)</u>
Claims incurred for the fiscal year	<u>687,135</u>	<u>430,702</u>
Claims paid, current and prior years	<u>798,318</u>	<u>385,905</u>
Claims payable, June 30	<u>\$ 1,199,928</u>	<u>\$ 1,311,111</u>

Based on historical payment data, approximately 38.59% of claims payable at June 30, 2011, will be paid during the following fiscal year. Thus, \$463,006 of claims payable at June 30, 2011, is considered as a current liability and the remaining \$736,922 is considered as a long-term liability. Claims payable at June 30, 2011, includes \$116,353 of estimated incremental claims adjustment expenses, net of estimated subrogation recoveries.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**A. Risk Management (Continued)**

The Town is also self-insured for the cost of medical prescriptions for its employees and retirees. The Town Council authorized the establishment of the Medical Self-Insurance Fund, an Internal Service Fund, which became effective January 1, 2006. Effective July 1, 2007, the Town became self-insured for the cost of dental for its general government employees and retirees. The fund is supported by contributions from all covered participants with the remaining support provided by the General Fund, Cafeteria, Special Education Grants and Vernon Cemetery Funds (Special Revenue Funds), the Sewer User Fund (Enterprise Fund) and the Data Processing Fund (Internal Service Fund). Contribution amounts are based upon historical experience of claims incurred and paid.

A third party administers the prescription claims processing and the dental claims processing for the Town for which the Town pays a fee. Claims incurred and paid data are provided to the Town, which reimburses Maxor, MedCo and Anthem for the costs of the claims and administrative expenses. As of June 30, 2011, claims payable represents the cost of claims incurred and paid by Maxor, MedCo and Anthem that require reimbursement from the Town.

Medical self-insurance claims transactions for the past two fiscal years are as follows:

	<b>Fiscal Year</b>	
	<b>2010-11</b>	<b>2009-10</b>
Claims payable, July 1	\$ 90,018	\$ 77,237
Incurred claims, current year	2,357,991	2,408,654
Claims adjustments, prior years	-	-
Claims incurred for the fiscal year	<u>2,357,991</u>	<u>2,408,654</u>
Claims paid, current and prior years	<u>2,333,837</u>	<u>2,395,873</u>
Claims payable, June 30	<u>\$ 114,172</u>	<u>\$ 90,018</u>

The entire portion of claims payable at June 30, 2011, is considered payable in the ensuing fiscal year.

TOWN OF VERNON, CONNECTICUT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

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**IV. OTHER INFORMATION (CONTINUED)**

**B. Commitments and Contingencies**

Pending Suits and Claims

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

State and Federal Assets

The Town receives State and Federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditures disallowed under terms of the grant. The Town's management believes such disallowances, if any, would not be material.

Waste Treatment Plant Debt

The Town permanently financed the upgrade and expansion of the Vernon Waste Treatment Plant on December 31, 1997 with a \$27,635,550 State of Connecticut Clean Water Fund (CWF) loan, payable monthly through December 31, 2016. Of the \$8,649,576 due on the CWF loan as of June 30, 2011, the Towns of Ellington, Manchester, South Windsor and Tolland are obligated to provide payments totaling \$1,861,809 to the Town of Vernon in installments through December 31, 2016. The Town of Vernon is responsible for debt service payments on the loan.

Bolton Lakes Wastewater Disposal

The Town of Vernon and the neighboring Town of Bolton entered into a consent order with the Connecticut Department of Environmental Protection (CTDEP) on October 14, 1999, requiring the towns to take the necessary steps to address wastewater disposal alternatives for the Bolton Lakes' area. Two State-funded engineering studies have confirmed that specific areas around the middle and lower Bolton Lakes no longer meet the requirements of current health codes for septic systems and recommend the installation of a low-pressure sewer system with wastewater being pumped to the adjacent Town of Manchester Wastewater Treatment Facility.

The Bolton Lakes Regional Water Pollution Control Authority (BLRWPCA) was created by ordinances adopted in both towns. In Vernon, Ordinance #242 was adopted in April of 2003. The formation of the regional authority gives the BLRWPCA the power and authority, granted by State Statutes, to construct a sewerage system, charge user fees, levy assessments, bill for hook-up fees and to operate and manage the sewer system.

The current estimated project costs are \$21,959,000, with Vernon's 29% share, or \$6,368,110, reduced to \$2,725,839 by potential federal and state grant funding and further reduced by special benefit assessments to \$1,242,913. Project work is not anticipated to commence in Vernon until 2012.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**C. Employee Retirement Systems and Pension Plans**

**Defined Benefit Plans**

**1. *Plan Descriptions***

***a. Plan Type, Participating Employer and Employees Covered***

The Town has established three single-employer contributory defined benefit plans which substantially cover all full-time employees, except certified employees of the Board of Education who are covered by the State Teachers' Retirement System, and members of the Town's Volunteer Fire Department (VFD) based upon certain service criterion. The pension plan for the VFD was established effective January 1, 2000. Although members of the VFD are not town employees, the Town has recognized the VFD's commitment to protecting the lives and property of Vernon's residents with the establishment of a retirement plan known as the Town of Vernon Length of Service Award Program (LOSAP). The LOSAP provides a financial reward as an incentive for recruiting and retaining fire department volunteers. The pension plans are reported in the Town's financial statements as separate pension trust funds; Police Pension Plan, Town Pension Plan and the Volunteer Firefighters LOSAP. Separate, stand-alone reports are not issued.

***b. Participant Membership***

Participant membership at January 1, 2011 was as follows:

	<u>Police Plan</u>	<u>Town Plan</u>	<u>LOSAP</u>
Retirees, disabled and beneficiaries currently receiving benefits	42	152	9
Terminated employees entitled to benefits, but not yet receiving them	1	118	31
Active employees:			
Vested, partially vested and nonvested	<u>48</u>	<u>377</u>	<u>140</u>
Total participant membership	<u><u>91</u></u>	<u><u>647</u></u>	<u><u>180</u></u>

***c. Benefit Provisions***

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

***i. Normal Retirement Date and Benefits***

A participant who has attained his/her normal retirement date and/or required years of service is eligible for a normal retirement benefit. The benefit at normal retirement is equal to the employees' accrued benefit based on average monthly earnings and years of service.

**IV. OTHER INFORMATION (CONTINUED)****C. Employee Retirement Systems and Pension Plans (Continued)****Defined Benefit Plans (Continued)****1. Plan Descriptions (Continued)****c. Benefit Provisions (Continued)****i. Normal Retirement Date and Benefits (Continued)****Police Pension Plan**

The normal retirement date for police officers is attained at the completion of 20 years of service.

**Town Pension Plan**

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

**LOSAP**

The normal retirement date for volunteer firefighters is attained at age 65 with 10 years of credited service. A year of credited service is achieved based upon a point system established by the Fire Chief. The benefit at normal retirement is equal to \$8 per month for each year of credited service to a maximum of \$240 per month.

**ii. Early Retirement Date and Benefits**

Participants of the Police and Town Pension Plans may, upon 10 years of service, elect early retirement on a date which shall be within 10 years of normal retirement age. The early retirement benefit is determined as for normal retirement, based on earnings and service to date of early retirement. Members of the Police Civilian Support union are ineligible for this benefit.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

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**IV. OTHER INFORMATION (CONTINUED)**

**C. Employee Retirement Systems and Pension Plans (Continued)**

**Defined Benefit Plans (Continued)**

**1. Plan Descriptions (Continued)**

**c. Benefit Provisions (Continued)**

**iii. Death Benefits**

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

**iv. Disability Benefit**

In the event of participant Disability in the Line of Duty, VFD members may elect payment of an actuarial reduced retirement benefit commencing anytime prior to the date of normal retirement.

**v. Deferred Vested Benefit**

Upon termination of employment for any reason other than death or retirement, Police and Town plan participants shall be entitled to a deferred vested benefit if certain age and or service provisions are attained. The amount of deferred vested benefit shall be equal to the benefit determined as for normal retirement based on earnings and service to the date of termination, multiplied by the employee's vesting percentage. Employees become fully vested with 10 years of service. A member who terminates employment prior to satisfying certain age and or service requirements is entitled to a refund of his/her accumulated contributions with interest.

**2. Summary of Significant Accounting Policies**

**a. Basis of Accounting**

Pension Trust Fund financial statements are prepared on the accrual basis of accounting. Employee contributions are recognized in the period in which the employee services are performed, and employer contributions are recognized when due pursuant to contractual requirements; investment income is recognized when earned; and gains and losses on sales and exchanges of investments are recognized in the period of transaction. Benefit payments and refunds are recognized when due and payable (incurred) in accordance with the terms of the plans. Plan administrative costs are financed by net assets of the respective plans on a pay-as-you-go basis. Financial activity of the pension plans is reported by the Town on a calendar year basis.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

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**IV. OTHER INFORMATION (CONTINUED)**

**C. Employee Retirement Systems and Pension Plans (Continued)**

**Defined Benefit Plans (Continued)**

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

**b. Valuation of Plan Investments**

Pension Trust Fund investments are reported at fair value. Securities traded on national and international exchanges are valued at the last reported sales price.

**3. Funding Policy**

Contribution rates are established by the Town and may be amended only with Town Council approval. The Town may terminate the LOSAP at any time.

**a. Employee**

Required employee contributions to their respective plans are noted below.

**Police Pension Plan**

Police officers are required to contribute 6% of their W-2 earnings to the plan. Such contributions are credited with interest at a rate of 5.5% per annum.

**Town Pension Plan**

Non-bargaining Town Hall employees, P.W. Supervisors, WTP Supervisors, School Librarians, School Supervisors and Education Custodial, Secretarial and Maintenance union members are required to contribute 7% of their earnings (pre-tax). Police Civilian Support union members are required to contribute 7.9% of their earnings (pre-tax). Members of the Professional and P.W. Clerical unions are required to contribute 7.5% of earnings (pre-tax). Members of the P.W. and Parks union and School Nurse union members are required to contribute 6.5% of their earnings (pre-tax). All other participants are required to contribute 4% of their earnings (post-tax). Such contributions are credited with interest at a rate of 6% per annum.

**LOSAP**

Members of the VFD are not required to contribute to the plan.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**C. Employee Retirement Systems and Pension Plans (Continued)**

**Defined Benefit Plans (Continued)**

**3. Funding Policy (Continued)**

**b. Employer**

Police and Town Pension Plans

The Town is required to contribute the remaining amounts necessary to finance plan benefits for its employees. Employer contributions to the pension plans of \$1,057,949 Police, and \$1,502,551 Town were determined based on actuarial valuations as of January 1, 2010, using the Projected Unit Credit actuarial cost method. Employer contributions fund normal cost (after deducting expected employee contributions) on a current basis and the unfunded actuarial accrued liability over a maximum 30 year period. The current employer required contributions, as a percentage of annual covered plan payroll, are 24.32% for the Police Plan and 10.68% for the Town Plan.

LOSAP

The Town shall contribute an actuarial determined amount necessary to fund current obligations of the LOSAP. In addition, employer contributions to fund the unfunded actuarial accrued liability are to be made over a maximum 10-year period. Employer contributions to the LOSAP of \$44,341 were determined based on an actuarial valuation as of January 1, 2010, using the frozen entry age actuarial cost method. The actuarially determined contribution includes the retirement benefit of ten volunteers who received retirement benefits in calendar year 2010.

**4. Annual Pension Cost and Net Pension Obligations**

In accordance with Statement No. 27, the Annual Pension Cost and Net Pension Obligation of the Pension Plans for the current year are reported below:

	<u>Police Plan</u>	<u>Town Plan</u>	<u>LOSAP</u>
Annual required contribution (ARC)	\$ 1,057,949	\$ 1,502,551	\$ 44,341
Interest on net pension obligation (NPO)	-	-	-
Adjustment to ARC	-	-	-
	<hr/>	<hr/>	<hr/>
Annual pension cost (APC)	1,057,949	1,502,551	44,341
Employer contributions made	<u>(1,057,949)</u>	<u>(1,502,551)</u>	<u>(44,341)</u>
Change in the NPO for the year	-	-	-
Net pension obligation, January 1, 2010	<hr/>	<hr/>	<hr/>
Net Pension Obligation, December 31, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**C. Employee Retirement Systems and Pension Plans (Continued)**

**Defined Benefit Plans (Continued)**

**4. Annual Pension Cost and Net Pension Obligations (Continued)**

In addition, Statement No. 27 requires the percentage of Annual Pension Cost contributed and Net Pension Obligations for the current and prior two years be reported:

<b>Police Plan</b>				
<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Actual Employer Contribution</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
12/31/10	\$ 1,057,949	\$ 1,057,949	100%	\$ -
12/31/09	1,025,928	1,025,928	100%	-
12/31/08	1,107,688	1,107,688	100%	-
<b>Town Plan</b>				
<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Actual Employer Contribution</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
12/31/10	\$ 1,502,551	\$ 1,502,551	100%	\$ -
12/31/09	1,509,046	1,509,046	100%	-
12/31/08	1,750,784	1,750,784	100%	-
<b>LOSAP</b>				
<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Actual Employer Contribution</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
12/31/10	\$ 44,341	\$ 44,341	100%	\$ -
12/31/09	120,129	120,129	100%	-
12/31/08	83,206	83,206	100%	-

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**C. Employee Retirement Systems and Pension Plans (Continued)**

**Defined Benefit Plans (Continued)**

**5. Funding Status and Funding Progress**

The funded status of the plan as of January 1, 2011 was as follows:

<u>January 1, Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability(AAL) (b)</u>	<u>Over (Unfunded) AAL (UAAL) (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((a-b)/c)</u>
<u>POLICE PLAN</u>						
2011	\$ 16,862,650	\$ 29,969,970	\$ (13,107,320)	56.3%	\$ 4,352,823	(301.1%)
<u>TOWN PLAN</u>						
2011	\$ 28,199,302	\$ 49,873,997	\$ (21,674,695)	56.5%	\$ 14,247,198	(152.1%)
<u>LOSAP</u>						
2011	\$ 1,148,440	\$ 873,498	\$ 274,942	131.5%	N/A	N/A

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress (RSI), immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

**6. Actuarial Assumptions**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

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

TOWN OF VERNON, CONNECTICUT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**C. Employee Retirement Systems and Pension Plans (Continued)**

**Defined Benefit Plans (Continued)**

**6. Actuarial Assumptions (Continued)**

	<b>Police Pension Plan</b>	<b>Town Pension Plan</b>	<b>LOSAP</b>
Actuarial valuation date	01/01/11	01/01/11	01/01/11
Actuarial cost method, effective 1/1/09	Projected Unit Credit	Projected Unit Credit	Frozen Entry
Amortization method, effective 1/1/09	Level % of Payroll Closed	Level % of Payroll Closed	Level Dollar Closed
Remaining amortization period	30 years Refreshed	30 years Refreshed	0 years
Asset valuation method	5-year Deferred Recognition Without phase-in	5-year Deferred Recognition Without phase-in	Market value
Actuarial assumptions:			
Investment rate of return, effective 1/1/10	7.5%	7.5%	6.5%
Projected salary increases*	5.0%	4.5%	N/A
*Inflation rate included	3.5%	3.5%	N/A

The following assumption and plan changes increased the 2010 required employer contribution of the Police Pension Plan by \$53,683 from \$1,004,266 to \$1,057,949. The changes include a reduction to the assumed Investment Return from 8.0% to 7.5%; a change in the Asset Valuation Method to the Deferred Recognition Method; and a refreshment of the amortization balances to a 30-year recognition period.

The following assumption and plan changes increased the 2010 required employer contribution of the Town Pension Plan by \$29,747 from \$1,472,804 to \$1,502,551. The changes include the enhancement to the Public Works Supervisors union maximum retirement benefit from 2.00% of Average Monthly Earnings (AME) times 35 years of Credited Service (CS) to 2.20% of AME times 35 years of CS (capped at 70%); the enhancement of the Waste Treatment Plant Supervisors union maximum retirement benefit from 2.00% of AME times 30 years of CS to 2.20% of AME times 35 years of CS (capped at 70%); the enhancement to the BOE Supervisors union maximum retirement benefit from 2.0% of Average Monthly Earnings (AME) times 30 years of Credited Service (CS) to 2.0% of AME times 35 years of CS; the reduction of required Professional union employee contributions from 8.15% of wages to 7.5%; the increase in required P.W. Clerical employee contributions from 6.5% of wages to 7.5%; the increase in required employee contributions of the BOE and WPC Supervisors unions from 6.5% of wages to 7.0% of wages; the reduction to the assumed Investment Return from 8.0% to 7.5%; a change in the Asset Valuation Method to the Deferred Recognition Method; and a refreshment of the amortization balances to a 30-year recognition period.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**C. Employee Retirement Systems and Pension Plans (Continued)**

**Defined Benefit Plans (Continued)**

**6. Actuarial Assumptions (Continued)**

There were no plan benefit or assumption changes that affected the January 1, 2011 Actuarial Accrued Liability of either the Police Pension or Town Pension Plans.

There were no plan benefit or assumption changes that affected either the required employer contribution for the LOSAP that was calculated on January 1, 2010 or the January 1, 2011 AAL of the LOSAP.

**7. Plan Statements**

**Statement of Fund Net Assets  
 Pension Trust Funds  
 December 31, 2010**

	<b>Police Pension</b>	<b>Town Pension</b>	<b>Volunteer Firefighters Length of Award (LOSAP)</b>	<b>Total</b>
<b>Assets:</b>				
Investments, at fair value:				
Mutual funds:				
Domestic equity	\$ 7,569,763	\$ 11,259,490	\$ 478,911	\$ 19,308,164
International equity	1,773,783	2,474,937	172,211	4,420,931
Corporate bond	1,141,312	4,703,182	390,457	6,234,951
International bond			106,861	106,861
Money market	5,632	11,239		16,871
Guarenteed investment account	5,271,870	9,213,358		14,485,228
<b>Total assets</b>	<b>15,762,360</b>	<b>27,662,206</b>	<b>1,148,440</b>	<b>44,573,006</b>
<b>Liabilities:</b>				
Accounts and other payables	12,680	19,223		31,903
Unearned revenue		704,066		704,066
<b>Total Liabilities</b>	<b>12,680</b>	<b>723,289</b>	<b>-</b>	<b>735,969</b>
<b>Net Assets:</b>				
Held in Trust for Pension Benefits	\$ 15,749,680	\$ 26,938,917	\$ 1,148,440	\$ 43,837,037

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**C. Employee Retirement Systems and Pension Plans (Continued)**

**Defined Benefit Plans (Continued)**

**7. Plan Statements (Continued)**

**Statement of Changes in Plan Net Assets  
 Pension Trust Funds  
 For the year ended December 31, 2010**

	<b>Police Pension</b>	<b>Town Pension</b>	<b>Volunteer Firefighters Length of Award (LOSAP)</b>	<b>Total</b>
Additions:				
Contributions:				
Employer	\$ 1,057,949	\$ 1,502,551	\$ 44,341	\$ 2,604,841
Employee	286,536	945,527		1,232,063
Total contributions	1,344,485	2,448,078	44,341	3,836,904
Net investment income	1,561,817	2,371,114	121,892	4,054,823
Total additions	2,906,302	4,819,192	166,233	7,891,727
Deductions:				
Benefit payments/annuity purchases	1,724,978	1,930,131	23,306	3,678,415
Refund of contributions	2,240	69,514		71,754
Administrative expense	55,497	88,211	12,899	156,607
Total deductions	1,782,715	2,087,856	36,205	3,906,776
Change in net assets	1,123,587	2,731,336	130,028	3,984,951
Net assets - January 1, 2010	14,626,093	24,207,581	1,018,412	39,852,086
Net Assets - December 31, 2010	\$ 15,749,680	\$ 26,938,917	\$ 1,148,440	\$ 43,837,037

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**D. Defined Contribution Pension Plans**

Establishment and Amendment

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

The effective establishment date for these five plans are as follows:

<u>Effective Date</u>	<u>Plan</u>
July 1, 2009	Department of Public Works Clerical Bargaining Unit
January 1, 2010	Professional Employees Bargaining Unit
January 1, 2010	DPW Supervisors Bargaining Unit
January 1, 2010	Water Pollution Control Supervisors Bargaining Unit
August 4, 2010	Town non-union employees

Contributions

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

<u>Plan</u>	<u>Employee Contribution</u>	<u>Employer Contribution</u>
D PW Clerical	0% < 7.5% of wages	2% of wages
	7.5 % or more of wages	4% of wages
Professionals	0% < 7.5% of wages	2% of wages
	7.5 % or more of wages	4% of wages
DPW Supervisors	0% < 7.5% of wages	2% of wages
	7.5 % or more of wages	4% of wages
WPC Supervisors	0% < 7.5% of wages	2% of wages
	7.5 % or more of wages	4% of wages
Town non-union	0% < 6.0% of wages	3% of wages
	6.0 % or more of wages	5% of wages

Employee and Employer contributions made for 2010/11 fiscal year are as follows:

<u>Plan</u>	<u>Employee Contribution</u>	<u>Employer Contribution</u>
D PW Clerical	\$0	\$ 0
Professionals	\$0	\$184
DPW Supervisors	\$0	\$ 0
WPC Supervisors	\$0	\$ 0
Town non-union	\$0	\$173

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**D. Defined Contribution Pension Plans (continued)**

Vesting

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

Normal Retirement Age

DPW Supervisors become eligible to retire upon age 58 and 27 years of service. All other participants become eligible to retire at age 62 with 10 years of service.

Assets

Employee contributions are held in Trust, with the Town serving as trustee, for the exclusive benefit of Plan participants and their beneficiaries, in a qualified Deferred Compensation 457(b) Plan. Employer contributions are held in Trust, with the Town serving as trustee, for the exclusive benefit of Plan participants and their beneficiaries, in a qualified 401a Money Purchase Plan.

**E. Other Post-Employment Benefits Plan**

**1. Plan Description**

**a. Plan Type, Employees Covered**

The Town has established an Other Post Employment Benefit (OPEB) Trust Fund which incorporates 3 single-employer, post retirement healthcare plans for the Town, Police and Board of Education employees. The plans provide medical, dental and prescription benefits for eligible retirees and their spouses. The Trust was established in June 2011, effective for the fiscal year 2010/11.

**b. Participant Membership**

Participant membership at July 1, 2010 was as follows:

	<b>Police</b>	<b>Town</b>	<b>Board of Education</b>	<b>Total</b>
Retired members	16	11	115	142
Spouses of Retired members	2	9	44	55
Active employees	50	164	575	789
Total participant membership	<u>68</u>	<u>184</u>	<u>734</u>	<u>986</u>

TOWN OF VERNON, CONNECTICUT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

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**IV. OTHER INFORMATION (CONTINUED)**

**E. Other Post-Employment Benefits Plan (continued)**

**1. Plan Description (Continued)**

**c. Benefit Provisions**

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

**2. Summary of Significant Accounting Policies**

**a. Basis of Accounting**

OPEB Trust Fund financial statements are prepared on the accrual basis of accounting. Employer contributions are recognized in the period due; investment income is recognized when earned; and gains and losses on sales and exchanges of investments are recognized in the period of transaction. Benefit payments are recognized when due and payable (incurred) in accordance with the terms of the plans. Plan administrative costs are financed by net assets of the Trust Fund on a pay-as-you-go basis.

**b. Valuation of Plan Investments**

OPEB Trust Fund investments are reported at fair value. Securities traded on national and international exchanges are valued at the last reported sales price.

**3. Funding Policy**

**a. Employer Contributions**

The Town's contributions are actuarially determined on an annual basis using the projected unit credit method. The Police, Town and Board of Education's total plan contribution for fiscal year 2010/11 was \$739,000.

**b. Employee Contributions**

There are no employee contributions to the plan.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**E. Other Post-Employment Benefits Plan (Continued)**

**4. Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2010 was as follows (no valuation was performed in July 2009):

ACTUARIAL VALUATION DATE	(A) ACTUARIAL VALUE OF ASSETS	(B) ACTUARIALLY ACCRUED LIABILITY (AAL)	(A-B) OVER/ (UNDER) FUNDED AAL	(A/B) FUNDED AAL RATIO	(C) COVERED PAYROLL	[(A-B)/C] OVER (UNDER) FUNDED AAL AS A PERCENTAGE OF COVERED PAYROLL
<u>POLICE</u>						
July 1, 2010	\$ 60,000	\$2,269,000	\$(2,209,000)	2.64%	\$3,394,227	(65.08)%
<u>TOWN</u>						
July 1, 2010	\$ -	\$1,893,000	\$(1,893,000)	0.00%	\$8,240,567	(22.97)%
<u>BOARD OF EDUCATION</u>						
July 1, 2010	\$ -	\$6,193,000	\$(6,193,000)	0.00%	\$30,026,823	(20.62)%
<u>TOTAL</u>						
July 1, 2010	\$ 60,000	\$10,355,000	\$(10,295,000)	0.58%	\$41,661,617	(24.71)%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress (RSI), immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**E. Other Post-Employment Benefits Plan (Continued)**

**5. Actuarial Methods and Assumptions**

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

The data presented in the schedules of funding progress and schedules of contributions were determined as part of the actuarial valuation at the date indicated. Additional information for all plans as of the latest valuation date is as follows:

VALUATION DATE	July 1, 2010
ACTUARIAL COST METHOD	Projected Unit Credit
AMORTIZATION METHOD	Level Percentage
REMAINING AMORTIZATION PERIOD:	
Police	28 years closed
Town	28 years closed
Board of Education	28 years closed
 <u>ACTUARIAL ASSUMPTIONS:</u>	
Investment rate of return - Town and Police	7.0%
Investment rate of return - Board of Education	7.0%
Healthcare inflation rate:	
Initial	6.7%
Ultimate	4.7%

The following assumption changes, effective July 1, 2010, include increasing the discount rate from 4.0% to 7.0% to reflect the establishment of an OPEB investment Trust. The effects of this change decreased the Accrued Liability by \$4.9 million and decreased the Annual Required Contribution (ARC) for the ensuing fiscal year by \$350,000. In addition, the Initial healthcare inflation rate was adjusted from 7.0% to 6.7% and the Ultimate healthcare inflation rate was adjusted from 4.4% to 4.7%. These changes resulted in an increase to the Accrued Liability of \$1.9 million and an increase in the ARC of \$190,000 for the ensuing fiscal year.

TOWN OF VERNON, CONNECTICUT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**E. Other Post-Employment Benefits Plan (Continued)**

**6. Annual OPEB Cost and Net OPEB Obligation (NOO)**

The changes in the NOO were as follows:

	POLICE	TOWN	BOARD OF EDUCATION	TOTAL
Annual required contribution.....	\$ 270,000	\$ 223,000	\$ 669,000	\$ 1,162,000
Interest on net OPEB obligation.....	8,258	9,821	21,849	39,928
Adjustment to annual required contribution..	<u>( 7,668)</u>	<u>( 9,120)</u>	<u>( 20,288)</u>	<u>( 37,076)</u>
Annual OPEB cost.....	270,590	223,701	670,561	1,164,852
Contributions made.....	<u>209,000</u>	<u>117,000</u>	<u>413,000</u>	<u>739,000</u>
Change in net OPEB obligation.....	61,590	106,701	257,561	425,852
Net OPEB obligation - July 1, 2010.....	<u>206,443</u>	<u>245,526</u>	<u>546,217</u>	<u>998,186</u>
Net OPEB obligation - June 30, 2011 .....	<u>\$ 268,033</u>	<u>\$ 352,227</u>	<u>\$ 803,778</u>	<u>\$ 1,424,038</u>

**7. Three Year Trend Information**

YEAR ENDING JUNE 30	ANNUAL OPEB COST (AOC)	PERCENTAGE OF AOC CONTRIBUTED	NET OPEB OBLIGATION
<u>POLICE</u>			
2011	\$ 270,590	77.2%	\$ 268,033
2010	259,443	61.7%	206,443
2009	249,000	57.0%	107,000
<u>TOWN</u>			
2011	\$ 223,701	52.3%	\$ 352,227
2010	215,526	45.0%	245,526
2009	206,000	38.3%	127,000
<u>BOARD OF EDUCATION</u>			
2011	\$ 670,561	61.6%	\$ 803,778
2010	644,217	60.9%	546,217
2009	618,000	52.4%	294,000

TOWN OF VERNON, CONNECTICUT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

**IV. OTHER INFORMATION (CONTINUED)**

**E. Other Post-Employment Benefits Plan (Continued)**

**7. Three Year Trend Information (Continued)**

YEAR ENDING JUNE 30	ANNUAL OPEB COST (AOC)	PERCENTAGE OF AOC CONTRIBUTED	NET OPEB OBLIGATION
TOTAL			
2011	\$ 1,164,852	63.4%	\$ 1,424,038
2010	1,119,186	58.0%	998,186
2009	1,073,000	50.8%	528,000

**F. On-Behalf Payments**

The amount of the State Teachers' Retirement Plan contribution recognized in the General Fund intergovernmental revenues and education expenditures for contributions made by the State on-behalf of the Town's teachers was \$3,865,043.

**G. Subsequent Events**

In October 2011, the Town experienced a severe snowstorm, which resulted in tree damages that required local emergency disaster relief efforts. A combination of emergency and additional appropriations were approved to finance the protective measures, response, recovery and cleanup. During fiscal year 2011-2012, the damage caused by Tropical Storm Irene and the October Storm Alfred necessitated additional appropriations of \$3,916,000. Both of these storms are federally declared disasters, and the Town is applying to FEMA for 75% emergency relief assistance.

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**Required  
Supplementary  
Information**

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TOWN OF VERNON, CONNECTICUT

GENERAL FUND  
 SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b><u>Tax revenue</u></b>				
Current year taxes	\$ 55,625,175	\$ 55,625,175	\$ 55,953,098	\$ 327,923
Prior year taxes	507,000	507,000	550,568	43,568
Supplemental motor vehicle tax	435,000	435,000	531,823	96,823
Interest and lien fees	320,000	320,000	339,893	19,893
Warrant revenue	16,000	16,000	8,031	(7,969)
Liens	5,000	5,000	3,855	(1,145)
Total tax revenue	56,908,175	56,908,175	57,387,268	479,093
<b><u>Intergovernmental</u></b>				
Civil preparedness grant	7,100	7,100	6,724	(376)
FEMA Disaster Assistance program			80,080	80,080
Bullet Proof Vest grant	2,500	2,500	2,497	(3)
Community services block grant	22,177	22,177	21,209	(968)
ARRA Education SFSF			2,517,347	2,517,347
ARRA Government Service ECS				-
Education cost sharing	17,645,165	17,645,165	15,097,045	(2,548,120)
Public pupil transportation	330,273	330,273	224,899	(105,374)
Non-public pupil transportation	24,000	24,000	24,360	360
Vocational Agriculture	113,000	113,000	112,423	(577)
Student Based Supplement grant			128,580	128,580
Special ed. - State agency placement			255,734	255,734
Special ed. - Excess student based grant			627,888	627,888
Special ed. - State agency placement			91,684	91,684
School construction grants - Principal	228,121	228,121	228,122	1
School construction grants - Interest	12,598	12,598	12,598	-
Medicaid reimbursement	48,000	48,000	38,820	(9,180)
Pilot - Colleges and hospitals	340,677	340,677	341,964	1,287
Pilot - State owned property	198,542	198,542	199,681	1,139
Pilot- Boat tax reimbursement	5,405	5,405	8,537	3,132
Pilot - Shelter rent	28,000	28,000	20,544	(7,456)
Tax relief - Elderly circuit breaker	148,000	148,000	139,904	(8,096)
Tax relief - Disability exemption	3,300	3,300	3,237	(63)
Tax relief - Veterans exemption	24,000	24,000	23,656	(344)
Tax relief - New mfg. mach. and equipment	80,000	80,000	121,917	41,917
Mashantucket Pequot and Mohegan grant	240,169	240,169	245,131	4,962
Property Tax Relief grant			11,019	11,019
Telephone tax sharing	80,420	80,420	68,015	(12,405)
Judicial reimbursement - Parking	50	50	50	-
Judicial reimbursements	100	100	498	398.00
Special reimbursements - Permits	200	200	210	10
Driving Under the Influence grant	24,909	24,909	30,809	5,900
Motor Vehicle Violation surcharge	14,000	14,000	14,970	970
Historic Document Preservation Grant	8,000	8,000	6,000	(2,000)
Other - State grants	2,000	2,000	4,683	2,683
Total intergovernmental	19,630,706	19,630,706	20,710,835	1,080,129

(Continued)-1

TOWN OF VERNON, CONNECTICUT

GENERAL FUND  
 SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget
	Original	Final		
<b><u>Charges for services</u></b>				
Town Clerk recording fees	\$ 400,000	\$ 400,000	\$ 363,754	\$ (36,246)
Vital statistics	500	500		(500)
Historic document preservation	7,500	7,500	12,384	4,884
Farmland Preservation surcharge			152,799	152,799
Printing and copying fees	800	800	496	(304)
Finance administration fee	11,000	11,000	11,000	-
Planning and zoning fees	6,000	6,000	8,005	2,005
Conservation fees	1,600	1,600	731	(869)
Assessor fees	3,500	3,500	2,177	(1,323)
Tax Collection fees			18,229	18,229
Police - Special services	10,000	10,000	197,338	187,338
Fingerprint fees	2,500	2,500		(2,500)
Fire Marshal - services	750	750	401	(349)
Historic properties certification			100	100
Recycling	32,000	32,000	45,746	13,746
Recycling bin promotion			990	990
Bulky waste pickup	21,150	21,150	10,590	(10,560)
CRRRA reimbursement			9,629	9,629
Other maintenance and development	20,000	20,000	23,520	3,520
Client reimbursements			395	395
Yankee Gas - administrative allocation	1,800	1,800	1,154	(646)
Energy application administration	9,000	9,000	8,481	(519)
Housing Rehab Administration	3,000	3,000	698	(2,302)
Recreation - Other			4,115	4,115
Tuition - Special education			61,996	61,996
Tuition - Vo-ag	400,000	400,000	326,192	(73,808)
Tuition - Special education Vo-ag	73,000	73,000	29,630	(43,370)
Tuition - Individual	10,000	10,000		(10,000)
School use fee			37,000	37,000
Other - Education community	4,000	4,000	58,653	54,653
<b>Total charges for services</b>	<b>1,018,100</b>	<b>1,018,100</b>	<b>1,386,203</b>	<b>368,103</b>

(Continued)-2

TOWN OF VERNON, CONNECTICUT

**GENERAL FUND**  
**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget
	Original	Final		
<b><u>Licenses and permits</u></b>				
Building permits	\$ 310,000	\$ 310,000	\$ 400,476	\$ 90,476
Zoning Review	300	300	425	125
ZBA Fees	3,000	3,000	3,220	220
Zoning Permits	6,000	6,000	5,525	(475)
Town Clerk - License surcharge	2,500	2,500	2,014	(486)
Refuse licensing	6,500	6,500	500	(6,000)
Transfer station permits	77,800	77,800	70,215	(7,585)
Driveway & road cut permits	9,200	9,200	9,300	100
Total licenses and permits	415,300	415,300	491,675	76,375
<b><u>Fines and penalties</u></b>				
Parking tags	11,000	11,000	9,698	(1,302)
Returned check charge	200	200		(200)
Zoning citations			495	495
Total fines and penalties	11,200	11,200	10,193	(1,007)
<b><u>Interest on investments</u></b>				
General Fund	52,000	52,000	27,119	(24,881)
Interest on investments-Post Employment	880	880	481	(399)
Teachers' Retirement Board	160	160	108	(52)
Total interest on investments	53,040	53,040	27,708	(25,332)
<b><u>Other revenue</u></b>				
Rental income - Annex	24,000	24,000	24,000	-
Rental income - Senior Center	125	125	108	(17)
Rental management fee	50,000	50,000	50,000	-
Proceeds from sale of property			11,010	11,010
Medical insurance reimbursement	244,052	244,052	273,683	29,631
Insurance reimbursements			262,541	262,541
Gasoline reimbursement	57,210	57,210	42,979	(14,231)
Refunds and reimbursements			15,000	15,000
Tolland - East /East Main St. Sewers	39,000	39,000	39,380	380.00
Lease - Ellington pump station	5,821	5,821	6,370	549
Miscellaneous	28,000	28,000	14,458	(13,542)
Total other revenue	448,208	448,208	739,529	291,321
<b>Total revenues</b>	<b>78,484,729</b>	<b>78,484,729</b>	<b>80,753,411</b>	<b>2,268,682</b>

(Continued)-3

TOWN OF VERNON, CONNECTICUT

**GENERAL FUND**  
**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget
	Original	Final		
<b><u>Other financing sources</u></b>				
Special Revenue Funds:				
Recreation programs	\$ 71,400	\$ 71,400	\$ 71,400	\$ -
Sewer assessments - Ord. 167	57,000	57,000	57,000	-
Sewer assessments - Ord. 201	23,000	23,000	23,000	-
Capital Projects			42,396	42,396
Ambulance services	82,000	82,000	82,000	-
Interest on investments-Insurance Exchange	300	300	178	(122)
Interest on investments-Town Aid roads	300	300	256	(44)
Interest on investments-School Readiness	30	30	1,874	1,844
Cultural arts program			3	3
Interest on investments-Sewer Assessments	600	600	278	(322)
<b>Total Special Revenue Funds</b>	<b>234,630</b>	<b>234,630</b>	<b>278,385</b>	<b>43,755</b>
Transfers in:				
Debt Service Fund:				
Interest on investments	2,100	2,100	1,229	(871)
<b>Total other financing sources</b>	<b>236,730</b>	<b>236,730</b>	<b>279,614</b>	<b>42,884</b>
<b>Total revenues and other financing sources</b>	<b>\$ 78,721,459</b>	<b>\$ 78,721,459</b>	<b>81,033,025</b>	<b>\$ 2,311,566</b>

Budgetary revenues are different than GAAP revenue because:

State of Connecticut "on-behalf" contributions to the Connecticut State Teachers'

Retirement System for Town teachers are not budgeted

3,865,043

Total revenues and other financing sources as reported on the statement of revenues,  
expenditures and changes in fund balances - governmental funds - Exhibit D

\$ 84,898,068

(Concluded)-4

**TOWN OF VERNON, CONNECTICUT**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		Expenditures	Outstanding Encumbrances	Total Expenditures and Encumbrances	Variance with Final Budget
	Original	Final				
<b><u>General government</u></b>						
Town Council	\$ 13,075	\$ 22,244	\$ 13,008	\$ 7,707	\$ 20,715	\$ 1,529
Probate court	16,172	27,992	17,093	10,310	27,403	589
Executive and administrative	694,078	755,552	667,693	47,461	715,154	40,398
Law	160,000	315,748	308,144	7,601	315,745	3
Registration	69,597	74,261	66,931	6,306	73,237	1,024
Elections - general	26,700	32,681	28,257	4,399	32,656	25
Elections - primary	20,300	20,425	20,278		20,278.00	147
Elections - referendum	6,600	9,100	2,573	2,827	5,400	3,700
Finance administration	409,780	493,654	458,569	34,262	492,831	823
Independent audit	45,375	53,980	53,680	300	53,980	-
Treasury	2,180	3,655	2,683	930	3,613	42
Purchasing	10,580	17,488	8,648	8,730	17,378	110
Assessment	254,486	246,953	222,105	19,120	241,225	5,728
Refunds - tax adjustments	25,000	45,200	43,389		43,389	1,811
Collector of Revenue	201,375	226,729	199,167	24,696	223,863	2,866
Revaluation	30,000	73,904	69,247	4,258	73,505	399
Town Clerk	250,004	434,885	381,530	43,899	425,429	9,456
Board of Assessment Appeals	2,700	2,700	2,681		2,681	19
Water Pollution Control Authority	13,641	13,641	13,641		13,641	-
Greater Hartford Transit District	3,647	3,647	3,647		3,647	-
Data processing	476,817	581,386	464,396	106,285	570,681	10,705
Total general government	2,732,107	3,455,825	3,047,360	329,091	3,376,451	79,374
<b><u>Community development</u></b>						
Town Planner - Administration	229,820	225,359	210,671	14,371	225,042	317

(Continued)-1

**TOWN OF VERNON, CONNECTICUT**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		Expenditures	Outstanding Encumbrances	Total Expenditures and Encumbrances	Variance with Final Budget
	Original	Final				
<b><u>Public safety</u></b>						
Police	\$ 5,766,910	\$ 5,936,613	\$ 5,806,771	\$ 89,765	\$ 5,896,536	\$ 40,077
School crossing guards	64,820	64,820	59,540		59,540	5,280
Traffic authority	327,960	427,138	323,052	99,030	422,082	5,056
Fire fighting and administration	1,143,819	1,174,443	1,070,311	45,200	1,115,511	58,932
Fire Marshal	94,856	94,929	91,350	165	91,515	3,414
Building inspection	267,553	260,714	253,538	2,707	256,245	4,469
Emergency Management	44,660	44,660	35,680	636	36,316	8,344
Animal control	128,924	135,024	134,164		134,164	860
<b>Total public safety</b>	<b>7,839,502</b>	<b>8,138,341</b>	<b>7,774,406</b>	<b>237,503</b>	<b>8,011,909</b>	<b>126,432</b>
<b><u>Maintenance and development</u></b>						
Public Works administration	582,462	602,122	589,595	8,444	598,039	4,083
General maintenance	1,248,177	1,256,953	1,212,582	29,624	1,242,206	14,747
Equipment maintenance	740,820	771,341	737,868	31,921	769,789	1,552
Maintenance of gov't buildings	784,294	791,833	729,445	46,902	776,347	15,486
Snow removal	194,740	721,372	712,932	25	712,957	8,415
Refuse collection and disposal	1,180,739	1,185,292	1,094,702	89,336	1,184,038	1,254
Recycling	281,333	307,234	287,010	12,865	299,875	7,359
Condominium refuse	5,046	5,046	5,046		5,046	-
Tree Warden	11,650	11,650	6,588	4,305	10,893	757
Leaf collection program	117,324	107,324	94,895		94,895	12,429
Engineering admin. services	277,048	289,061	287,328	1,474	288,802	259
<b>Total maintenance and development</b>	<b>5,423,633</b>	<b>6,049,228</b>	<b>5,757,991</b>	<b>224,896</b>	<b>5,982,887</b>	<b>66,341</b>

(Continued)-2

TOWN OF VERNON, CONNECTICUT  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		Expenditures	Outstanding Encumbrances	Total Expenditures and Encumbrances	Variance with Final Budget
	Original	Final				
<b><u>Human services</u></b>						
North Central Health District	\$ 118,461	\$ 120,848	\$ 120,848		\$ 120,848	\$ -
Visiting Nurses and Health Services	12,249	15,221	14,338	883	15,221	-
Hockanum Valley Community Council	165,000	165,367	165,367		165,367	-
Child Guidance Clinic	11,000	11,000	11,000		11,000	-
Exchange Club-Prevent Child Abuse	8,000	8,000	8,000		8,000	-
Hockanum Industries	7,000	7,000	7,000		7,000	-
MARC, Inc. of Manchester	4,000	4,000	4,000		4,000	-
Shelter Services	9,000	9,000	7,516	1,484	9,000	-
Connecticut Legal Services	4,000	4,000	4,000		4,000	-
Hartford Interval House	2,500	2,500	2,500		2,500	-
YWCA Sexual Assault Services	2,000	2,000	2,000		2,000	-
Hockanum Valley School Readiness	4,000	4,000	4,000		4,000	-
Social services administration	237,988	259,988	259,331	204	259,535	453
Youth services	219,167	234,841	230,866	277	231,143	3,698
Senior center	126,543	124,747	118,172	935	119,107	5,640
Total human services	930,908	972,512	958,938	3,783	962,721	9,791
<b><u>Parks, recreation and culture</u></b>						
Recreation administration	410,606	418,700	416,176	1,524	417,700	1,000
Public celebration	15,600	19,812	19,670		19,670	142
Parks maintenance	576,697	614,061	589,018	9,961	598,979	15,082
Art commission	11,840	17,443	14,008	3,075	17,083	360
Historical Society	5,000	5,000	5,000		5,000	-
Rockville Public Library	300,000	300,000	300,000		300,000	-
Total parks, recreation and culture	1,319,743	1,375,016	1,343,872	14,560	1,358,432	16,584

(Continued)-3

**TOWN OF VERNON, CONNECTICUT**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		Expenditures	Outstanding Encumbrances	Total Expenditures and Encumbrances	Variance with Final Budget
	Original	Final				
<b><u>Townwide</u></b>						
Social security and Medicare	\$ 912,600	\$ 915,100	\$ 895,476	\$	\$ 895,476	\$ 19,624
Pension	1,876,000	2,306,613	2,275,702	30,909	2,306,611	2
Group insurance	3,269,888	3,368,278	3,165,987	110,299	3,276,286	91,992
Unemployment compensation	22,000	33,021	28,509	4,512	33,021	-
Municipal insurance	749,829	751,829	724,718	12,000	736,718	15,111
Contingency	122,000	38,388	25,804		25,804	12,584
Housing Authority sewer subsidy	46,440	50,423	47,872	2,551	50,423	-
Vernon Cemetery Commission	157,899	157,899	157,899		157,899	-
Total townwide	7,156,656	7,621,551	7,321,967	160,271	7,482,238	139,313
Subtotal - General Government	25,632,369	27,837,832	26,415,205	984,475	27,399,680	438,152
<b><u>Debt service</u></b>						
Debt service - principal	2,109,736	2,301,370	2,301,286		2,301,286	84
Debt service - interest	1,951,802	1,956,404	1,752,452	201,000	1,953,452	2,952
Total debt service	4,061,538	4,257,774	4,053,738	201,000	4,254,738	3,036
<b><u>Capital improvements</u></b>						
Capital improvements - Town		124,125	109,587	14,538	124,125	-
Subtotal - Cap. improve. / Debt Service	4,061,538	4,381,899	4,163,325	215,538	4,378,863	3,036

(Continued)-4

TOWN OF VERNON, CONNECTICUT  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		Expenditures	Outstanding Encumbrances	Total Expenditures and Encumbrances	Variance with Final Budget
	Original	Final				
<b><u>Education</u></b>						
Regular instruction	\$ 19,096,615	\$ 19,199,571	\$ 19,490,660	\$ 142,232	\$ 19,632,892	\$ (433,321)
Special Education instruction	4,034,407	4,051,834	4,105,313	3,457	4,108,770	(56,936)
Continuing Education	256,339	209,132	209,132		209,132	-
Special Education program support	2,137,210	2,895,990	3,098,823	2,642	3,101,465	(205,475)
Social Work services	539,273	542,271	536,042		536,042	6,229
Guidance services	678,952	683,709	678,522		678,522	5,187
Health services	371,847	391,847	414,717	1,749	416,466	(24,619)
Psychological services	617,412	623,200	613,923		613,923	9,277
Speech pathology & audio services	494,550	507,596	491,805		491,805	15,791
Instructional program support	26,821	27,645	21,865	1,400	23,265	4,380
Library / Media services	378,439	399,927	374,722	28,255	402,977	(3,050)
Curriculum development	1,236,698	1,256,541	1,065,930	149,541	1,215,471	41,070
Superintendent's office	448,483	448,483	430,907	2,618	433,525	14,958
Board of Education - Elected	105,517	101,017	100,653		100,653	364
Principal office services	1,966,129	1,990,923	1,937,613	31,714	1,969,327	21,596
Business office	393,520	404,189	394,670	5,435	400,105	4,084
Capital Reserve						-
Building / Plant operations	3,888,211	3,991,500	3,685,224	221,625	3,906,849	84,651
Student transportation services	2,287,904	2,534,704	2,351,041		2,351,041	183,663
General control	182,413	187,480	175,116	7,188	182,304	5,176
Information systems	310,000	310,000	330,400		330,400	(20,400)
System-wide fringe benefits	7,546,035	7,556,962	7,237,262	2,800	7,240,062	316,900
Extra curricular student activities	505,337	507,343	480,046	301	480,347	26,996
Contingency	56,847	56,847				56,847
<b>Total Education</b>	<b>47,558,959</b>	<b>48,878,711</b>	<b>48,224,386</b>	<b>600,957</b>	<b>48,825,343</b>	<b>53,368</b>
<b>Total Expenditures</b>	<b>77,252,866</b>	<b>81,098,442</b>	<b>78,802,916</b>	<b>1,800,970</b>	<b>80,603,886</b>	<b>494,556</b>

(Continued)-5

TOWN OF VERNON, CONNECTICUT

**GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		Expenditures	Outstanding Encumbrances	Total Expenditures and Encumbrances	Variance with Final Budget
	Original	Final				
<b><u>Other financing uses</u></b>						
Transfers out:						
Special Revenue Funds:						
Town Clerk - Preservation surcharge	\$	\$ 4,128	\$ 4,128	\$	\$ 4,128	\$ -
Planning - Open space	10,000	10,000	10,000		10,000	-
Community & Economic development	20,382	20,382	20,382		20,382	-
Social services administration	7,500	7,500	7,500		7,500	-
Debt service - principal	89,000	86,000	86,000		86,000	-
Debt service - interest	37,422	40,422	40,422		40,422	-
Capital improvements - Town		52,747	52,747		52,747	-
Education - Capital Reserve			53,306		53,306	(53,306)
Debt Service Fund:						
Debt service - principal WTP	1,155,972	1,155,972	1,155,972		1,155,972	-
Debt service - interest WTP	148,317	148,317	148,316		148,316	1
<b>Total other financing uses</b>	<b>1,468,593</b>	<b>1,525,468</b>	<b>1,578,773</b>	<b>-</b>	<b>1,578,773</b>	<b>(53,305)</b>
<b>Total expenditures and other financing uses</b>	<b>\$78,721,459</b>	<b>\$82,623,910</b>	<b>\$80,381,689</b>	<b>\$1,800,970</b>	<b>82,182,659</b>	<b>\$ 441,251</b>

Budgetary expenditures are different than GAAP expenditures because:

State of Connecticut "on-behalf" payments to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted

3,865,043

Encumbrances for purchases and commitments ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year received for financial reporting purposes

(1,800,970)

Total expenditures and other financing uses as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds - Exhibit D

\$84,246,732

(Concluded)-6

TOWN OF VERNON, CONNECTICUT

## REQUIRED SUPPLEMENTARY INFORMATION

VERNON RETIREMENT SYSTEM  
SCHEDULE OF FUNDING PROGRESS

POLICE PLAN						
	A	B	(A-B)	(A/B)	C	[(A-B)/C]
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIALY ACCRUED LIABILITY (AAL) PROJECTED UNIT CREDIT	OVER (UNDER) FUNDED AAL	FUNDED AAL RATIO	COVERED PAYROLL	OVER/UNDER FUNDED AAL AS A PERCENTAGE OF COVERED PAYROLL
JANUARY 1,						
2006	\$15,867,683	\$21,238,553	(\$5,370,870)	74.7%	\$3,512,784	(152.9%)
2007	16,600,994	22,516,606	(5,915,612)	73.7%	3,701,061	(159.8%)
2008	17,438,418	23,957,282	(6,518,864)	72.8%	3,927,066	(166.0%)
2009	15,349,405	24,985,131	(9,635,726)	61.4%	4,181,987	(230.4%)
2010	16,898,080	27,986,776	(11,088,696)	60.4%	4,350,681	(254.9%)
2011	16,862,650	29,969,970	(13,107,320)	56.3%	4,352,823	(301.1%)
TOWN PLAN						
	A	B	(A-B)	(A/B)	C	[(A-B)/C]
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIALY ACCRUED LIABILITY (AAL) PROJECTED UNIT CREDIT	OVER (UNDER) FUNDED AAL	FUNDED AAL RATIO	COVERED PAYROLL	OVER/UNDER FUNDED AAL AS A PERCENTAGE OF COVERED PAYROLL
JANUARY 1,						
2006	\$19,178,993	\$32,510,899	(\$13,331,906)	59.0%	\$12,469,300	(106.9%)
2007	21,441,511	35,308,131	(13,866,620)	60.7%	12,743,672	(108.8%)
2008	23,916,877	38,366,205	(14,449,328)	62.3%	13,408,005	(107.8%)
2009	24,412,641	40,929,548	(16,516,907)	59.6%	13,857,289	(119.2%)
2010	26,751,553	46,632,119	(19,880,566)	57.4%	14,074,891	(141.2%)
2011	28,199,302	49,873,997	(21,674,695)	56.5%	14,247,198	(152.1%)

(Continued)

**TOWN OF VERNON, CONNECTICUT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**VERNON RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**

<b>LOSAP</b>						
	A	B	(A-B)	(A/B)	C	[(A-B)/C]
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIALLY ACCRUED LIABILITY (AAL) FROZEN ENTRY	OVER (UNDER) FUNDED AAL	FUNDED AAL RATIO	COVERED PAYROLL	OVER/UNDER FUNDED AAL AS A PERCENTAGE OF COVERED PAYROLL
JANUARY 1,						
2006	\$656,023	\$890,692	(\$234,669)	73.7%	N/A	N/A
2007	809,550	990,973	(181,423)	81.7%	N/A	N/A
2008	962,663	1,079,832	(117,169)	89.1%	N/A	N/A
2009	745,780	806,210	(60,430)	92.5%	N/A	N/A
2010	1,018,412	845,758	172,654	120.4%	N/A	N/A
2011	1,148,440	873,498	274,942	131.5%	N/A	N/A

(Concluded)

## TOWN OF VERNON, CONNECTICUT

## REQUIRED SUPPLEMENTARY INFORMATION

VERNON OTHER POST EMPLOYMENT BENEFIT PLANS  
SCHEDULE OF FUNDING PROGRESS

## POLICE OTHER POST EMPLOYMENT BENEFIT PLAN

	A	B	(A-B)	(A/B)	C	[(A-B)/C]
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIALLY ACCRUED LIABILITY (AAL) PROJECTED UNIT CREDIT	OVER (UNDER) FUNDED AAL	FUNDED AAL RATIO	COVERED PAYROLL	OVER/UNDER FUNDED AAL AS A PERCENTAGE OF COVERED PAYROLL
JULY 1, 2008	\$ -	\$ 3,071,000	\$ (3,071,000)	0.0%	\$ 3,352,315	(91.61%)
2009	N/A	N/A	N/A	N/A	N/A	N/A
2010	60,000	2,269,000	(2,209,000)	2.6%	3,394,227	(65.08%)

## TOWN OTHER POST EMPLOYMENT BENEFIT PLAN

	A	B	(A-B)	(A/B)	C	[(A-B)/C]
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIALLY ACCRUED LIABILITY (AAL) PROJECTED UNIT CREDIT	OVER (UNDER) FUNDED AAL	FUNDED AAL RATIO	COVERED PAYROLL	OVER/UNDER FUNDED AAL AS A PERCENTAGE OF COVERED PAYROLL
JULY 1, 2008	\$ -	\$ 2,128,000	\$ (2,128,000)	0.0%	\$ 8,275,348	(25.71%)
2009	N/A	N/A	N/A	N/A	N/A	N/A
2010	-	1,893,000	(1,893,000)	0.0%	8,240,567	(22.97%)

## BOARD OF EDUCATION OTHER POST EMPLOYMENT BENEFIT PLAN

	A	B	(A-B)	(A/B)	C	[(A-B)/C]
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIALLY ACCRUED LIABILITY (AAL) PROJECTED UNIT CREDIT	OVER (UNDER) FUNDED AAL	FUNDED AAL RATIO	COVERED PAYROLL	OVER/UNDER FUNDED AAL AS A PERCENTAGE OF COVERED PAYROLL
JULY 1, 2008	\$ -	\$ 8,194,000	\$ (8,194,000)	0.0%	\$ 28,991,599	(28.26%)
2009	N/A	N/A	N/A	N/A	N/A	N/A
2010	-	6,193,000	(6,193,000)	0.0%	30,026,823	(20.62%)

N/A - Not available due to biennial valuations.

TOWN OF VERNON, CONNECTICUT

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 VERNON RETIREMENT SYSTEM AND OTHER POST EMPLOYMENT BENEFIT PLANS

YEAR ENDED DECEMBER 31,	ANNUAL REQUIRED CONTRIBUTION	ACTUAL CONTRIBUTION	PERCENTAGE CONTRIBUTED
<b><u>PENSION PLANS</u></b>			
<b><u>POLICE EMPLOYEES</u></b>			
2005	\$ 933,759	\$ 933,759	100.0%
2006	931,473	931,473	100.0%
2007	1,020,600	1,020,600	100.0%
2008	1,107,688	1,107,688	100.0%
2009	1,025,928	1,025,928	100.0%
2010	1,057,949	1,057,949	100.0%
<b><u>TOWN</u></b>			
2005	1,190,512	1,190,512	100.0%
2006	1,583,333	1,583,333	100.0%
2007	1,677,731	1,677,731	100.0%
2008	1,750,784	1,750,784	100.0%
2009	1,509,046	1,509,046	100.0%
2010	1,502,551	1,502,551	100.0%
<b><u>LOSAP</u></b>			
2005	86,265	86,265	100.0%
2006	95,012	95,012	100.0%
2007	97,968	97,968	100.0%
2008	83,206	83,206	100.0%
2009	120,129	120,129	100.0%
2010	44,431	44,431	100.0%
<b><u>OTHER POST EMPLOYMENT BENEFIT PLANS</u></b>			
<b><u>POLICE</u></b>			
JUNE 30, 2009	\$ 249,000	\$ 142,000	57.0%
JUNE 30, 2010	259,000	160,000	61.8%
JUNE 30, 2011	270,000	209,000	77.4%
<b><u>TOWN</u></b>			
JUNE 30, 2009	206,000	79,000	38.3%
JUNE 30, 2010	215,000	97,000	45.1%
JUNE 30, 2011	223,000	117,000	52.5%
<b><u>BOARD OF EDUCATION</u></b>			
JUNE 30, 2009	618,000	324,000	52.4%
JUNE 30, 2010	643,000	392,000	61.0%
JUNE 30, 2011	669,000	413,000	61.7%

**APPENDIX B – OPINION OF BOND COUNSEL AND TAX EXEMPTION**

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

**BOND COUNSEL OPINION**

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

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

[FORM OF BOND COUNSEL OPINION]

(date of closing)

Town of Vernon  
Vernon, Connecticut

We have represented the Town of Vernon, Connecticut as Bond Counsel in connection with the issuance by the Town of \$34,685,000 General Obligation Refunding Bonds, Issue of 2012, and \$3,730,000 Bond Anticipation Notes, both dated as of April 11, 2012.

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

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

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

Based on such representations and agreements and on the record of proceedings authorizing the Bonds and Notes, and assuming the accuracy of such representations and compliance with such agreements, it is our opinion that, under existing statutes: (1) interest on the Bonds and Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; and (2) the Bonds and Notes are not "private activity bonds" and interest on the Bonds and Notes is not treated as a preference item for purposes of calculating the Federal alternative minimum tax, but in the case of corporations a portion of such interest may be included in alternative minimum taxable income for purposes of computing any Federal alternative minimum tax.

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

Very truly yours,

Day Pitney LLP

## **FEDERAL INCOME TAX.**

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

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

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

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

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

***Additional Federal Income Tax Matters.*** In addition to the matters addressed above, prospective purchasers of the Bonds and Notes should be aware that the ownership of tax-exempt obligations, such as the Bonds and Notes, may result in collateral Federal income tax consequences to certain taxpayers, including without limitation, taxpayers otherwise eligible for the earned income credit, recipients of Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, certain insurance companies, certain S corporations and foreign corporations subject to the branch profits tax. Prospective purchasers of the Bonds and Notes may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

## **STATE OF CONNECTICUT TAX ON INTEREST.**

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

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

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

### **ORIGINAL ISSUE DISCOUNT.**

The initial public offering price of certain of the Bonds may be less than the amount payable on the Bonds at maturity. The excess of the amount payable at maturity over the initial public offering price at which a substantial amount of such Bonds are sold constitutes original issue discount. Any prices set forth on the cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the Bonds were ultimately sold to the public.

The discussion in this paragraph applies to those Bonds having original issue discount. Under Section 1288 of the Code, the amount of original issue discount treated as having accrued with respect to any such bond during each day it is owned by a taxpayer is added to the cost basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bond by such owner. Accrued original issue discount on a bond is excluded from gross income of the owners thereof for Federal income tax purposes. Accrued original issue discount on a bond is also excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. Original issue discount on any bond is treated as accruing on the basis of economic accrual for such purposes, computed by a constant semiannual compounding method using the yield to maturity on such bond. The original issue discount attributable to any bond for any particular semiannual period is equal to the excess of the product of (i) one-half of the yield to maturity of such bond and (ii) the amount which would be the adjusted basis of the bond at the beginning of such semiannual period if held by the original owner and purchased by such owner at the initial public offering price, over the interest payable on such bond during such period. The amount so treated as accruing during each semiannual period is apportioned in equal amounts among the days in that period to determine the amount of original issue discount accruing for such purposes during each such day. Owners of Bonds having original issue discount, and especially any owner who is not an original owner of a bond who bought the bond at its initial public offering price, should consult their tax advisors with respect to the Federal and state income tax consequences of the disposition of such Bonds.

### **ORIGINAL ISSUE PREMIUM.**

The initial public offering price of certain of the Bonds and Notes may be greater than the amount payable on the Bonds and Notes at maturity. The excess of the initial public offering price at which a substantial amount of such Bonds and Notes are sold over the amount payable thereon at maturity constitutes original issue premium. Any prices set forth on the cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the Bonds and Notes were ultimately sold to the public.

The discussion in this paragraph applies to those Bonds having original issue premium. Under Sections 1016 and 171 of the Code, the amount of original issue premium treated as having amortized with respect to any bond during each day it is owned by a taxpayer is subtracted from the cost basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bond by such owner. Original issue premium on any bond is treated as amortizing on the basis of the taxpayer's yield to maturity on such bond using the taxpayer's cost basis and a constant semiannual compounding method. As a consequence of the resulting cost basis reduction, under certain circumstances an owner of a bond acquired with original issue premium may realize a taxable gain upon disposition thereof even though it is sold or redeemed for an amount equal to or less than such owner's original cost of acquiring the bond. Amortized original issue premium on a bond is not allowed as a deduction from gross income for Federal income tax purposes. Amortized original issue premium on a bond also does not reduce Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and does not reduce amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. Owners of Bonds having original issue premium, and especially any owner who is not an original owner of a bond who bought the bond at its initial public offering price, should consult their tax advisors with respect to the Federal and state income tax consequences of the disposition of such Bonds.

The discussion in this paragraph applies to those Notes having original issue premium. An owner who purchases a note with original issue premium must amortize such original issue premium as provided in applicable Treasury Regulations, and amortized premium reduces the owner's basis in the note for federal income tax purposes. Owners of Notes having original issue premium, and especially any owner who is not an original owner of a note who bought the note at its initial public offering price, should consult their tax advisors with respect to the Federal and state income tax consequences of the disposition of such Notes.

#### **GENERAL.**

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds and Notes may affect the tax status of interest on the Bonds and Notes. Legislation affecting municipal bonds is regularly under consideration by the United States Congress. For example, on September 13, 2011, S.B. 1549, the "American Jobs Act of 2011" (the "Jobs Act"), was introduced into the United States Senate, which legislation, if enacted as introduced, would have subjected to federal income taxation a portion of the interest on all tax-exempt bonds (including the Bonds and Notes) received for taxable years beginning on or after January 1, 2013 by certain individuals with incomes above specified limits. The Jobs Act was not enacted; however, on February 13, 2012, President Obama released his fiscal 2013 Federal budget request, which includes a proposal to cap at 28% the value of tax preferences, including tax-exempt interest for municipal bonds. No assurance can be given that Federal legislation enacted or proposed after the date of issuance of the Bonds and Notes will not have an adverse effect on the tax-exempt status or market price of the Bonds and Notes or will not change the effect of other Federal tax law consequences discussed above of owning and disposing of the Bonds and Notes and Bond Counsel expresses no opinion thereon. No assurance can be given that future legislation, or amendments to the income tax law of the State of Connecticut, if enacted into law, will not contain provisions that could, directly or indirectly, reduce the benefit of the exclusion of the interest on the Bonds and Notes or any gain made on the sale or exchange thereof from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates, and Bond Counsel expresses no opinion thereon. Prospective owners of the Bonds and Notes are advised to consult their tax advisors regarding the potential tax consequences of proposed Federal or State of Connecticut tax legislation affecting municipal bonds.

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

## APPENDIX C - FORM OF CONTINUING DISCLOSURE AGREEMENT FOR BONDS

*In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the Town will agree, pursuant to a Continuing Disclosure Agreement for Bonds to be executed by the Town substantially in the following form, to provide, or cause to be provided, (i) annual financial information and operating data, (ii) in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of certain events with respect to the Bonds and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for Bonds.*

### Continuing Disclosure Agreement for Bonds

This Continuing Disclosure Agreement for Bonds ("Agreement") is made as of April 11, 2012 by the Town of Vernon, Connecticut (the "Issuer") acting by its undersigned officers, duly authorized, in connection with the issuance of \$34,685,000 General Obligation Refunding Bonds, Issue of 2012, dated as of April 11, 2012 (the "Bonds") for the benefit of the beneficial owners from time to time of the Bonds.

**Section 1. Definitions.** For purposes of this Agreement, the following capitalized terms shall have the following meanings:

"Final Official Statement" means the official statement of the Issuer dated April 5, 2012 prepared in connection with the Bonds.

"MSRB" means the Municipal Securities Rulemaking Board established under the Securities Exchange Act of 1934, as amended, or any successor thereto.

"Repository" means the MSRB or any other information repository established pursuant to the Rule as amended from time to time.

"Rule" means Rule 15c2-12 under the Securities Exchange Act of 1934, as of the date of this Agreement.

"SEC" means the Securities and Exchange Commission of the United States, or any successor thereto.

### **Section 2. Annual Financial Information.**

(a) The Issuer agrees to provide or cause to be provided to each Repository, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2012) as follows:

(i) Financial statements of the Issuer's general fund, and any special revenue, capital projects, internal service and trust or agency funds, for the prior fiscal year which statements shall be prepared in accordance with generally accepted accounting principles or mandated state statutory principles as in effect from time to time. As of the date of this Agreement, the Issuer prepares its financial statements in accordance with generally accepted accounting principles. The financial statements will be audited.

(ii) The following financial information and operating data to the extent not included in the financial statements described in (i) above:

- (A) amounts of the net taxable grand list applicable to the fiscal year,
- (B) listing of the ten largest taxpayers on the applicable grand list, together with each such taxpayer's taxable valuation thereon,
- (C) percentage of the annual property tax levy uncollected as of the close of the fiscal year,
- (D) schedule of annual debt service on outstanding long-term bonded indebtedness as of the close of the fiscal year,

- (E) calculation of total direct debt and net direct debt as of the close of the fiscal year,
- (F) total direct debt and net direct debt of the Issuer per capita,
- (G) ratios of the total direct debt and net direct debt of the Issuer to the Issuer's net taxable grand list,
- (H) statement of statutory debt limitation as of the close of the fiscal year, and
- (I) funding status of the Issuer's pension benefit obligation.

(b) The financial information and operating data described above will be provided on or before the date eight months after the close of the fiscal year for which such information is being provided. The Issuer's fiscal year currently ends on June 30.

(c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents available to the public on the MSRB's Internet Web site referenced in the Rule as amended from time to time or filed with the SEC. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report.

(d) The Issuer reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in accounting principles adopted by the Issuer; provided that the Issuer agrees that any such modification will be done in a manner consistent with the Rule.

**Section 3. Notice of Certain Events.**

The Issuer agrees to provide or cause to be provided, in a timely manner not in excess of ten business days after the occurrence of the event, to each Repository notice of the occurrence of any of the following events with respect to the Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the Bonds;
- (g) modifications to rights of holders of the Bonds, if material;
- (h) Bond and Note calls, if material, and tender offers;
- (i) Bond and Note defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the Issuer;

(m) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

**Section 4. Notice of Failure to Provide Annual Financial Information.**

The Issuer agrees to provide or cause to be provided, in a timely manner, to each Repository notice of any failure by the Issuer to provide annual financial information as set forth in Section 2(a) hereof on or before the date set forth in Section 2(b) hereof.

**Section 5. Use of Agents.**

Annual financial information and operating data and notices to be provided pursuant to this Agreement may be provided by the Issuer or by any agents which may be employed by the Issuer for such purpose from time to time.

**Section 6. Termination.**

The obligations of the Issuer under this Agreement shall terminate upon the earlier of (i) payment or legal defeasance, at maturity or otherwise, of all of the Bonds, or (ii) such time as the Issuer ceases to be an obligated person with respect to the Bonds within the meaning of the Rule.

**Section 7. Enforcement.**

The Issuer acknowledges that the undertakings set forth in this Agreement are intended to be for the benefit of, and enforceable by, the beneficial owners from time to time of the Bonds. In the event the Issuer shall fail to perform its duties hereunder, the Issuer shall have the option to cure such failure within a reasonable time (but not exceeding 30 days with respect to the undertakings set forth in Section 2 of this Agreement or five business days with respect to the undertakings set forth in Sections 3 and 4 of this Agreement) from the time the Issuer's Finance Officer, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Finance Officer is Town Hall, 14 Park Place, Vernon, Connecticut 06066.

In the event the Issuer does not cure such failure within the time specified above, the beneficial owner of any Bonds shall be entitled only to the remedy of specific performance. The parties expressly acknowledge and agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Bonds.

**Section 8. Miscellaneous.**

(a) All documents provided by the Issuer to a Repository pursuant to the Issuer's undertakings set forth in Sections 2, 3 and 4 of this Agreement shall be in an electronic format as prescribed by the MSRB from time to time and shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(b) The Issuer shall have no obligation to provide any information, data or notices other than as set forth in this Agreement; provided, however, nothing in this Agreement shall be construed as prohibiting the Issuer from providing such additional information, data or notices from time to time as it deems appropriate in connection with the Bonds. If the Issuer elects to provide any such additional information, data or notices, the Issuer shall have no obligation under this Agreement to update or continue to provide further additional information, data or notices of the type so provided.

(c) This Agreement shall be governed by the laws of the State of Connecticut.

(d) Notwithstanding any other provision of this Agreement, the Issuer may amend this Agreement, and any provision of this Agreement may be waived, if such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the Issuer, and is supported by an opinion of counsel expert in federal securities laws, to the effect that (i) such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds, and (ii) the provisions of the Agreement as so amended or waived would have complied with the requirements of the Rule, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, in each case as of the date of such amendment to the Agreement or waiver. A copy of any such amendment or waiver will be filed in a timely manner with each Repository. The annual financial information provided on the first date following adoption of any such amendment will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating or financial information provided.

(e) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same instrument.

TOWN OF VERNON

By \_\_\_\_\_  
George F. Apel  
Mayor

By \_\_\_\_\_  
John D. Ward  
Town Administrator

By \_\_\_\_\_  
James M. Luddecke  
Finance Officer and Treasurer

## APPENDIX D - FORM OF CONTINUING DISCLOSURE AGREEMENT FOR NOTES

*In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the Town will agree, pursuant to a Continuing Disclosure Agreement for Notes to be executed by the Town substantially in the following form, to provide, or cause to be provided, notice of the occurrence of certain events with respect to the Notes:*

### **Continuing Disclosure Agreement For Notes**

This Continuing Disclosure Agreement for Notes ("Agreement") is made as of April 11, 2012 by the Town of Vernon, Connecticut (the "Issuer") acting by its undersigned officers, duly authorized, in connection with the issuance of \$3,730,000 Bond Anticipation Notes, dated as of April 11, 2012 of the Issuer (the "Notes"), for the benefit of the beneficial owners from time to time of the Notes.

**Section 1. Definitions.** For purposes of this Agreement, the following capitalized terms shall have the following meanings:

"MSRB" means the Municipal Securities Rulemaking Board established under the Securities Exchange Act of 1934, as amended, or any successor thereto.

"Repository" means the MSRB or any other information repository established pursuant to the Rule as amended from time to time.

"Rule" means Rule 15c2-12 under the Securities Exchange Act of 1934, as of the date of this Agreement.

"SEC" means the Securities and Exchange Commission of the United States, or any successor thereto.

### **Section 2. Notice of Certain Events.**

The Issuer agrees to provide or cause to be provided, in a timely manner not in excess of ten business days after the occurrence of the event, to each Repository, notice of the occurrence of any of the following events with respect to the Notes:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the notes, or other material events affecting the tax status of the Notes;
- (g) modifications to rights of holders of the Notes, if material;
- (h) Note calls, if material, and tender offers;
- (i) Note defeasances;
- (j) release, substitution, or sale of property securing repayment of the Notes, if material;
- (k) rating changes;

(l) bankruptcy, insolvency, receivership or similar event of the Issuer;

(m) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

**Section 3. Use of Agents.**

Notices to be provided pursuant to this Agreement may be provided by the Issuer or by any agents which may be employed by the Issuer for such purpose from time to time.

**Section 4. Termination.**

The obligations of the Issuer under this Agreement shall terminate upon the earlier of (i) payment or legal defeasance, at maturity or otherwise, of all of the Notes, or (ii) such time as the Issuer ceases to be an obligated person with respect to the Notes within the meaning of the Rule.

**Section 5. Enforcement.**

The Issuer acknowledges that the undertakings set forth in Section 2 of this Agreement are intended to be for the benefit of, and enforceable by, the beneficial owners from time to time of the Notes. In the event the Issuer shall fail to perform its duties hereunder, the Issuer shall have the option to cure such failure within a reasonable time (but not exceeding five business days with respect to the undertakings set forth in Section 2 of this Agreement) from the time the Issuer's Finance Officer, or a successor, receives written notice from any beneficial owner of the Notes of such failure. The present address of the Finance Officer is Town Hall, 14 Park Place, Vernon, Connecticut 06066.

In the event the Issuer does not cure such failure within the time specified above, the beneficial owner of any Notes shall be entitled only to the remedy of specific performance. The parties expressly acknowledge and agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Notes.

**Section 6. Miscellaneous.**

(a) All documents provided by the Issuer to a Repository pursuant to the Issuer's undertakings set forth in Section 2 of this Agreement shall be in an electronic format as prescribed by the MSRB from time to time and shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(b) The Issuer shall have no obligation to provide any information, data or notices other than as set forth in this Agreement; provided, however, nothing in this Agreement shall be construed as prohibiting the Issuer from providing such information, data or additional notices from time to time as it deems appropriate in connection with the Notes. If the Issuer elects to provide any such information, data or additional notices, the Issuer shall have no obligation under this Agreement to update or continue to provide further information, data or additional notices of the type so provided.

(c) This Agreement shall be governed by the laws of the State of Connecticut.

(d) Notwithstanding any other provision of this Agreement, the Issuer may amend this Agreement, and any provision of this Agreement may be waived, if such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the Issuer, and is supported by an opinion of counsel expert in federal securities laws, to the effect that (i) such amendment or waiver would not materially adversely affect the beneficial owners of the Notes, and (ii) the provisions of the Agreement as so amended or waived would have complied with the requirements of the Rule, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, in each case as of the date of such amendment to the Agreement or waiver. A copy of any such amendment or waiver will be filed in a timely manner with each Repository.

(e) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same instrument.

TOWN OF VERNON

By: \_\_\_\_\_  
George F. Apel  
Mayor

By: \_\_\_\_\_  
John D. Ward  
Town Administrator

By: \_\_\_\_\_  
James M. Luddecke  
Finance Officer and Treasurer