

NEW MONEY ISSUE: Book-Entry-Only

RATINGS: Standard & Poor's: AA+/SP-1+

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 "Opinion of Bond Counsel and Tax Exemption" herein.)



Town of Watertown, Connecticut
\$3,000,000
General Obligation Bonds, Issue of 2015

Dated: Date of Delivery

Due: March 15, 2016 - 2035
As shown on the inside cover hereof:

The Bonds will bear interest payable September 15, 2015 and semiannually thereafter on March 15 and September 15 in each year until maturity. The Bonds are issuable only as fully-registered bonds, without coupons, and, when issued, will be registered in the name of Cede & Co., as bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. So long as Cede & Co. is the Bondowner, as nominee of DTC, reference herein to the Bondowner or owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See "Book-Entry-Only Transfer System" herein.

The Bonds are subject to redemption prior to maturity as herein provided. See "Redemption Provisions" herein.

Sealed proposals and electronic bids via PARITY® for the Bonds will be received until 11:30 A.M. (Eastern Time) on Tuesday, March 17, 2015, at the Office of the Town Manager, Town Hall Annex, 424 Main Street, Watertown, Connecticut 06489. Telephone bids will be received by an authorized agent of Phoenix Advisors, LLC, the Town's Financial Advisor, until 11:30 A.M. (Eastern Time) on the day of the sale at (203) 283-1110.

\$6,700,000
General Obligation Bond Anticipation Notes

Dated: March 26, 2015

Due: March 24, 2016

The Notes will be issued in book-entry-only form and will bear interest at such rate or rates per annum as are specified by the successful bidder or bidders in accordance with the Notice of Sale, dated March 9, 2015. The Notes, when issued, will be registered in the name of Cede & Co., as Noteowner and nominee for DTC, New York, New York. See "Book-Entry-Only Transfer System" herein.

The Notes are not subject to redemption prior to maturity.

Sealed proposals and electronic bids via PARITY® for the Notes will be received until 11:00 A.M. (Eastern Time) on Tuesday, March 17, 2015, at the Office of the Town Manager, Town Hall Annex, 424 Main Street, Watertown, Connecticut 06489. Telephone bids will be received by an authorized agent of Phoenix Advisors, the Town's Financial Advisor, until 11:00 A.M. (Eastern Time) on the day of the sale at (203) 283-1110.

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

The Registrar, Transfer Agent, Paying Agent, and Certifying Agent for the Bonds and the Notes will be U.S. Bank National Association, Goodwin Square, 225 Asylum Street, Hartford, Connecticut 06103.

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. It is expected that delivery of the Bonds in book-entry-only form will be made to DTC in New York, New York on or about March 26, 2015.



Town of Watertown, Connecticut
\$3,000,000
General Obligation Bonds, Issue of 2015

Dated: *Date of Delivery*

Due: March 15, 2016-2035,
as shown below:

| Year | Principal | Coupon | Yield | CUSIP¹ | Year | Principal | Coupon | Yield | CUSIP¹ |
|-------------|------------------|---------------|--------------|--------------------------|-------------|------------------|---------------|--------------|--------------------------|
| 2016 | \$105,000 | __% | __% | 941893__ | 2026 | \$150,000 | __% | __% | 941893__ |
| 2017 | 155,000 | __% | __% | 941893__ | 2027 | 150,000 | __% | __% | 941893__ |
| 2018 | 155,000 | __% | __% | 941893__ | 2028 | 150,000 | __% | __% | 941893__ |
| 2019 | 155,000 | __% | __% | 941893__ | 2029 | 150,000 | __% | __% | 941893__ |
| 2020 | 155,000 | __% | __% | 941893__ | 2030 | 150,000 | __% | __% | 941893__ |
| 2021 | 155,000 | __% | __% | 941893__ | 2031 | 150,000 | __% | __% | 941893__ |
| 2022 | 155,000 | __% | __% | 941893__ | 2032 | 150,000 | __% | __% | 941893__ |
| 2023 | 155,000 | __% | __% | 941893__ | 2033 | 150,000 | __% | __% | 941893__ |
| 2024 | 155,000 | __% | __% | 941893__ | 2034 | 150,000 | __% | __% | 941893__ |
| 2025 | 155,000 | __% | __% | 941893__ | 2035 | 150,000 | __% | __% | 941893__ |

\$6,700,000
General Obligation Bond Anticipation Notes

Dated: *March 26, 2015*
Due: *March 24, 2016*
CUSIP: *941893__¹*

Rate: *__%*
Yield: *__%*

¹ Copyright, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Town and are included solely for the convenience of the holders of the Bonds and 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 and Notes or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds and 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 and Notes.

No dealer, broker, salesman or other person has been authorized by the Town of Watertown, Connecticut (the "Town") to give any information or to make any representations, other than those contained in this Official Statement; and if given or made, such other information or representation 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 and the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement has been prepared only in connection with the initial offering and sale of the Bonds and the Notes and may not be reproduced or used in whole or in part for any other purpose. The information, estimates and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds and the Notes 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 – "2014 General Purpose Financial Statements Excerpted from the Town's Comprehensive Annual Financial Report" 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.

Bond Counsel is not passing on and does not assume any responsibility for the accuracy or completeness of the statements made in this Official Statement, (other than matters expressly set forth as its opinion in Appendix B "Opinion of Bond Counsel and Tax Exemption" herein), and makes no representation that it has independently verified the same.

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Bond Issue Summary

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

| | |
|---|---|
| Date of Sale: | Tuesday, March 17, 2015. |
| Location of Sale: | Town of Watertown, Town Hall Annex, Town Manager's Conference Room, 424 Main Street, Watertown, Connecticut 06795. |
| Issuer: | Town of Watertown, Connecticut (the "Town"). |
| Issue: | \$3,000,000 General Obligation Bonds (the "Bonds"). |
| Dated Date: | Date of Delivery |
| Principal and Interest Due: | Principal due serially March 15, 2016 through March 15, 2035. Interest due March 15 and September 15 in each year until maturity, commencing September 15, 2015. |
| Purpose: | The Bond proceeds will be used to provide funds for a new fire truck and various general purpose projects. |
| Redemption: | The Bonds are subject to redemption prior to maturity. See "Redemption Provisions" herein. |
| Security: | The Bonds will be general obligations of the Town of Watertown, Connecticut, and the Town will pledge its full faith and credit to the payment of principal of and interest on the Bonds when due. |
| Credit Rating: | The Bonds are rated AA+ by Standard & Poor's Corporation ("S&P"). |
| Bond Insurance: | The Town does not expect to purchase a credit enhancement facility. |
| Basis of Award: | Lowest True Interest Cost (TIC), as of the dated date. |
| Tax Exemption: | See Appendix B – "Opinion of Bond Counsel and Tax Exemption". |
| Bank Qualification: | The Bonds shall <u>not</u> be designated by the Issuer as qualified tax-exempt obligations under the provision of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions of interest expense allocable to the Bonds. |
| Continuing Disclosure: | 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, annual financial information and operating data and notices of certain events with respect to the Bonds pursuant to a Continuing Disclosure Agreement to be executed by the Town substantially in the form attached as Appendix C-1 to this Official Statement. |
| Registrar, Transfer Agent, Certifying Agent, and Paying Agent: | U.S. Bank National Association, Goodwin Square, 225 Asylum Street, Hartford, Connecticut 06103. |
| Financial Advisor: | Phoenix Advisors, LLC of Milford, Connecticut. Telephone (203) 283-1110. |
| Legal Opinion: | Day Pitney LLP, of Hartford, Connecticut. |
| Separate CUSIPS: | Separate CUSIP numbers for the Bonds are required. It shall be the responsibility of the winning bidder to obtain CUSIP numbers for the Bonds prior to delivery. |
| Delivery and Payment: | It is expected that delivery of the Bonds in book-entry-only form will be made to The Depository Trust Company on or about March 26, 2015. Delivery of the Bonds will be made against payment in Federal Funds. |
| Issuer Official: | Questions concerning the Official Statement should be addressed to Frank J. Nardelli, Jr., Director of Finance, Town of Watertown, Town Hall Annex, 424 Main Street Watertown, CT 06795. |

Note Issue Summary

The information in this Note Issue Summary and the front cover page is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed decision. This Official Statement speaks only as of its date and the information herein is subject to change.

| | |
|--|--|
| Date of Sale: | Tuesday, March 17, 2015. |
| Location of Sale: | Town of Watertown, Town Hall Annex, Town Manager's Conference Room, 424 Main Street, Watertown, Connecticut 06795. |
| Issuer: | Town of Watertown, Connecticut (the "Town"). |
| Issue: | \$6,700,000 General Obligation Bond Anticipation Notes (the "Notes"). |
| Dated Date: | Date of Delivery |
| Interest Due: | At maturity: March 24, 2016 |
| Principal Due: | At maturity: March 24, 2016 |
| Authorization and Purpose: | The Notes are being issued to finance various school projects. See "Authorization and Purpose" herein. |
| Redemption: | The Notes are NOT subject to redemption prior to maturity. |
| Security: | The Notes will be general obligations of the Town of Watertown, Connecticut, and the Town will pledge its full faith and credit to the payment of principal of and interest on the Notes when due. |
| Credit Rating: | The Notes are rated SP-1+ by Standard & Poor's Corporation ("S&P"). |
| Basis of Award: | Lowest Net Interest Cost (NIC), as of the dated date. |
| Tax Exemption: | See Appendix B - "Opinion of Bond Counsel and Tax Exemption". |
| Bank Qualification: | The Notes shall not be designated by the Issuer as qualified tax-exempt obligations under the provision of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions of interest expense allocable to the Notes. |
| Continuing Disclosure: | 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, annual financial information and operating data and notices of material events with respect to the Notes pursuant to a Continuing Disclosure Agreement to be executed by the Town substantially in the form attached as Appendix C-2 to this Official Statement. |
| Registrar, Transfer Agent, Certifying Agent and Paying Agent: | U.S. Bank National Association, Goodwin Square, 225 Asylum Street, Hartford, Connecticut 06103. |
| Financial Advisor: | Phoenix Advisors, LLC of Milford, Connecticut. Telephone (203) 283-1110. |
| Legal Opinion: | Day Pitney LLP, of Hartford, Connecticut. |
| Delivery and Payment: | It is expected that delivery of the Notes in book-entry-only form will be made to The Depository Trust Company on or about March 26, 2015. Delivery of the Notes will be made against payment in Federal Funds. |
| Issuer Official: | Questions concerning the Official Statement should be addressed to Frank J. Nardelli, Jr., Director of Finance, Town of Watertown, Town Hall Annex, 424 Main Street Watertown, CT 06795. |

I. Bond and Note Information

Introduction

This Official Statement, including the cover page and appendices, is provided for the purpose of presenting certain information relating to the Town of Watertown, Connecticut (the "Town"), in connection with the issuance and sale of \$3,000,000 General Obligation Bonds, (the "Bonds") and \$6,700,000 General Obligation Bond Anticipation Notes (the "Notes") of the Town.

The Bonds and Notes are being offered for sale at public bidding. Notices of Sale dated March 9, 2015 have been furnished to prospective bidders. Reference is made to the Notices of Sale, which are included as Appendices D-1 and D-2 for the terms and conditions of the bidding.

This Official Statement is not to be construed as a contract or agreement between the Town and the purchasers or holders of any of the Bonds or Notes. Any statements made in this Official Statement involving matters of opinion or estimates are not intended to be representations of fact, and no representation is made that any such opinion or estimate will be realized. No representation is made that past experience, as might be shown by financial or other information herein, will necessarily continue or be repeated in the future. 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, are subject to repeal or amendment, and are qualified in their entirety by reference to such laws and the original official documents. All references to the Bonds or Notes and the proceedings of the Town relating thereto are qualified in their entirety by reference to the definitive form of the Bonds and the Notes and such proceedings.

U.S. Bank National Association will certify and act as Registrar, Transfer Agent, Paying Agent, and Certifying Agent for the Bonds and the Notes.

The presentation of information in this Official Statement 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.

The Town deems this Official Statement to be "final" for the purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), but it is subject to revision or amendment.

Financial Advisor

Phoenix Advisors, LLC, of Milford, Connecticut has served as Financial Advisor to the Town with respect to the issuance of the Bonds and the Notes (the "Financial Advisor"). The information in this Official Statement has been prepared by the Town of Watertown, with the help of the Financial Advisor. The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement and the appendices hereto.

The Financial Advisor is an independent firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. An agreement between the Town and Phoenix Advisors, LLC has been entered into to conform to Municipal Securities Rulemaking Board Rule G-23.

The Bonds

Description of the Bonds

The Bonds will mature on March 15 in each of the years as set forth on the inside cover page hereof. The Bonds will be dated the date of delivery and bear interest at the rates per annum specified on the inside cover page, payable semiannually on March 15 and September 15 in each year until maturity, commencing September 15, 2015. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months. Interest is payable to the registered owner as of the close of business on the last business day of February and August, in each year, by check mailed to the registered owner; or so long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, by such other means as DTC, the Paying Agent and the Town shall agree.

Redemption Provisions

The Bonds maturing on or before March 15, 2022 are not subject to redemption prior to maturity. The Bonds maturing on March 15, 2023 and thereafter are subject to redemption prior to maturity, at the election of the Town, on or after March 15, 2022 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 principal amount of the Bonds to be redeemed), set forth in the following table, plus interest accrued and unpaid to the redemption date:

| <u>Redemption Dates</u> | <u>Redemption Prices</u> |
|------------------------------------|--------------------------|
| March 15, 2022 and thereafter..... | 100% |

Notice of redemption shall be given by the Town or its agent by mailing a copy of the redemption notice by first-class mail not less than thirty (30) days prior to the redemption date to the registered owner of the Bonds at the address of such registered owner as the same shall last appear on the registration books for the Bonds kept for such purpose. 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 sufficient 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 of 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 a 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 Cede & Co., as nominee of the Depository Trust Company (“DTC”), is the registered owner of the Bonds, will send any notice of redemption only to DTC (or successor securities depository) or its successor 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 contents or effect will not affect the validity of the redemption of such Bonds called for redemption. Redemption of a portion of the Bonds of any maturity by the Town will reduce the outstanding principal amount of Bonds of such maturity held by DTC. In such event it is the current practice of DTC to allocate by lot, through its book-entry system, among the interests held by Direct Participants in the Bonds to be redeemed, the interest to be reduced by such redemption in accordance with its own rules or other agreements with Direct Participants. The Direct Participants and Indirect Participants may allocate reductions of the interest in the Bonds to be redeemed held by the Beneficial Owners. Any such allocations of reductions 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 or the responsibility of the Town, the Registrar or Paying Agent.

Description of the Notes

The Notes will be dated March 26, 2015 and will be due and payable as to both principal and interest at maturity on March 24, 2016. The Notes will bear interest calculated on the basis of twelve 30-day months and a 360-day year at such rate or rates per annum as are specified by the successful bidder or bidders. A book-entry system will be employed evidencing ownership of the Notes in principal amounts of \$5,000 or integral multiples thereof, 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-Only Transfer System”. The Notes are not subject to redemption prior to maturity.

U.S. Bank National Association, 225 Asylum Street, Goodwin Square, Hartford, Connecticut 06103 will act as Registrar, Transfer Agent, Paying Agent and Certifying Agent for the Bonds and the Notes. The legal opinion for the Bonds and the Notes will be rendered by Day Pitney LLP, Bond Counsel, of Hartford, Connecticut. See Appendix B “Opinion of Bond Counsel and Tax Exemption”.

Authorization and Purpose

The Bonds and the Notes are issued pursuant to Titles 7 and 10, as applicable, of the General Statutes of the State of Connecticut, as amended, the Charter of the Town of Watertown, and bond ordinances approved by the Town's Board of Finance and Town Council and, as applicable, the voters of the Town at referendum, more particularly described below:

| <i>Project</i> | <i>Aggregate Amount Authorized</i> | <i>Maturing Notes Due: 3/26/15</i> | <i>(Paydowns) or (Grants)</i> | <i>New Money</i> | <i>This Issue:</i> | |
|--------------------------------|--|--|-----------------------------------|------------------|-----------------------------------|----------------------|
| | | | | | <i>The Notes Due: 3/24/16</i> | <i>The Bonds</i> |
| Watertown High School | \$ 56,157,000 | \$ 4,800,000 | \$ - | \$ - | \$ 4,800,000 | \$ - |
| Judson Elementary School | 15,859,000 | 900,000 | - | - | 900,000 | - |
| Swift Middle School..... | 33,768,919 | 1,000,000 | - | - | 1,000,000 | - |
| Fire truck..... | 1,000,000 | 1,000,000 | - | - | - | 1,000,000 |
| Capital improvements..... | 4,000,000 | 2,000,000 | - | - | - | 2,000,000 |
| Total | \$ 110,784,919 | \$ 9,700,000 | \$ - | \$ - | \$ 6,700,000 | \$ 3,000,000 |

School Projects

Pursuant to Section 10-287i of the Connecticut General Statutes, the State of Connecticut will provide proportional progress payments for eligible school construction expenses on projects approved after July 1, 1996.

Debt service reimbursement will continue under the prior reimbursement program for all projects approved prior to July 1, 1996. Under the old program, a municipality issues bonds for the entire amount of the school construction project and the State of Connecticut reimburses the Town for principal and interest costs for eligible school construction projects over the life of outstanding school bonds and subsequent bond issues necessary to completely fund the approved school project.

Under the new program, the State of Connecticut will make proportional progress payments for eligible construction costs during project construction. The State grant will be paid directly to the municipality after it submits its request for progress payments, and accordingly, the municipality will issue its bonds only for its share of project costs.

Book-Entry-Only Transfer System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds and the Notes. The Bonds and the Notes will be issued as fully-registered Bonds and Notes 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 one Note certificate will be issued for each interest rate of the Notes, 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 issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest 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.

Purchases of the Bonds and the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds and the Notes on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds and the 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 Bonds or 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 do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds and the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds and Notes 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. Beneficial Owners of the Bonds and the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds and the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds and Notes may wish to ascertain that the nominee holding the Bonds and the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds and 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 Bonds and Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest 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 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 Bonds and Notes 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, 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 its Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond and Note certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

DTC Practices

The Town can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Bonds or 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.

Replacement Securities

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

Security and Remedies

The Bonds and the Notes will be general obligations of the Town and the Town will pledge its full faith and credit to pay the principal of and interest on the Bonds and the Notes when due. Unless paid from other sources, the Bonds and the Notes are payable from general property tax revenues. The Town has the power under Connecticut 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 qualified disabled persons taxable at limited amounts. The Town may place a lien on the property for the amount of tax relief granted, plus interest, with respect to dwelling houses of qualified elderly persons of low income or qualified disabled persons. Under existing statutes, the State of Connecticut is obligated to pay the Town the amount of the tax revenue which the Town would have received except for the limitation under certain of the statutes upon its power to tax dwelling 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 power in appropriate proceedings to render a judgment against the Town. Courts of competent jurisdiction also have power in appropriate proceedings to order a payment of a judgment on such debt from funds lawfully available therefor 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 HAS NEVER DEFAULTED IN THE PAYMENT OF PRINCIPAL OR INTEREST ON ITS BONDS OR NOTES.

Qualification for Financial Institutions

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

Availability of Continuing Information

The Town prepares, in accordance with State law, annual independent audited financial statements and operating statements and files such annual reports with the State of Connecticut, Office of Policy and Management on an annual basis. The Town provides, and will continue to provide Moody's Investors Service and Standard & Poor'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.

The Town will enter into Continuing Disclosure Agreements with respect to the Bonds and the Notes, substantially in the form attached as Appendices C-1 and C-2 to this Official Statement ("Form of Continuing Disclosure Agreement"), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2-12(b)(5) (the "Rule") (i) annual financial information and operating data with respect to the Bonds, (ii) timely notice of the occurrence of certain events not in excess of 10 business days after the occurrence of such events 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 and operating data on or before the date specified in the Continuing Disclosure Agreement with respect to the Bonds. The winning bidders' obligation to purchase the respective Bonds and the Notes shall be conditioned upon it receiving, at or prior to the delivery of the Bonds and the Notes, an executed copy of the Continuing Disclosure Agreements.

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 event notices pursuant to the Rule. In the past five years, the Town has not failed to comply in any material respect its undertakings under such agreements.

Ratings

The Bonds have been rated "AA+" and the Notes have been rated "SP-1+" by Standard & Poor's Corporation ("S&P"). The Town furnished the rating agency certain information and materials, some of which may not have been included in this Official Statement. The ratings reflect only the view of the rating agency and an explanation of the significance of the rating may be obtained from such rating agency. There is no assurance that the rating will continue for any given period of time or that it will not be revised or withdrawn entirely if in the judgment of such rating agency, circumstances so warrant. A revision or withdrawal of the rating may have an effect on the market price of the Town's bonds and notes, including the Bonds and the Notes.

The Town expects to furnish the rating agency with certain information and materials that the agency may request. However, the Town may issue short-term or other debt for which a rating is not requested.

Bond Insurance

The Town does not expect to purchase a credit enhancement facility for the Bonds or the Notes.

II. The Issuer

(CT Map will be inserted for Final Official Statement)

Description of the Municipality

The Town of Watertown, first settled as part of Plymouth and Thomaston, was incorporated as a separate town in 1780. The Town covers an area of 29.8 square miles and lies slightly over five miles west of Waterbury. It is bounded on the north by Morris and Thomaston, on the southeast by Waterbury, on the south by Middlebury, and on the west by Bethlehem and Woodbury. The Town is traversed by Connecticut Route 8, a limited-access, four-lane north-south highway. State Routes 63, 73, 132, and 262 also serve the Town. Freight service is provided by various motor common carriers, and passenger transportation is available by bus to Waterbury and surrounding towns.

Form of Government

Watertown utilizes the Council/Manager form of government under a Town Charter first adopted in 1961 and last revised in November 2011. The nine-member Council is elected at-large every two years and acts as the legislative body, enacting and amending ordinances and determining Town policies, programs, and legislation. The Town Manager, appointed by the Council, serves as the Chief Executive Officer of the Town and administers Council policy. The Council also acts as the fiscal authority, assisted by a Director of Finance appointed by the Town Manager and a full-time Treasurer appointed by the Director of Finance. A referendum approves the budget and the Town Council lays the tax rate based on the adopted budget.

Town Officials

| Office | Name | Manner of Selection | Expiration of Term |
|--|-------------------------|----------------------------|---------------------------|
| Chairman, Town Council..... | Raymond Primini | Elected | 11/17 |
| Town Manager..... | Robert Scannell | Appointed | - |
| Finance Director and Asst. Town Manager..... | Frank J. Nardelli, Jr. | Appointed | - |
| Assistant Finance Director..... | Susan Zappone | Appointed | - |
| Treasurer..... | Joan Mondak | Appointed | - |
| Tax Collector..... | Carla Hamel | Appointed | - |
| Assessor..... | Carolyn Nadeau | Appointed | - |
| Town Clerk..... | Lisa Dalton | Elected | 11/17 |
| Superintendent of Schools..... | Dr. B Heston Carnemolla | Appointed | - |

Municipal Services

Police Department: Watertown’s Police Department consists of 35 sworn officers and a civilian staff of three under the direction of a Chief of Police. The Department is divided into Administrative, Patrol and Investigative Services divisions and operates on a 24-hour basis. Watertown’s Communications Department is responsible for answering and dispatching all police, fire and 911 emergency calls.

Fire Protection and Ambulance Service: Fire protection is provided by a 105-person Volunteer Fire Department under the supervision of a paid Chief and Deputy Chief. Department expenses are underwritten by Watertown. The Department operates from two stations, and equipment includes eight engines and two ladder trucks. Training drills are conducted throughout the year, and over 50% of the department has advanced training in areas such as hazardous materials. The Department has two emergency vehicles for first response use in emergencies. Ambulance service is provided by private carriers.

Public Works: The Department of Public Works consists of Engineering and Operations and Maintenance Divisions. Engineering is responsible for design and construction inspection of Town-owned sewer and water mains, roads and storm drains. Operations and Maintenance is responsible for maintenance of Town facilities including 130 miles of road, 45 miles of storm drains, 52 miles of water mains, 62 miles of sewer mains, three water pumping stations, five sewer pumping stations and Town equipment.

Solid Waste: Although solid waste collection in Watertown is collected by private firms under direct contract to the user, the Town has executed a Service Contract (the “Service Contract”) with the Connecticut Resources Recovery Authority (the “Authority”) for the disposal of solid waste through the Mid-Connecticut System (the “System”). The Service Contract became effective upon execution and will remain in effect so long as any bonds issued by the Authority remain outstanding, provided the last installment of principal on any bond shall become due no later than 30 years from the effective date of the Service Contract.

Each municipality signing a Service Contract, including the Town, has agreed to cause to be delivered to the System, after the date when the consulting engineer for the System has certified in writing that the Facility is ready for testing, all of the solid waste under the legal control of the municipality. The Authority is required to impose service payments at a uniform rate per ton for all municipalities. If the municipality delivers less than its minimum commitment (as defined in the Service Contract) such rates shall be applied to its minimum commitment amount.

The Authority is required to accept and dispose of solid waste in accordance with the Service Contract and with acceptable business standards. Each municipality retains the responsibility for the collection, disposal and treatment of solid waste which does not meet the requirements of or which the Authority refuses or is unable to accept under the Service Contract.

The Authority is required to calculate and impose Service Payments for all solid waste accepted at the System, such that the aggregate of all such Service Payments received by the Authority shall be sufficient to pay for the net cost of operation of the System as defined in the Service Contract. Service Payments shall be at a uniform rate per ton for all municipalities. If a municipality delivers less than its Minimum Commitment (as defined in the Service Contract) such rate shall be applied to its Minimum Commitment amount. For fiscal year 2014–15, the Town’s Minimum Commitment is 9,000 tons, and its cost is \$69.00 per ton for regular solid waste and \$85.00 per ton for bulky solid waste. The Authority is required to submit bills to the participating municipalities on or before the fifteenth

day following the end of a billing period. Municipalities are required to pay Service Payments within 30 days of the date of invoice.

Sewage Disposal: Town sewage disposal in the Oakville section of Town is provided by the Watertown Water and Sewer Authority operating through the Department of Public Works. Approximately 3.1 million gallons per day are transported through Town-owned mains to City of Waterbury treatment facilities. Private septic systems serve the rest of the Town.

Water: The Watertown Water and Sewer Authority provides water service to approximately 3,950 customers. Consumption is currently 1 million gallons per day. Water is purchased from the City of Waterbury. Under terms of a contract with the City of Waterbury, Watertown may purchase up to 3 million gallons per day. Water is provided to the central portion of Town by the Watertown Fire District which distributes approximately 640,000 gallons per day from well fields in Woodbury. Private wells serve the rest of the Town.

In compliance with Public Act 89-305, the Water and Sewer Authority has implemented a conservation program. The program's intent is to educate the public on water conservation, to determine adequate water specifications for new developments and to design plans that will reduce water consumption for residential and commercial customers.

Utilities and Other Services: Watertown is served by Northeast Utilities. Common carriers provide over the road freight service; passenger and freight rail service are available in Waterbury. A regional airport is located in nearby Oxford, and the Town is served by international airports in Windsor Locks and New York.

Parks and Recreation: Watertown provides a variety of recreational facilities and programs. Facilities include two swimming areas, an 18-hole golf course, tennis courts, playgrounds and ball fields. The 34-acre Veteran's Memorial Park is off of Nova Scotia Hill Road. Black Rock State Park is located in Watertown with additional facilities for swimming, camping and hiking. The Watertown Recreation Department provides year-round athletic and instructional programs for all age groups.

Public Library: Watertown is served by the Watertown Public Library, a non-profit organization which receives approximately 90% of its funding from the Town. The Library is open 64 hours per week and has over 60,000 volumes as well as an extensive collection of periodicals, records and cassettes. Through membership in an inter-library loan program, the resources of 36 other libraries are available to members.

Social Services: Through its Social Services Department, Watertown provides various services to the elderly, troubled youths and the indigent, including meals and rides programs, counseling and public assistance. Public health needs are addressed through Watertown's membership in the Torrington Health District. St. Mary's Hospital and Waterbury Hospital, both teaching hospitals, are located in adjacent Waterbury.

Educational Services

The Watertown school system services grades pre-kindergarten through 12 and is governed by the local Board of Education. The nine members of the Watertown Board of Education are elected for two year terms. The primary function of the Board is to establish policy. Some of the areas for which such policies are set include curriculum, budget requests submission, ensuring funds for education as appropriated by the Town are properly expended, implementation of both State and Federal laws, and planning for facilities needed by the system, including construction and renovation.

The Town has five schools for grades pre-kindergarten through 12 comprising of: one senior high school, one junior high school, two elementary schools, and one primary school. Enrollment in grades pre-kindergarten through 12 as of October 1, 2014 was 2,829. The rated capacity of the system facilities is 4,037.

School Enrollment

| School Year | Grades Pre-K - 6 | Grades 7 - 8 | Grades 9 - 12 | Total |
|--------------------|-------------------------|---------------------|----------------------|--------------|
| Historical | | | | |
| 2005-06 | 1,934 | 627 | 995 | 3,556 |
| 2006-07 | 1,906 | 615 | 983 | 3,504 |
| 2007-08 | 1,809 | 602 | 989 | 3,400 |
| 2008-09 | 1,758 | 598 | 976 | 3,332 |
| 2009-10 | 1,718 | 533 | 982 | 3,233 |
| 2010-11 | 1,669 | 505 | 1,000 | 3,174 |
| 2011-12 | 1,625 | 506 | 944 | 3,075 |
| 2012-13 | 1,592 | 504 | 926 | 3,022 |
| 2013-14 | 1,518 | 517 | 880 | 2,915 |
| 2014-15 | 1495 | 475 | 859 | 2,829 |
| Projected | | | | |
| 2015-16 | 1,476 | 426 | 875 | 2,777 |
| 2016-17 | 1,420 | 444 | 828 | 2,692 |
| 2017-18 | 1391 | 436 | 789 | 2,616 |

Source: Town of Watertown, Board of Education.

School Facilities

| School | Grades | Date of Construction (Latest Additions) | Type of Construction | Number of Classrooms | Enrollment as of 10/1/2014 | Operating Capacity |
|------------------------------------|---------------|--|-----------------------------|-----------------------------|-----------------------------------|---------------------------|
| Watertown High School | 9-12 | 1972 | Brick | 48 | 859 | 1,123 |
| Swift Junior High School | 6-8 | 1972 | Brick | 76 | 680 | 1,000 |
| Judson Elementary School | 3-5 | 1971 | Brick | 31 | 294 | 452 |
| Polk Elementary School | 3-5 | 1990 | Brick | 28 | 348 | 512 |
| John Trumbull Primary School | Pre-K-2 | 2000 | Brick | 35 | 648 | 950 |
| Total | | | | 218 | 2,829 | 4,037 |

**Employee Relations and Collective Bargaining
Municipal Employees**

| | 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
|--------------------------|------------|------------|------------|------------|------------|
| General Government | 133 | 133 | 133 | 132 | 135 |
| Board of Education | 459 | 435 | 436 | 450 | 444 |
| Total | 592 | 568 | 569 | 582 | 579 |

Employee Relations

| Bargaining Unit | Number of Members | Contract Expiration Date |
|--|--------------------------|---------------------------------|
| <u>General Government</u> | | |
| American Federation of State, County and Municipal Employees – Local 1303..... | 29 | 6/30/2016 |
| American Federation of State, County and Municipal Employees – Local 541 | 35 | 3/31/2018 |
| Industrial Brotherhood of Electrical Workers Local 42 | 10 | 8/31/2016 |
| Civil Service Employees Association, Inc. AFL-CIO, Local 760..... | 37 | 6/30/2014 ¹ |
| Civil Service Employees Association, Inc. AFL-CIO, Local 760 | 8 | 6/30/2016 |
| Total Organized | 119 | |
| Non-Union | 14 | |
| Total..... | 133 | |
| <u>Board of Education</u> | | |
| Watertown Federation of Para-Professionals, Local 3960 AFT, AFL-CIO..... | 93 | 8/31/2015 |
| Watertown Education Association..... | 238 | 8/31/2016 |
| American Federation of State, County and Municipal Employees – Local 1049..... | 43 | 6/30/2014 ¹ |
| American Federation of State, County and Municipal Employees – Local 1303..... | 35 | 6/30/2015 |
| Watertown Principals Association..... | 10 | 6/30/2017 |
| American Federation of State, County and Municipal Employees – Local 1049..... | 26 | 6/30/2015 |
| Watertown School Nurses Association..... | 7 | 6/30/2015 |
| Total Organized | 452 | |
| Non-Union | 7 | |
| Total | 459 | |

¹ In negotiations

Binding Arbitration

Connecticut General Statutes Sections 7-473c, 7-474, and 10-153a to 10-153n provide for 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 municipality may reject the 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 town, there is an irrefutable presumption that a budget reserve of 5% or less is not available for payment of the cost of any items 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 wages, salaries, fringe benefits, and other conditions of employment prevailing in the labor market, including developments in private sector wages and benefits.

III. Economic and Demographic Information

Population and Density

| Year | Actual | | |
|-------------------|-------------------------|------------|----------------------|
| | Population ¹ | % Increase | Density ² |
| 2013 ³ | 22,387 | -0.6% | 751.2 |
| 2010 | 22,514 | 3.9% | 755.5 |
| 2000 | 21,661 | 5.9% | 726.9 |
| 1990 | 20,456 | 5.0% | 686.4 |
| 1980 | 19,489 | 4.2% | 654.0 |
| 1970 | 18,704 | 26.4% | 627.7 |
| 1960 | 14,800 | -- | 496.6 |

¹ U.S. Department of Commerce, Bureau of Census.

² Per square mile: 29.8 square miles.

³ American Community Survey 2009-2013

Age Distribution of the Population

| Age | Town of Watertown | | State of Connecticut | |
|---|-------------------|-------------|----------------------|-------------|
| | Number | Percent | Number | Percent |
| Under 5 years | 1,027 | 4.6% | 197,395 | 5.5% |
| 5 to 9 years | 1,477 | 6.6 | 220,139 | 6.1% |
| 10 to 14 years | 1,257 | 5.6 | 236,742 | 6.6% |
| 15 to 19 years | 1,447 | 6.5 | 255,816 | 7.1% |
| 20 to 24 years | 1,127 | 5.0 | 229,708 | 6.4% |
| 25 to 34 years | 2,359 | 10.5 | 428,258 | 12.0% |
| 35 to 44 years | 2,802 | 12.5 | 469,746 | 13.1% |
| 45 to 54 years | 4,058 | 18.1 | 568,510 | 15.9% |
| 55 to 59 years | 1,515 | 6.8 | 246,210 | 6.9% |
| 60 to 64 years | 1,571 | 7.0 | 210,753 | 5.9% |
| 65 to 74 years | 2,112 | 9.4 | 269,422 | 7.5% |
| 75 to 84 years | 1,191 | 5.3 | 164,260 | 4.6% |
| 85 years and over | 444 | 2.0 | 86,602 | 2.4% |
| Total..... | 22,387 | 100% | 3,583,561 | 100% |
| Median Age (Years) 2013..... | 44.5 | | 40.2 | |
| Median Age (Years) 2010..... ¹ | 42.4 | | 40.0 | |

¹ U.S. Department of Commerce, Bureau of Census, 2010.

Source: American Community Survey 2009-2013

Income Distribution

| Income | Town of Watertown | | State of Connecticut | |
|------------------------|--------------------------|----------------|-----------------------------|----------------|
| | Families | Percent | Families | Percent |
| \$ 0 - \$ 9,999..... | 33 | 0.6% | 29,895 | 3.3% |
| 10,000 - 14,999..... | 29 | 0.5 | 19,176 | 2.1% |
| 15,000 - 24,999..... | 247 | 4.1 | 47,319 | 5.2% |
| 25,000 - 34,999..... | 273 | 4.6 | 56,997 | 6.3% |
| 35,000 - 49,999..... | 710 | 11.9 | 86,025 | 9.5% |
| 50,000 - 74,999..... | 805 | 13.4 | 143,989 | 15.9% |
| 75,000 - 99,999..... | 870 | 14.5 | 131,874 | 14.6% |
| 100,000 - 149,999..... | 1,776 | 29.7 | 187,718 | 20.8% |
| 150,000 - 199,999..... | 729 | 12.2 | 90,602 | 10.0% |
| 200,000 and over..... | 517 | 8.6 | 109,982 | 12.2% |
| Total..... | 5,989 | 100.0% | 903,577 | 100.0% |

Source: American Community Survey 2009-2013

Income Levels

| | Town of Watertown | State of Connecticut |
|-------------------------------------|--------------------------|-----------------------------|
| Per Capita Income, 2013..... | \$ 37,140 | \$ 37,892 |
| Median Family Income, 2013..... | \$ 100,259 | \$ 117,094 |
| Median Household Income, 2013 | \$ 80,067 | \$ 69,461 |

Source: American Community Survey 2009-2013

Educational Attainment Years of School Completed Age 25 and Over

| | Town of Watertown | | State of Connecticut | |
|---|--------------------------|----------------|-----------------------------|----------------|
| | Number | Percent | Number | Percent |
| Less than 9th grade..... | 399 | 2.5% | 109,133 | 4.5% |
| 9th to 12th grade..... | 708 | 4.4 | 155,272 | 6.4 |
| High School graduate..... | 4,848 | 30.2 | 678,370 | 27.8 |
| Some college, no degree..... | 3,402 | 21.2 | 431,469 | 17.7 |
| Associate's degree | 1,441 | 9.0 | 178,597 | 7.3 |
| Bachelor's degree..... | 2,951 | 18.4 | 498,124 | 20.4 |
| Graduate or professional degree..... | 2,303 | 14.3 | 392,796 | 16.1 |
| Total..... | 16,052 | 100.0% | 2,443,761 | 100.0% |
| Total high school graduate or higher (%)..... | | 93.1% | | 89.2% |
| Total bachelor's degree or higher (%)..... | | 32.7% | | 36.5% |

Source: American Community Survey 2009-2013

**Major Employers
As of February 2015**

| Employer | Type of Business | Approximate Number of Employees |
|-----------------------------|-------------------------|--|
| The Siemon Company..... | Manufacturer | 300 |
| The Taft School..... | Private school | 245 |
| Global Steering System..... | Manufacturer | 207 |
| ALBEA..... | Manufacturer | 200 |
| Super Stop & Shop..... | Supermarket | 180 |
| Braxton Manufacturing..... | Manufacturer | 165 |
| Crystal Rock..... | Bottled water | 150 |
| Apple Rehab..... | Health care | 147 |
| Truelove & Maclean..... | Manufacturer | 121 |
| LaBonne's..... | Specialty supermarket | 106 |

**Employment by Industry
Employed Persons 16 Years and Over**

| Sector | Town of Watertown | | State of Connecticut | |
|--|--------------------------|----------------|-----------------------------|----------------|
| | Number | Percent | Number | Percent |
| Agriculture, forestry, fishing and hunting, and mining..... | 124 | 1.0% | 6,945 | 0.4% |
| Construction..... | 671 | 5.5 | 99,444 | 5.7 |
| Manufacturing..... | 1,416 | 11.5 | 193,945 | 11.0 |
| Wholesale trade..... | 329 | 2.7 | 43,550 | 2.5 |
| Retail trade..... | 1,478 | 12.1 | 191,841 | 10.9 |
| Transportation warehousing, and utilities.... | 202 | 1.6 | 65,630 | 3.7 |
| Information..... | 224 | 1.8 | 41,588 | 2.4 |
| Finance, insurance, real estate, and leasing.. | 879 | 7.2 | 160,976 | 9.1 |
| Professional, scientific, management, administrative, and waste management..... | 1,042 | 8.5 | 194,959 | 11.1 |
| Education, health and social services..... | 3,862 | 31.5 | 464,177 | 26.4 |
| Arts, entertainment, recreation, accommodation and food services..... | 914 | 7.5 | 148,097 | 8.4 |
| Other services (except public admin.)..... | 350 | 2.9 | 81,443 | 4.6 |
| Public Administration..... | 774 | 6.3 | 66,817 | 3.8 |
| Total Labor Force, Employed..... | 12,265 | 100.0% | 1,759,412 | 100.0% |

Source: American Community Survey 2009-2013

Employment Data By Place of Residence

| Period | Town of Watertown | | Percentage Unemployed | | |
|-----------------------|--------------------------|-------------------|------------------------------|-------------------------------|-----------------------------|
| | Employed | Unemployed | Town of Watertown | Waterbury Labor Market | State of Connecticut |
| December 2014..... | 11,527 | 660 | 5.4 | 7.6 | 5.7 |
| Annual Average | | | | | |
| 2013..... | 10,892 | 926 | 7.8 | 10.5 | 7.9 |
| 2012..... | 10,965 | 795 | 6.8 | 9.2 | 8.3 |
| 2011..... | 11,226 | 1,069 | 8.7 | 11.6 | 8.8 |
| 2010..... | 10,999 | 1,211 | 9.9 | 12.8 | 9.0 |
| 2009..... | 11,159 | 1,048 | 8.6 | 11.1 | 8.2 |
| 2008..... | 11,580 | 711 | 5.8 | 7.6 | 5.7 |
| 2007..... | 11,914 | 545 | 4.4 | 5.9 | 4.6 |
| 2006..... | 11,878 | 514 | 4.1 | 5.5 | 4.4 |
| 2005..... | 11,681 | 584 | 4.8 | 6.3 | 4.9 |
| 2004..... | 11,623 | 585 | 4.8 | 6.3 | 4.9 |

Source: State of Connecticut, Department of Labor.

Age Distribution of Housing

| Year Built | Town of Watertown | | State of Connecticut | |
|---------------------------------------|--------------------------|----------------|-----------------------------|----------------|
| | Units | Percent | Units | Percent |
| 1939 or earlier..... | 1,816 | 19.6% | 336,587 | 22.6% |
| 1940 to 1969..... | 3,514 | 37.9 | 538,727 | 36.2 |
| 1970 to 1979..... | 1,343 | 14.5 | 200,576 | 13.5 |
| 1980 to 1989..... | 1,146 | 12.4 | 192,185 | 12.9 |
| 1990 to 1999..... | 934 | 10.1 | 111,295 | 7.5 |
| 2000 or 2009..... | 514 | 5.5 | 102,666 | 6.9 |
| 2010 or later..... | - | - | 4,959 | 0.3 |
| Total Housing Units, 2000..... | 9,267 | 100.0% | 1,486,995 | 100.0% |

Source: American Community Survey 2009-2013

Housing Inventory

| Housing Units | Town of Watertown | | State of Connecticut | |
|-----------------------------|--------------------------|----------------|-----------------------------|----------------|
| | Units | Percent | Units | Percent |
| 1-unit, detached..... | 7,328 | 79.1% | 882,026 | 59.3% |
| 1-unit, attached..... | 279 | 3.0 | 80,070 | 5.4 |
| 2 units..... | 688 | 7.4 | 119,386 | 8.0 |
| 3 or 4 units..... | 383 | 4.1 | 132,699 | 8.9 |
| 5 to 9 units..... | 305 | 3.3 | 80,615 | 5.4 |
| 10 to 19 units..... | 163 | 1.8 | 54,993 | 3.7 |
| 20 or more units..... | 104 | 1.1 | 124,355 | 8.4 |
| Mobile home..... | 17 | 0.2 | 12,427 | 0.8 |
| Boat, RV, van, etc..... | - | - | 424 | 0.0 |
| Total Inventory..... | 9,267 | 100.0% | 1,486,995 | 100.0% |

Source: American Community Survey 2009-2013

Owner Occupied Housing Values

| Specified Owner-Occupied Units | Town of Watertown | | State of Connecticut | |
|---------------------------------------|--------------------------|----------------|-----------------------------|----------------|
| | Number | Percent | Number | Percent |
| Less than \$50,000..... | 147 | 2.0% | 20,800 | 2.3% |
| \$50,000 to \$99,000..... | 70 | 1.0 | 24,638 | 2.7 |
| \$100,000 to \$149,999..... | 553 | 7.6 | 66,934 | 7.3 |
| \$150,000 to \$199,000..... | 1,001 | 13.8 | 135,714 | 14.8 |
| \$200,000 to \$299,999..... | 3,160 | 43.5 | 264,832 | 28.8 |
| \$300,000 to \$499,999..... | 1,962 | 27.0 | 250,076 | 27.2 |
| \$500,000 to \$999,999..... | 339 | 4.7 | 114,622 | 12.5 |
| \$1,000,000 or more..... | 32 | 0.4 | 41,872 | 4.6 |
| Total..... | 7,264 | 100.0% | 919,488 | 100.0% |
| Median Value..... | \$259,700 | | \$278,900 | |

Source: American Community Survey 2009-2013

Building Permits (000's)

| Ending 6/30 | Residential | | Commercial / Industrial | | Other | | All Categories | |
|--------------------|--------------------|--------------|--------------------------------|--------------|--------------|--------------|-----------------------|--------------|
| | No. | Value | No. | Value | No. | Value | No. | Value |
| 2014 | 173 | \$6,946,806 | 36 | \$6,348,101 | 1,285 | \$11,141,167 | 1,494 | \$24,436,074 |
| 2013 | 184 | 7,924,437 | 39 | 4,115,165 | 2,230 | 15,490,639 | 2,453 | 27,530,241 |
| 2012 | 207 | 8,047,756 | 19 | 1,054,105 | 1,208 | 5,822,305 | 1,434 | 14,924,166 |
| 2011 | 179 | 4,666,499 | 19 | 2,232,620 | 981 | 5,212,678 | 1,179 | 12,111,797 |
| 2010 | 205 | 11,910,294 | 39 | 2,044,564 | 1,136 | 9,572,555 | 1,380 | 23,527,413 |
| 2009 | 186 | 4,732,707 | 31 | 31,451,893 | 1,138 | 37,580,508 | 1,355 | 73,765,108 |
| 2008 | 256 | 8,326,361 | 21 | 2,182,646 | 1,162 | 6,704,412 | 1,439 | 17,213,419 |
| 2007 | 302 | 12,112,722 | 24 | 947,810 | 1,422 | 6,995,150 | 1,748 | 20,055,682 |
| 2006 | 400 | 16,916,223 | 21 | 24,351,076 | 1,719 | 19,873,158 | 2,140 | 61,140,457 |
| 2005 | 582 | 20,791,492 | 49 | 3,432,160 | 1,623 | 8,547,864 | 2,254 | 32,771,516 |

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IV. Tax Base Data

Property Tax – Assessments

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. Since the Town completed its last physical revaluation effective as of October 1, 2013, a statistical revaluation will be required in five years or October 1, 2018.

Prior to the completion of each revaluation, the Assessor shall conduct a field review. Any required revaluation subsequent to such a delayed revaluation shall re-commence at the point in the schedule required pursuant to Section 12-62 that the municipality was following prior to such delay. The Assessor must fully inspect each parcel of improved real property once in every ten assessment years, provided that the Assessor is not required to fully inspect all of a town's improved real property parcels in the same assessment year or to fully inspect any such parcel more than once during every ten assessment years. Section 12-62 provides that the full inspection requirement shall not apply to any parcel of improved real property for which the Assessor obtains satisfactory verification of data listed on the Assessor's property record by means of a questionnaire sent by the Assessor, at any time during the period in which a full inspection of an improved parcel of real property is required, to the owner of such parcel to (A) obtain information concerning the property's acquisition, and (B) obtain verification of the accuracy of data listed on the Assessor's property record for such parcel.

The maintenance of an equitable tax base by locating and appraising 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 assessed values for all taxable and tax-exempt real estate and taxable personal property and motor vehicles located within the Town on October 1. Assessments for real estate are computed at 70% of the estimated market value at the time of the last general revaluation, while assessments for motor vehicles and personal property are computed at 70% of the current fair market value. Each year a Board of Assessment Appeals determines whether taxpayer petitions for assessment reductions on the current grand list are warranted.

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 Official. Upon issuance of a certification of completion, a physical inspection is conducted and a new fair market value is determined with the aid of schedules developed at the time of the last revaluation. All value adjustments are reviewed to determine equity with similar properties and estimate changes to existing income streams.

All personal property (furniture, fixtures, equipment, machinery, supplies, non-registered motor vehicles, and leased equipment) is revalued annually. Random audits are conducted periodically.

Motor vehicle registration lists are furnished to the Town by the State Department of Motor Vehicles. The Office of Policy and Management has determined that the average retail values represented by the National Automobile Dealers Association pricing guides must be utilized in preparation of the grand lists. These values are applied uniformly and equitably to all vehicles in the Town; a myriad of exemptions are then applied to qualifying applicants. The same process is applied to the Supplemental Motor Vehicle list, which represents new or replacement vehicles which were registered after the October 1 assessment date, but before the following July 1. Bills for this supplemental list are issued the following January, eighteen months after the grand list date.

The Town of Watertown has not approved the use of Section 12-124a of the Connecticut General Statutes, which permits a municipality, upon approval of its legislative body, to abate property taxes on owner-occupied residences to the extent that the taxes exceed eight percent of the owner's total income, from any source, adjusted for self-employed persons to reflect expenses allowed in determining adjusted gross income.

Comparative Assessed Valuations (000s)

| Grand List of 10/1 | Residential | Commercial & Industrial | Other | Personal | Motor | Gross Taxable Grand List | Less Exemption | Net | Percent Change |
|--------------------|-------------------|-------------------------|-------------------|--------------|-------------|--------------------------|----------------|--------------------|----------------|
| | Real Property (%) | Real Property (%) | Real Property (%) | Property (%) | Vehicle (%) | | | Taxable Grand List | |
| 2014 | 68.7 | 13.0 | 0.1 | 8.1 | 10.1 | \$ 1,796,982 | \$ 59,296 | \$ 1,737,686 | 1.11% |
| 2013 ¹ | 69.3 | 13.1 | 0.1 | 7.5 | 10.0 | 1,773,933 | 55,272 | 1,718,661 | -12.24% |
| 2012 | 72.9 | 11.8 | 0.1 | 6.5 | 8.7 | 2,007,488 | 49,217 | 1,958,272 | 0.81 |
| 2011 | 72.8 | 11.9 | 0.1 | 6.7 | 8.5 | 2,002,926 | 60,477 | 1,942,449 | 1.00 |
| 2010 | 73.4 | 12.0 | 0.1 | 6.3 | 8.2 | 1,978,382 | 55,120 | 1,923,262 | 0.54 |
| 2009 | 73.7 | 12.0 | 0.1 | 6.3 | 7.9 | 1,963,356 | 50,495 | 1,912,861 | 0.01 |
| 2008 ¹ | 73.3 | 12.1 | 0.1 | 6.7 | 7.8 | 1,967,095 | 54,350 | 1,912,745 | 13.61 |
| 2007 | 71.5 | 11.4 | 0.1 | 7.7 | 9.3 | 1,723,065 | 39,502 | 1,683,564 | 0.91 |
| 2006 | 71.2 | 11.4 | 0.1 | 7.8 | 9.5 | 1,711,948 | 43,609 | 1,668,339 | - |

¹ Revaluation.

Property Tax Levies and Collections

| Fiscal Year Ending 6/30 | Grand List of 10/1 | Net Taxable Grand List (000s) | Mill Rate | Adjusted Annual Levy | Percent of Annual Levy Collected at End of Fiscal Year | Percent of Annual Levy Uncollected at End of Fiscal Year | Percent of Annual Levy Uncollected as of 2/1/2015 ¹ |
|-------------------------|--------------------|-------------------------------|-----------|----------------------|--|--|--|
| 2015 ¹ | 2013 | \$1,718,661 | 29.12 | \$50,047,408 | <i>IN COLLECTION</i> | | |
| 2014 | 2012 | 1,958,272 | 25.09 | 49,217,960 | 98.80% | 1.20% | 0.89% |
| 2013 ² | 2011 | 1,942,449 | 24.23 | 47,146,848 | 98.37% | 1.63% | 0.38% |
| 2012 | 2010 | 1,923,262 | 23.32 | 44,928,338 | 98.53% | 1.47% | 0.13% |
| 2011 | 2009 | 1,912,861 | 22.91 | 43,871,041 | 98.47% | 1.53% | 0.10% |
| 2010 | 2008 | 1,912,745 | 22.38 | 42,863,646 | 98.49% | 1.51% | 0.06% |
| 2009 | 2007 | 1,683,564 | 24.35 | 41,300,946 | 98.47% | 1.53% | 0.06% |
| 2008 ² | 2006 | 1,668,339 | 22.72 | 38,028,728 | 98.92% | 1.08% | 0.02% |
| 2007 | 2005 | 1,584,045 | 22.72 | 37,456,205 | 99.01% | 0.99% | 0.02% |
| 2006 | 2004 | 1,562,270 | 21.35 | 34,163,419 | 99.86% | 0.14% | 0.01% |
| 2005 | 2003 | 1,211,044 | 20.37 | 31,768,465 | 98.57% | 1.43% | - |

¹ Subject to audit.

² Revaluation.

Sources: Tax Collector's Office, Town of Watertown.

Property Tax Receivables

| Fiscal Year Ending 6/30 | Current Year Levy Uncollected | Total Uncollected (Current & Prior Years) |
|-------------------------|-------------------------------|---|
| 2014 | \$677,137 | \$1,198,102 |
| 2013 | 775,221 | 1,301,837 |
| 2012 | 671,301 | 1,117,865 |
| 2011 | 625,854 | 982,505 |
| 2010 | 597,671 | 892,285 |
| 2009 | 593,836 | 827,344 |

Ten Largest Taxpayers

| <i>Name</i> | <i>Nature of Business</i> | <i>Taxable Valuation</i> | <i>Percent of Net Taxable Grand List ¹</i> |
|------------------------------------|---------------------------|------------------------------|---|
| Connecticut Light & Power..... | Utility | \$ 26,797,142 | 1.54% |
| The Siemon Company..... | Manufacturing | 12,725,760 | 0.73% |
| Siemon Realty Company..... | Real Estate | 7,905,900 | 0.45% |
| JSD Partners..... | Manufacturing | 7,884,200 | 0.45% |
| Global Steering System..... | Manufacturing | 7,444,336 | 0.43% |
| Greenbriar Associates, LLC..... | Real Estate | 7,222,100 | 0.42% |
| ANSTRO Manufacturing Co..... | Manufacturing | 6,989,865 | 0.40% |
| Straits Commercial Assoc. LTD..... | Supermarket | 5,950,000 | 0.34% |
| Truelove & MacLean Inc..... | Manufacturing | 6,789,843 | 0.39% |
| The Siemon Company..... | Manufacturing | 6,966,388 | 0.40% |
| Total..... | | \$ 96,675,534 | 5.56% |

¹ Based on October 1, 2014 Net Taxable Grand List of \$1,737,686,037.

Source: Tax Assessor, Town of Watertown

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V. Debt Summary
Principal Amount of Indebtedness
As of March 26, 2015
(Pro Forma)

| Long-Term Debt | | | Amount of | Outstanding | |
|----------------------------------|--------------------|---------------|-----------------------|-------------------------|-----------------------|
| Dated | Purpose | Rate % | Original Issue | After This Issue | Final Maturity |
| 02/01/05 | School | 3.00–5.00 | \$ 15,521,000 | \$ 4,590,000 | 2019 |
| 09/15/07 | Sewer (taxable) | 5.50–5.75 | 1,000,000 | 650,000 | 2027 |
| 04/01/09 | School | 2.50–4.50 | 16,000,000 | 1,600,000 | 2016 |
| 04/01/09 | Sewer | 2.50–4.50 | 200,000 | 20,000 | 2016 |
| 08/27/09 | School | 3.00–5.00 | 11,160,000 | 9,818,000 | 2022 |
| 08/27/09 | Public Improvement | 3.00–5.00 | 6,290,000 | 4,522,000 | 2022 |
| 08/27/09 | Water | 3.00–5.00 | 840,000 | 735,000 | 2021 |
| 08/27/09 | Sewer | 3.00–5.00 | 470,000 | 435,000 | 2021 |
| 03/15/10 | School | 2.00–4.00 | 7,500,000 | 5,625,000 | 2030 |
| 08/02/11 | School | 2.00–4.00 | 3,005,800 | 2,970,700 | 2025 |
| 08/02/11 | Public Improvement | 2.00–4.00 | 2,671,500 | 2,222,200 | 2025 |
| 08/02/11 | Water | 2.00–4.00 | 320,700 | 279,600 | 2023 |
| 08/02/11 | Sewer | 2.00–4.00 | 112,000 | 97,500 | 2023 |
| 05/29/12 | Public Improvement | 2.00–3.00 | 652,400 | 652,400 | 2027 |
| 05/29/12 | School | 2.00–3.00 | 8,433,300 | 8,433,300 | 2029 |
| 05/29/12 | Sewer | 2.00–3.00 | 419,300 | 419,300 | 2029 |
| 02/15/13 | School | 2.50–4.50 | 8,549,700 | 8,549,700 | 2033 |
| 02/15/13 | Sewer | 2.50–4.50 | 50,300 | 50,300 | 2025 |
| 03/15/13 | Public Improvement | 2.00–3.00 | 2,000,000 | 1,730,000 | 2028 |
| Total Outstanding..... | | | \$ 85,196,000 | \$ 53,400,000 | |
| This Issue | | | | | |
| 03/26/15 | General Purpose | tbd | \$ 3,000,000 | \$ 3,000,000 | 2035 |
| Sub-Total This Issue..... | | | \$ 3,000,000 | \$ 3,000,000 | |
| Total..... | | | \$ 3,000,000 | \$ 56,400,000 | |

Short-Term Debt
As of March 26, 2015
(Pro Forma)

| Project | Aggregate Amount Authorized | Maturing Notes Due: 3/26/15 | This Issue: The Notes Due: 3/24/16 | Legal Renewable Limit |
|--------------------------------|------------------------------------|------------------------------------|---|------------------------------|
| Watertown High School | \$ 56,157,000 | \$ 4,800,000 | \$ 4,800,000 | 9/24/2019 |
| Judson Elementary School | 15,859,000 | 900,000 | 900,000 | 9/24/2019 |
| Swift Middle School..... | 33,768,919 | 1,000,000 | 1,000,000 | 4/1/2017 |
| Fire truck..... | 1,000,000 | 1,000,000 | - | 3/27/2024 |
| Capital improvements..... | 4,000,000 | 2,000,000 | - | 3/27/2024 |
| Total | \$ 110,784,919 | \$ 9,700,000 | \$ 6,700,000 | |

Annual Bonded Debt Maturity Schedule
As of March 26, 2015
(Pro Forma)

| Fiscal Year Ended 6/30 | Principal Payments | Interest Payments | Total Payments | This issue: | Total Principal | Cumulative Principal Retired % |
|-------------------------------|---------------------------|--------------------------|-----------------------|---------------------|------------------------|---------------------------------------|
| 2015 ¹ | \$ 810,000 | \$ 160,719 | \$ 970,719 | \$ - | \$ 810,000 | 1.44% |
| 2016 | 4,765,000 | 1,938,069 | 6,703,069 | 105,000 | 4,870,000 | 10.07% |
| 2017 | 4,790,000 | 1,732,744 | 6,522,744 | 155,000 | 4,945,000 | 18.84% |
| 2018 | 4,870,000 | 1,530,194 | 6,400,194 | 155,000 | 5,025,000 | 27.75% |
| 2019 | 4,890,000 | 1,312,588 | 6,202,588 | 155,000 | 5,045,000 | 36.69% |
| 2020 | 4,220,000 | 1,121,713 | 5,341,713 | 155,000 | 4,375,000 | 44.45% |
| 2021 | 3,880,000 | 972,875 | 4,852,875 | 155,000 | 4,035,000 | 51.60% |
| 2022 | 3,870,000 | 827,106 | 4,697,106 | 155,000 | 4,025,000 | 58.74% |
| 2023 | 3,715,000 | 687,469 | 4,402,469 | 155,000 | 3,870,000 | 65.60% |
| 2024 | 3,710,000 | 544,363 | 4,254,363 | 155,000 | 3,865,000 | 72.46% |
| 2025 | 3,150,000 | 421,078 | 3,571,078 | 155,000 | 3,305,000 | 78.32% |
| 2026 | 2,810,000 | 330,631 | 3,140,631 | 150,000 | 2,960,000 | 83.56% |
| 2027 | 2,265,000 | 248,550 | 2,513,550 | 150,000 | 2,415,000 | 87.85% |
| 2028 | 2,030,000 | 175,600 | 2,205,600 | 150,000 | 2,180,000 | 91.71% |
| 2029 | 1,620,000 | 111,075 | 1,731,075 | 150,000 | 1,770,000 | 94.85% |
| 2030 | 790,000 | 63,900 | 853,900 | 150,000 | 940,000 | 96.52% |
| 2031 | 410,000 | 36,450 | 446,450 | 150,000 | 560,000 | 97.51% |
| 2032 | 405,000 | 24,150 | 429,150 | 150,000 | 555,000 | 98.49% |
| 2033 | 400,000 | 12,000 | 412,000 | 150,000 | 550,000 | 99.47% |
| 2034 | - | - | - | 150,000 | 150,000 | 99.73% |
| 2035 | - | - | - | 150,000 | 150,000 | 100.00% |
| Total..... | \$53,400,000 | \$12,251,273 | \$65,651,273 | \$ 3,000,000 | \$56,400,000 | |

¹ Excludes principal payments of \$3,935,000 and interest payments of \$1,974,350 made between July 1, 2014 and March 26, 2015.

Overlapping/Underlying Debt

The Town of Watertown does not have any overlapping or underlying debt.

THE TOWN OF WATERTOWN HAS NEVER DEFAULTED IN THE PAYMENT OF PRINCIPAL OR INTEREST ON ITS BONDS OR NOTES

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Debt Statement
As of March 26, 2015
(Pro Forma)

Long-Term Debt Outstanding:

| | |
|--|---------------------|
| General Purpose (Includes this issue)..... | \$12,126,600 |
| Schools..... | 41,586,700 |
| Sewer..... | 1,672,100 |
| Water..... | 1,014,600 |
| Total Long-Term Debt | 56,400,000 |
| Short-Term Debt (Includes this issue to mature on 3/24/16)..... | 6,700,000 |
| Total Direct Debt | 63,100,000 |
| Less: School Construction Grants Receivable (As of June 30, 2014) ¹ | (2,393,822) |
| Total Direct Net Debt | 60,706,178 |
| Overlapping/Underlying Debt | - |
| Total Overall Net Debt | \$60,706,178 |

¹ The State of Connecticut will reimburse the Town for eligible principal and interest costs over the life of bonds issued for projects authorized by the General Assembly prior to July 1, 1996. School construction grants receivable stated above are for principal reimbursement only.

Current Debt Ratios
As of March 26, 2015
(Pro Forma)

| | |
|--|---------------|
| Population ¹ | 22,387 |
| Net Taxable Grand List at 70% of Full Value (10/1/14) \$ | 1,737,686,037 |
| Estimated Full Value \$ | 2,482,408,624 |
| Equalized Net Taxable Grand List (10/1/12) ² \$ | 2,460,853,869 |
| Money Income per Capita (2013) ¹ \$ | 37,140 |

| | Total | Total Overall |
|---|---------------------|----------------------|
| | Direct Debt: | Net Debt: |
| | \$63,100,000 | \$60,706,178 |
| Debt per Capita..... | \$2,818.60 | \$2,711.67 |
| Ratio to Net Taxable Grand List..... | 3.63% | 3.49% |
| Ratio to Estimated Full Value..... | 2.54% | 2.45% |
| Ratio to Equalized Grand List..... | 2.56% | 2.47% |
| Debt per Capita to Money Income per Capita..... | 7.59% | 7.30% |

¹ American Community Survey 2009-2013

² Office of Policy and Management, State of Connecticut.

Authority to Incur Debt

The Town of Watertown has the power to incur indebtedness as provided by the Connecticut General Statutes and the Town Charter. 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 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 1/20th (1/30th for sewer 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 by which temporary financing exceeds two years.

Temporary notes must be permanently funded no later than ten years from their initial borrowing date, except for sewer notes issued in anticipation of State and/or Federal grants. If a 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 1/15th of the total amount of the notes issued by funds derived from certain 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).

Maturities

Except for refunding bonds that achieve net present value savings, general obligation (serial or term) bonds are required to be payable in maturities wherein a succeeding maturity may not exceed any prior maturity by more than 50%, or aggregate annual principal and interest payments must be substantially equal. The term of the issue may not exceed twenty years, except in the case of sewer and school bonds, which may mature in up to thirty years.

Limitation of Indebtedness

Municipalities shall not incur indebtedness through the issuance of bonds which will cause aggregate indebtedness by class to exceed the following:

| | |
|---------------------------------|--|
| General Purposes: | 2.25 times annual receipts from taxation |
| School Purposes: | 4.50 times annual receipts from taxation |
| Sewer Purposes: | 3.75 times annual receipts from taxation |
| Urban Renewal Purposes: | 3.25 times annual receipts from taxation |
| Unfunded Past Pension Purposes: | 3.00 times annual receipts from taxation |

“Annual receipts from taxation” (the “base”) are defined as total tax collections including interest and penalties, late payment of taxes and state payments for revenue losses under Connecticut General Statutes Section 12-129d and 7-528. In no case shall total indebtedness exceed seven times the base.

The Connecticut General Statutes also provide for exclusion from the debt limit calculation debt (i) issued in anticipation of taxes; (ii) issued for the supply of water, gas, electricity, electric demand response, conservation and load management, distributed generation and renewable energy projects; for the construction of subways for cables, wires and pipes; for the construction of underground conduits for cables, wires and pipes; for the construction and operation of a municipal community antenna television system and for two or more of such purposes; (iii) issued in anticipation of the receipt of proceeds from assessments levied upon property benefited by any public improvement; (iv) issued in anticipation of the receipt of proceeds from State or Federal grants evidenced by a written commitment or for which allocation has been approved by the State Bond Commission or from a contract with the state, state agencies or another municipality providing for the reimbursement of costs but only to the extent such indebtedness can be paid from such proceeds; (v) issued for certain water pollution control projects; and (vi) upon placement in an escrow of the proceeds of refunding bonds, notes or other obligations or other funds of the municipality in an amount sufficient to provide for the payment when due of principal of and interest on such bond, note or other evidence of indebtedness.

Statement of Debt Limitation
As of March 26, 2015
(Pro Forma)

| | |
|---|----------------------|
| Total Tax Collections (including interest and lien fees) | |
| For the year ended June 30, 2014 | \$ 49,712,000 |
| Reimbursement For Revenue Loss: | |
| Tax relief for elderly..... | 1,000 |
| Base for Debt Limitation Computation..... | \$ 49,713,000 |

| | <u>General Purpose</u> | <u>Schools</u> | <u>Sewers</u> | <u>Urban Renewal</u> | <u>Unfunded Pension</u> |
|------------------------------------|------------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| Debt Limitation: | | | | | |
| 2 1/4 times base..... | \$ 111,854,250 | - | - | - | - |
| 4 1/2 times base..... | - | \$ 223,708,500 | - | - | - |
| 3 3/4 times base..... | - | - | \$ 186,423,750 | - | - |
| 3 1/4 times base..... | - | - | - | \$ 161,567,250 | - |
| 3 times base..... | - | - | - | - | \$ 149,139,000 |
| Total Debt Limitation | \$ 111,854,250 | \$ 223,708,500 | \$ 186,423,750 | \$ 161,567,250 | \$ 149,139,000 |

| | | | | | |
|---|-------------------|-------------------|------------------|------------------|----------|
| Indebtedness: ¹ | | | | | |
| Bonds Outstanding..... | 9,126,600 | 41,586,700 | 1,672,100 | 1,014,600 | - |
| Bonds (This Issue)..... | 3,000,000 | - | - | - | - |
| Notes (This Issue)..... | - | 6,700,000 | - | - | - |
| Debt Authorized But Unissued | 177,672 | 2,904,852 | - | - | - |
| Total Indebtedness | 12,304,272 | 51,191,552 | 1,672,100 | 1,014,600 | - |
| Less: | | | | | |
| State School Grants Receivable ² | - | (2,393,822) | - | - | - |
| Total Net Indebtedness | 12,304,272 | 48,797,730 | 1,672,100 | 1,014,600 | - |

| | | | | | |
|--|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| DEBT LIMITATION IN EXCESS OF OUTSTANDING INDEBTEDNESS | \$ 99,549,978 | \$ 174,910,770 | \$ 184,751,650 | \$ 160,552,650 | \$ 149,139,000 |
|--|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|

¹ Excludes \$1,160,700 in Water Bonds outstanding as allowed under the Connecticut General Statutes.

² The State of Connecticut will reimburse the Town for eligible principal and interest costs over the life of bonds issued for projects authorized by the General Assembly prior to July 1, 1996. School construction grants receivable stated above are for principal reimbursement only.

Note: In no case shall total indebtedness exceed seven times annual receipts from taxation or \$347,991,000.

Authorized but Unissued Debt
As of March 26, 2015
(Pro Forma)

| Project | Aggregate Amount Authorized | Bonds Issued | Maturing Notes Due: 3/26/15 | This Issue: | | Grants/Paydowns Applied | Authorized but Unissued |
|--|-----------------------------|----------------------|-----------------------------|------------------------|---------------------|-------------------------|-------------------------|
| | | | | The Notes Due: 3/24/16 | The Bonds | | |
| Watertown High School | \$ 56,157,000 | \$24,600,000 | \$ 4,800,000 | \$ 4,800,000 | \$ - | \$26,662,988 | \$ 94,012 |
| Judson Elementary School | 15,859,000 | 7,500,000 | 900,000 | 900,000 | - | 7,389,408 | 69,592 |
| Swift Middle School ¹ | 33,768,919 | 13,900,000 | 1,000,000 | 1,000,000 | - | 18,328,315 | 540,604 |
| Polk Elementary School..... | 12,517,000 | 5,500,000 | - | - | - | 5,030,678 | 1,986,322 |
| Wattles Brook Sewer Interceptor..... | 2,036,650 | 2,000,000 | - | - | - | - | 36,650 |
| Communications System Upgrade..... | 1,881,000 | 1,460,000 | - | - | - | 300,000 | 121,000 |
| Fire House Renovations & Exp..... | 6,046,672 | 6,020,000 | - | - | - | - | 26,672 |
| Road, Drainage & Culvert Imp..... | 1,730,000 | 1,700,000 | - | - | - | - | 30,000 |
| Fire truck..... | 1,000,000 | - | 1,000,000 | - | 1,000,000 | - | - |
| Capital improvements..... | 4,000,000 | 2,000,000 | 2,000,000 | - | 2,000,000 | - | - |
| Total | \$ 134,996,241 | \$ 64,680,000 | \$ 9,700,000 | \$ 6,700,000 | \$ 3,000,000 | \$ 57,711,389 | \$ 2,904,852 |

¹ The permanent financing for Swift Middle School has been completed. The \$1,000,000 notes are expected to be repaid with the final State of Connecticut grant reimbursement.

Ratios of Net Long-Term Debt to Valuation, Population, and Income

| Fiscal Year Ended 6/30 | Net Assessed Value (000s) | Estimated Full Value ¹ (000s) | Net Long-Term Debt ² (000s) | Ratio of Net Long-Term Debt to Assessed Value (%) | Long-Term Debt to Estimated Full Value (%) | Population ³ | Net Long-Term Debt per Capita | Long-Term Debt per Capita to Per Capita Income ⁴ (%) |
|-------------------------------|----------------------------------|---|---|--|---|--------------------------------|--------------------------------------|--|
| 2014 | \$ 1,958,272 | \$ 2,797,531 | \$ 50,713 | 2.59% | 1.81% | 22,387 | \$ 2,265 | 6.10% |
| 2013 | 1,942,449 | 2,774,927 | 55,121 | 2.84% | 1.99% | 22,387 | 2,462 | 6.63% |
| 2012 | 1,923,262 | 2,747,517 | 60,874 | 3.17% | 2.22% | 22,387 | 2,719 | 7.32% |
| 2011 | 1,912,861 | 2,732,659 | 61,280 | 3.20% | 2.24% | 22,387 | 2,737 | 7.37% |
| 2010 | 1,912,745 | 2,732,493 | 62,861 | 3.29% | 2.30% | 22,387 | 2,808 | 7.56% |
| 2009 | 1,683,564 | 2,405,091 | 58,891 | 3.50% | 2.45% | 22,387 | 2,631 | 7.08% |

¹ Assessment Ratio: 70%.

² Long-Term debt less school building construction grants receivable.

³ State of Connecticut, Department of Public Health Estimates, 2009. U.S. Department of Commerce, Bureau of Census, American Community Survey 2009-2013.

⁴ Money Income per Capita: American Community Survey 2009-2013 data: \$37,140 used for all calculations.

Ratio of Total General Fund Debt Service Expenditures To Total General Fund Expenditures and Transfers Out Last Five Fiscal Years

| Fiscal Year Ended 6/30 | Total Debt Service | Total General Fund Expenditures ¹ | Ratio of General Fund Debt Service To Total General Fund Expenditures |
|-------------------------------|---------------------------|---|--|
| 2014 | \$ 6,857,649 | \$ 70,189,188 | 9.77% |
| 2013 | 6,811,471 | 69,222,035 | 9.84% |
| 2012 | 7,345,894 | 66,627,690 | 11.03% |
| 2011 | 7,103,314 | 61,826,647 | 11.49% |
| 2010 | 6,778,146 | 61,369,544 | 11.04% |
| 2009 | 5,559,514 | 61,554,403 | 9.03% |

¹ GAAP basis of accounting. Includes Transfers out.

Source: Annual Audited Financial Statements.

VI. Financial Administration

Fiscal Year

The Town's fiscal year begins July 1 and ends June 30.

Basis of Accounting

See footnote number 1 in “Notes to Financial Statements” of Appendix A.

Budget Procedure

Annually, the Town Manager presents the budget to the Board of Finance. After required hearings, the Board of Finance, which administers the budget, recommends its budget to the Town Council. At the annual budget meeting held in April, the Council may, by the required number of votes, reduce or increase the proposed estimated expenditures. After completing such action, the Council adopts the budget by resolution. The Board of Finance then calculates a rate of taxation on the most recent Grand List, which will produce the revenue required to preserve a balance between estimated receipts and expenditures, net of provisions for other estimated revenue and cash surplus or deficit.

Subject to the provisions of Chapter VII of the Town Charter, the Town Council, on recommendation of the Board of Finance, may appropriate at any time any unappropriated and unencumbered appropriation balance, or portion thereof, between general classifications of expenditures within an office, department or agency, up to a maximum of \$500. The Town Council must approve any transfer over \$500 from one office, department or agency to another to meet a pressing need for public expenditure. The Board of Finance and the Town Council may review the budget after recommendation by the Town Manager and certification by the Director of Finance that sufficient funds exist.

The budget is prepared on a modified accrual basis of accounting, except for the accrual of payroll. Encumbrances that are outstanding at year-end are not recorded as budgetary expenditures. The Town Council approves those items as continued appropriations in the following year's budget. Authorized continuing appropriations are presented as reservation of fund balance since the commitments will be honored in subsequent years. Encumbrances do not constitute expenditures or liabilities for generally accepted accounting principles or budgetary purposes. The control level on which expenditures may not legally exceed appropriation is the department level.

Audit

Pursuant to the Municipal Auditing Act (Chapter 111 of the Connecticut General Statutes), the Town is obligated to undergo an annual examination by an independent certified public accountant. The audit must be conducted under the guidelines issued by the State of Connecticut, Office of Policy and Management. The Town of Watertown is in full compliance with said provisions.

Liability Insurance

See Note number 8 in “Notes to Financial Statements” of Appendix A.

Pensions

The Town of Watertown is the administrator of two single employer, contributory, defined benefit plans:

Town of Watertown - General Town Employees

Police Benefit Fund - Police Employees

The pension plans are included in the financial statements as Pension Trust Funds. Individual stand-alone statements are not issued. Prudential Financial is the trustee of the Plan's assets. The latest actuarial valuation was completed for January 1, 2013. The fiscal year 2013–14 annual required contributions (“ARCs”) are \$364,691 for the Town Retirement System and \$770,262 for the Police Benefit Fund for a total ARC of \$1,134,953. The Town's practice is to always budget 100% of the pension ARC.

Town Retirement System

The Town of Watertown Retirement System covers all full-time employees other than police officers, supervisors, certified Board of Education teachers and Water and Sewer Authority employees hired prior to February 1986.

All employees working at least 30 hours per week and 40 weeks per year are eligible under the plan. All eligible employees are 100% vested after 10 years of continuous service. The retirement benefit is 2% of final earnings per year of credited service, subject to a maximum percentage offset of the social security benefit defined by division group. Final earnings are defined as the average earnings during the highest three full earnings computation periods prior to normal retirement. Normal retirement date is the first month coinciding with or next following the employee's 65th birthday, except for the Highway Division. The normal retirement date for the Highway Division is the first month coinciding with or next following the earlier of the employee's age of 55 and 25 years of service or age 65. For early retirement, the normal accrued benefit is actuarially reduced for the number of months the annuity commencement date precedes the normal retirement date. Disabled employees are entitled to receive normal pension benefits based on service and final pay at the time of disability.

The aggregate actuarial cost method that is used for calculating the annual required contribution does not separately identify unfunded actuarial accrued liabilities. The schedule of funding progress presented below has been developed using the entry age actuarial cost method for the Town Retirement System.

Town Retirement System

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Overfunded (Unfunded) AAL (b-a) | Funded Ratio (a/b) |
|-------------------------------------|--|--|--|-----------------------------------|
| 1/1/2008 | \$ 15,739,354 | \$ 15,238,116 | \$ 501,238 | 103.3% |
| 1/1/2009 | 13,617,941 | 14,488,555 | (870,614) | 94.0% |
| 1/1/2010 | 15,888,764 | 16,624,132 | (735,368) | 95.6% |
| 1/1/2011 | 16,402,816 | 17,102,475 | (699,659) | 95.9% |
| 1/1/2012 | 16,935,651 | 18,004,766 | (1,069,115) | 94.1% |
| 1/1/2013 | 17,637,843 | 18,732,739 | (1,094,896) | 94.2% |

| Fiscal Year Ended | Actual Contribution | Annual Required Contribution (ARC) | % of ARC Contributed |
|------------------------------|--------------------------------|---|---------------------------------|
| 6/30/2012 | \$ 360,395 | \$ 360,395 | 100.0% |
| 6/30/2013 | 367,373 | 367,373 | 100.0% |
| 6/30/2014 | 364,691 | 364,691 | 100.0% |
| 6/30/2015 ¹ | 372,789 | 372,789 | 100.0% |

¹ Budgeted amounts.

Police Benefit Fund

The Police Benefit Fund is open to all police employees represented by the union for collective bargaining purposes.

All policemen who work more than 20 hours per week and five months per calendar year are eligible to participate in the plan. All employees are 100% vested after 10 years of continuous service. The retirement benefit is 2.5% of final earnings per year of credited service, less 35% of social security. Final earnings are defined as the average earnings received in the last three full calendar years before retirement date. A temporary retirement annuity equal to 35% of the social security benefit shall be paid from normal retirement date to age 65. The normal retirement age is 55 or 25 years of service. An employee may accumulate up to 30 years of service. For early retirement, age 50 with 10 years of service, the normal benefit accrued is actuarially reduced for the number of months the annuity commencement date precedes the normal retirement date.

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Overfunded (Unfunded) AAL (b-a) | Funded Ratio (a/b) |
|-------------------------------------|--|--|--|-----------------------------------|
| 1/1/2008 | \$ 13,856,444 | \$15,249,691 | (\$1,393,247) | 90.9% |
| 1/1/2009 | 12,513,012 | 16,253,686 | (3,740,674) | 77.0% |
| 1/1/2010 | 14,238,384 | 17,976,016 | (3,737,632) | 79.2% |
| 1/1/2011 | 14,982,718 | 18,719,827 | (3,737,109) | 80.0% |
| 1/1/2012 | 15,581,062 | 20,131,988 | (4,550,926) | 77.4% |
| 1/1/2013 | 16,381,494 | 21,296,992 | (4,915,498) | 76.9% |

| Fiscal Year Ended | Actual Contribution | Annual Required Contribution (ARC) | % of ARC Contributed |
|------------------------------|--------------------------------|---|---------------------------------|
| 6/30/2012 | \$ 689,641 | \$ 689,641 | 100.0% |
| 6/30/2013 | 736,930 | 736,930 | 100.0% |
| 6/30/2014 | 770,262 | 770,262 | 100.0% |
| 6/30/2015 ¹ | 780,140 | 780,140 | 100.0% |

¹ Budgeted amounts.

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

See Appendix A – “Audited Financial Statements, Notes to Financial Statements, Note 11” herein.

Other Post-Employment Benefits (OPEB)

The Town has complied with the requirements of Governmental Accounting Standards Board (“GASB”) Statement Nos. 43 and 45, which require municipalities and other governmental entities to undertake an actuarial evaluation of their Other Post-Employment Benefit (“OPEB”) plans and include information concerning the valuation of such plans in their financial statements. The Town is contributing the “pay-as-you-go” portion only and is not currently amortizing any of the unfunded accrued liability, however the Town is in the process of creating a trust fund, and all investment earnings and positive variances from the “pay-as-you-go” budgeting will be used to mitigate the accrued liability.

The Town’s annual OPEB cost is calculated based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Town’s annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the Town’s net OPEB obligation:

| | Retiree Welfare Plan |
|---|---------------------------------|
| ARC..... | \$ 3,115,459 |
| Interest on net OPEB obligation..... | 406,484 |
| Adjustment to ARC | (565,072) |
| Amortization of actuarial losses..... | 604,689 |
| Annual OPEB cost | 3,561,560 |
| Contributions made | 1,438,191 |
| Increase in net OPEB obligation | 2,123,369 |
| Net OPEB obligation, beginning of year..... | 10,162,101 |
| Net OPEB obligation, end of year | \$ 12,285,470 |

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation is presented below. The Annual OPEB Cost for fiscal 2013-14 totals approximately \$3,562,000 and the Town budgeted the current pay-as-you-go OPEB cost of approximately \$1,450,000.

| <i>Fiscal Year Ended</i> | <i>Annual Required Contribution (ARC)</i> | <i>Actual Contribution</i> | <i>% of ARC Contributed</i> |
|--------------------------|---|----------------------------|-----------------------------|
| 6/30/2009 | \$ 2,968,986 | \$ 787,695 | 26.5% |
| 6/30/2010 | 2,899,351 | 837,045 | 28.9% |
| 6/30/2011 | 2,953,318 | 1,155,270 | 39.1% |
| 6/30/2012 | 2,950,503 | 1,227,816 | 41.6% |
| 6/30/2013 | 3,061,982 | 1,338,660 | 43.7% |
| 6/30/2014 | 3,115,459 | 1,438,191 | 46.2% |

The schedule of funding progress, presented below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| <i>Actuarial Valuation Date</i> | <i>Actuarial Value of Assets (a)</i> | <i>Actuarial Accrued Liability (AAL) (b)</i> | <i>Unfunded AAL (b-a)</i> | <i>Funded Ratio (a/b)</i> |
|---------------------------------|--------------------------------------|--|---------------------------|---------------------------|
| 7/1/2008 | \$ - | \$ 31,307,168 | (\$31,307,168) | 0.00% |
| 7/1/2009 | - | 32,914,496 | (32,914,496) | 0.00% |
| 7/1/2010 | 300,000 | 34,311,401 | (34,011,401) | 0.87% |
| 7/1/2012 | 600,613 | 38,325,972 | (37,725,359) | 1.57% |

Investment Policy

The Town Charter and Sections 7-400, 7-401 and 7-402 of the Connecticut General Statutes govern the investments the Town is permitted to acquire. Generally, the Town may invest in certificates of deposit; repurchase agreements; municipal notes, bonds, obligations of the United States, 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 funds that meet certain statutory requirements are also permitted investments.

See Appendix A – “Audited Financial Statements, Notes to Financial Statements, Note 3” herein.

Comparative Balance Sheets – General Fund

| | 6/30/2014 | 6/30/2013 | 6/30/2012 | 6/30/2011 | 6/30/2010 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Assets | | | | | |
| Cash and cash equivalents..... | \$ 8,035,042 | \$ 6,490,797 | \$ 6,978,471 | \$ 6,254,215 | \$ 6,607,592 |
| Receivables: | | | | | |
| Property taxes | 1,072,102 | 1,187,837 | 1,011,865 | 886,505 | 971,285 |
| Other | 1,413,411 | 1,498,003 | 1,635,374 | 559,398 | 312,772 |
| Intergovernmental | 2,393,822 | 3,309,347 | 3,933,968 | 4,138,099 | 4,729,485 |
| Pre-Paid Expenses..... | - | - | 10,943 | - | - |
| Due from other funds | 279,685 | 358,464 | 109,816 | 203,182 | 223,948 |
| Total assets | 13,194,062 | 12,844,448 | 13,680,437 | 12,041,399 | 12,845,082 |
| Liabilities and Fund Balances | | | | | |
| Accounts payable | 653,452 | 703,230 | 594,835 | 573,014 | 768,878 |
| Deferred revenue | 5,024,199 | 5,768,935 | 6,331,015 | 5,044,580 | 5,638,042 |
| Total liabilities | 5,677,651 | 6,472,165 | 6,925,850 | 5,617,594 | 6,406,920 |
| Fund Balances | | | | | |
| Reserved..... | - | - | - | - | 698,945 |
| Unreserved..... | - | - | - | - | 5,739,217 |
| Assigned..... | 563,130 | 797,675 | 981,642 | 849,103 | - |
| Unassigned..... | 6,953,281 | 5,574,608 | 5,772,945 | 5,574,702 | - |
| Total fund balance | 7,516,411 | 6,372,283 | 6,754,587 | 6,423,805 | 6,438,162 |
| Total liabilities and fund balance | 13,194,062 | 12,844,448 | 13,680,437 | 12,041,399 | 12,845,082 |
| Analysis of General Fund Balance | | | | | |
| Operating revenues | \$70,892,451 | \$68,260,379 | \$66,064,565 | \$61,547,900 | \$62,569,980 |
| Fund balance as a percent of | | | | | |
| operating revenues | 10.60% | 9.34% | 10.22% | 10.44% | 10.29% |
| Unassigned fund balance as | | | | | |
| a percent of operating revenues | 9.81% | 8.17% | 8.74% | 9.06% | 9.17% |

General Fund Revenues and Expenditures
Five Year Summary of Audited Revenues and Expenditures (GAAP Basis)
And Adopted Budget (Budgetary Basis)
(In thousands)

| | Adopted Budget ¹ 6/30/2015 | Actual 6/30/2014 | Actual 6/30/2013 | Actual 6/30/2012 | Actual 6/30/2011 | Actual 6/30/2010 |
|---|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues: | | | | | | |
| Property taxes | \$ 50,159,934 | \$ 49,654,477 | \$ 47,229,837 | \$ 44,991,044 | \$ 44,110,778 | \$ 43,040,294 |
| Intergovernmental revenues | 13,885,361 | 18,760,371 | 18,523,914 | 18,470,161 | 15,509,642 | 17,406,285 |
| Departmental revenues | 2,174,058 | 2,141,776 | 2,097,152 | 2,267,774 | 1,596,353 | 1,733,768 |
| Investment income | 20,853 | 22,488 | 28,295 | 26,233 | 38,143 | 78,693 |
| Other revenue | 349,939 | 313,339 | 381,181 | 309,353 | 292,984 | 310,940 |
| Total..... | 66,590,145 | 70,892,451 | 68,260,379 | 66,064,565 | 61,547,900 | 62,569,980 |
| Expenditures: | | | | | | |
| General Government | \$ 2,476,990 | 2,582,652 | 2,506,428 | 2,572,123 | 2,376,039 | 2,342,926 |
| Public Safety | 5,167,429 | 5,095,921 | 5,020,250 | 4,922,640 | 4,723,743 | 4,565,164 |
| Public Works | 3,757,937 | 3,426,475 | 3,353,241 | 3,312,263 | 3,075,343 | 3,095,696 |
| Parks and Recreation | 835,792 | 807,063 | 757,828 | 717,490 | 635,176 | 649,630 |
| Health and Welfare | 125,717 | 139,094 | 132,255 | 129,967 | 147,660 | 125,202 |
| Education | 39,224,427 | 43,236,872 | 42,983,391 | 39,592,522 | 36,930,006 | 38,016,801 |
| Debt Service | 6,656,336 | 6,857,649 | 6,811,471 | 7,345,894 | 7,103,314 | 6,778,146 |
| Capital Outlay | - | 592,437 | 630,313 | 678,051 | - | - |
| Other | 8,345,517 | 7,451,025 | 7,026,858 | 7,356,740 | 6,835,366 | 5,795,979 |
| Total..... | 66,590,145 | 70,189,188 | 69,222,035 | 66,627,690 | 61,826,647 | 61,369,544 |
| Excess (Deficiency) of Revenues | | | | | | |
| Over Expenditures..... | - | 703,263 | (961,656) | (563,125) | (278,747) | 1,200,436 |
| Other financing sources (uses): | | | | | | |
| Operating transfers in | \$ - | 130,787 | 187,386 | 280,908 | 482,573 | 649,570 |
| Bond Proceeds..... | - | - | 9,492,729 | 14,890,832 | - | 18,760,000 |
| Deposit to escrow and costs of debt issuance ... | - | - | (9,446,776) | (14,669,343) | - | (18,557,079) |
| Capital Lease Proceeds | - | 592,437 | 630,313 | 678,051 | - | - |
| Operating transfers out | - | (282,359) | (284,300) | (286,541) | (218,183) | (1,320,124) |
| Total Other financing sources (uses)..... | - | 440,865 | 579,352 | 893,907 | 264,390 | (467,633) |
| Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures and other financing uses..... | | | | | | |
| Fund Balance, Beginning of Year..... | 7,516,411 | 6,372,283 | 6,754,587 | 6,423,805 | 6,438,162 | 5,705,359 |
| Fund Balance, End of Year..... | \$ 7,516,411 | \$ 7,516,411 | \$ 6,372,283 | \$ 6,754,587 | \$ 6,423,805 | \$ 6,438,162 |

¹ Budgetary Basis of accounting. Subject to audit. No assurances can be given that subsequent projections and the final result of operations will not change.

VII. Legal And Other Information

Litigation

The Town of Watertown, 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 opinion of the Town Attorney, following consultation with Town officials and other attorneys providing legal services to the Town, 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.

Documents Furnished At Delivery

The original purchaser(s) will be furnished the following documents when the Bonds and the Notes are delivered:

1. Signature and No Litigation Certificates 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 Town Manager or the Deputy Town Manager and the Town Treasurer or the Director of Finance which will be dated the date of delivery and attached to a signed copy of the Official Statement, and which will certify, to the best of said officials' knowledge and belief, that at the time the bids were awarded for the Bonds and the Notes, the descriptions and statements in the Official Statement relating to the Town and its finances were true and correct in all material respects and did not contain any untrue statement of a material fact necessary to make the statements therein, in the 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 Pitney LLP, Bond Counsel, of Hartford, Connecticut.
5. Executed Continuing Disclosure Agreements for the Bonds and the Notes in substantially the forms attached hereto as Appendices C-1 and C-2 to this Official Statement.
6. The Town of Watertown has prepared an Official Statement for the Bonds and the Notes which is dated March 26, 2015. The Town deems such Official Statement final as of its date for purposes of SEC Rule 15c2-12 (b)(1), but it is subject to revision or amendment. The Town will make available to the winning bidder(s) of the Bonds one hundred (100) copies, and the Notes five (5) copies, of the final Official Statement at the Town's expense. The copies of the Official Statement will be made available to the winning bidder(s) at the office of the Town's financial advisor no later than seven business days of the bid opening. If the Town's financial advisor is provided with the necessary information from the winning purchaser by noon of the day following the day bids on the Bonds and the Notes are received, the copies of the final Official Statement will include an additional cover page and other pages indicating the interest rates, yields or reoffering prices, the name of the managing underwriter, the name of the insurer, if any, and any changes on the Securities. The purchasers shall arrange with the financial advisor the method of delivery of the copies of the Official Statement to the purchasers.

A record of the proceedings taken by the Town in authorizing the Bonds and the Notes will be kept on file at offices of U.S. Bank National Association, and may be examined upon reasonable request.

Concluding Statement

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, such statements are made as such and not as representations of fact or certainty, and no representation is made that any of such statements will be realized. Information herein has been derived by the Town from official and other sources and is believed by the Town to be reliable, but such information other than that obtained from official records of the Town has not been independently confirmed or verified by the Town and its accuracy is not guaranteed.

This Official Statement has been duly prepared and delivered by the Town, and executed for and on behalf of the Town by the following officials:

TOWN OF WATERTOWN, CONNECTICUT

By: /s/
Robert M. Scannell, *Town Manager*

By: /s/
Frank J. Nardelli, Jr., *Director of Finance*

Dated: March __, 2015

Appendix A

2014 Financial Statements Excerpted from the Town's Comprehensive Annual Financial Report

The following includes the General Purpose Financial Statements of the Town of Watertown, Connecticut for the fiscal year ended June 30, 2014. The supplemental data that was a part of that report has not been reproduced herein. A copy of the complete report is available upon request from Barry J. Bernabe, Managing Director, Phoenix Advisors, 53 River Street, Suite 1, Milford, Connecticut 06460. Telephone (203) 283-1110.

BlumShapiro

Accounting | Tax | Business Consulting

Independent Auditors' Report

To the Town Council
Town of Watertown, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Watertown, Connecticut, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Watertown, Connecticut's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Watertown, Connecticut, as of June 30, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, the budgetary comparison information on pages 53 through 57 and required schedules of Pension and OPEB Trust Funds on pages 58 through 63 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Watertown, Connecticut's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section 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 and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Town of Watertown, Connecticut, as of and for the year ended June 30, 2013 (not presented herein), and have issued our report thereon dated December 11, 2015, which contained unmodified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information. The accompanying General Fund balance sheet as of June 30, 2013 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the 2013 financial statements. The accompanying General Fund balance sheet has been subjected to the auditing procedures applied in the audit of the 2013 basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the General Fund balance sheet is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2013.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2014 on our consideration of the Town of Watertown, Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Watertown, Connecticut's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 30, 2014

**TOWN OF WATERTOWN, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

This discussion and analysis of the Town of Watertown, Connecticut's (the Town) financial performance is provided by management to provide an overview of the Town's financial activities for the fiscal year ended June 30, 2014. Please read this MD&A in conjunction with the transmittal letter and the Town's financial statements, Exhibits I to IX.

Financial Highlights

- The Town's total net position increased \$971,000 thousand as a result of this year's operations. Net position of our governmental activities increased by \$1.3 million.
- During the year, the Town had expenses that were \$1.3 million less than the \$75.0 million generated in tax and other revenues for governmental programs.
- In the Town's business-type activities, total net position decreased \$310 thousand. Unrestricted net position decreased by \$357 thousand (\$6.5 million in 2014 compared with \$6.8 million in 2013).
- Total cost of all of the Town's programs was \$78.0 million with no new programs added this year.
- The General Fund reported an unassigned fund balance this year of \$6.9 million.
- The resources available for appropriation were \$1.1 million more than budgeted for the General Fund. Expenditures were kept within spending limits.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (Exhibits I and II, 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 III to IX. 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 on Exhibits I and II. The statement of net position 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 position and changes in them. The Town's net position, the difference between assets and liabilities, is one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other nonfinancial 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 position 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, public works, parks and recreation, health and welfare 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 sewer, water and golf course operations are reported here.

Fund Financial Statements

The fund financial statements begin with Exhibit III 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 Board of Education Community Service Fund) or to show that it is meeting legal responsibilities for using grants and other money (like grants received for education from the state and federal governments). The Town's funds are divided into three categories: governmental, proprietary and fiduciary.

- *Governmental Funds (Exhibits III and IV)* - 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 position and the statement of activities) and governmental funds is described in a reconciliation included with the fund financial statements.
- *Proprietary Funds (Exhibits V, VI and VII)* - When the Town charges customers for the services it provides, whether to outside customers or to other units of the Town, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. 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 Health and Dental Benefits and Workers' Compensation Internal Service Funds.
- *Fiduciary Funds (Exhibits VIII and IX)* - The Town is the trustee, or fiduciary, for its employees' pension plans. All of the Town's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the Town's other financial statements because the Town cannot use 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.

Government-Wide Financial Analysis

The Town's combined net position increased from a year ago increasing from \$155.4 million to \$156.4 million. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental and business-type activities.

**TABLE 1
NET POSITION
(In Thousands)**

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--|------------------------------------|-------------------|-------------------------------------|------------------|-------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Current and other assets | \$ 28,892 | \$ 27,089 | \$ 7,193 | \$ 7,840 | \$ 36,085 | \$ 34,929 |
| Capital assets, net of accumulated depreciation | 197,373 | 198,228 | 14,974 | 15,395 | 212,347 | 213,623 |
| Total assets | <u>226,265</u> | <u>225,317</u> | <u>22,167</u> | <u>23,235</u> | <u>248,432</u> | <u>248,552</u> |
| Deferred charge on refunding | <u>1,248</u> | <u>1,291</u> | | | <u>1,248</u> | <u>1,291</u> |
| Long-term liabilities outstanding | 77,848 | 81,010 | 2,770 | 3,224 | 80,618 | 84,234 |
| Other liabilities | 12,136 | 9,351 | 514 | 817 | 12,650 | 10,168 |
| Total liabilities | <u>89,984</u> | <u>90,361</u> | <u>3,284</u> | <u>4,041</u> | <u>93,268</u> | <u>94,402</u> |
| Net Position: | | | | | | |
| Net investment in capital assets | 132,293 | 128,553 | 12,408 | 12,362 | 144,701 | 140,915 |
| Restricted | 289 | 292 | | | 289 | 292 |
| Unrestricted | <u>4,947</u> | <u>7,402</u> | <u>6,475</u> | <u>6,832</u> | <u>11,422</u> | <u>14,234</u> |
| Total Net Position | <u>\$ 137,529</u> | <u>\$ 136,247</u> | <u>\$ 18,883</u> | <u>\$ 19,194</u> | <u>\$ 156,412</u> | <u>\$ 155,441</u> |

Net position of the Town's governmental activities increased by \$1.3 million (\$137.5 million in 2014 compared with \$136.2 million in 2013). The 2013 reported net position includes a re-allocation between net investment in capital assets and unrestricted. The Town's unrestricted net position of \$4.9 million decreased \$2.5 million compared with last years' unrestricted net position of \$7.4 million. The decrease is primarily attributable to the repayment of bonds of \$4.6 million, decreases of net capital assets of \$855 thousand, and an overall increase to net position of \$1.3 million. Unrestricted net position can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. Net investment in capital assets increased \$3.7 million.

During 2014, the net position of the Town's business-type activities decreased by \$311 thousand. Unrestricted net position decreased \$357 thousand (\$6.5 million in 2014 compared with \$6.8 million in 2013). Contributing factors to the change in total net position and unrestricted net position follows Table 2. The Town generally can only use this net position to finance the continuing operations of the Sewer Authority, Water Authority and Crestbrook Golf Enterprise Funds.

TABLE 2
CHANGE IN NET POSITION
(In Thousands)

| | <u>Governmental</u> <u>Activities</u> | | <u>Business-Type</u> <u>Activities</u> | | <u>Total</u> | |
|--|--|-----------------|---|-----------------|---------------|-----------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 3,461 | \$ 3,610 | \$ 3,837 | \$ 3,713 | \$ 7,298 | \$ 7,323 |
| Operating grants and contributions | 19,480 | 18,553 | | | 19,480 | 18,553 |
| Capital grants and contributions | 950 | 3,678 | 93 | | 1,043 | 3,678 |
| General revenues: | | | | | | |
| Property taxes | 49,498 | 47,379 | | | 49,498 | 47,379 |
| Grants and contributions not restricted to specific purposes | 1,150 | 1,131 | | | 1,150 | 1,131 |
| Unrestricted investment earnings | 29 | 35 | 6 | 6 | 35 | 41 |
| Other general revenues | 444 | 338 | | | 444 | 338 |
| Total revenues | <u>75,012</u> | <u>74,724</u> | <u>3,936</u> | <u>3,719</u> | <u>78,948</u> | <u>78,443</u> |
| Expenses: | | | | | | |
| General government | 9,637 | 10,661 | | | 9,637 | 10,661 |
| Public safety | 6,180 | 6,496 | | | 6,180 | 6,496 |
| Public works | 5,195 | 5,273 | | | 5,195 | 5,273 |
| Parks and recreation | 1,363 | 1,208 | | | 1,363 | 1,208 |
| Health and welfare | 529 | 116 | | | 529 | 116 |
| Education | 48,281 | 47,760 | | | 48,281 | 47,760 |
| Interest on long-term debt | 2,587 | 2,188 | | | 2,587 | 2,188 |
| Sewer | | | 2,098 | 2,081 | 2,098 | 2,081 |
| Water | | | 1,463 | 1,461 | 1,463 | 1,461 |
| Golf | | | 642 | 588 | 642 | 588 |
| Total expenses | <u>73,772</u> | <u>73,702</u> | <u>4,203</u> | <u>4,130</u> | <u>77,975</u> | <u>77,832</u> |
| Excess (deficiency) before transfers | 1,240 | 1,022 | (267) | (411) | 973 | 611 |
| Transfers | 43 | 693 | (43) | (93) | - | 600 |
| Increase (Decrease) in Net Position | <u>\$ 1,283</u> | <u>\$ 1,715</u> | <u>\$ (310)</u> | <u>\$ (504)</u> | <u>\$ 973</u> | <u>\$ 1,211</u> |

The Town's total revenues were \$78.9 million. The total cost of all programs and services was \$78.0 million. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The Town's governmental activities reported an increase of \$1.3 million in net position in 2014. The increase was principally driven by the capitalization of public works construction expenditures. The Town's total governmental revenue for the year was \$75.0 million. Total program expenses were \$73.8 million. During 2014, property taxes increased \$2.1 million as the Town's property tax mill rate increased 0.86 mills from 2013 to 2014.

Business-Type Activities

The Town's business-type activities reported a decrease of \$311 thousand in net position in 2014. Crestbrook Golf operations restaurant was being renovated which resulted in a loss of rental income for the year.

Table 3 presents the cost of each of the Town's five largest programs - general government, public safety, public works, education and parks and recreation - 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 by each of these functions.

**TABLE 3
GOVERNMENTAL ACTIVITIES
(In Thousands)**

| | <u>Total Cost of Services</u> | | <u>Net Cost of Services</u> | |
|----------------------|-------------------------------|------------------|-----------------------------|------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| General government | \$ 9,637 | \$ 10,661 | \$ 8,128 | \$ 8,975 |
| Public safety | 6,180 | 6,496 | 5,563 | 5,687 |
| Public works | 5,195 | 5,273 | 4,232 | 1,645 |
| Parks and recreation | 1,363 | 1,208 | 866 | 919 |
| Education | 48,281 | 47,760 | 28,304 | 28,599 |
| All others | <u>3,116</u> | <u>2,304</u> | <u>2,789</u> | <u>2,036</u> |
| Total | \$ <u>73,772</u> | \$ <u>73,702</u> | \$ <u>49,882</u> | \$ <u>47,861</u> |

Town Funds Financial Analysis

Governmental Funds

As the Town completed the year, its governmental funds (as presented in the balance sheet - Exhibit III) reported a combined fund balance of \$11.3 million, which is a decrease of \$100 thousand from last year's total of \$11.4 million. During 2014, the Town's general fund balance increased by \$1.1 million and the capital improvement fund decreased by \$1.3 million and the non-major governmental funds increased by \$100 thousand.

Proprietary Funds

Net position of the Town's three self-insured internal service funds increased by \$570 thousand during the year. The Health and Dental Benefits Fund reported an operating income of \$251 thousand. Net position of the Town's Workers' Compensation Fund increased \$342 thousand as claims experience improved from last year. Net position of the Town's General Liabilities Deductibles Fund decreased by \$23 thousand, which was primarily attributable to claim activity.

The Town operates three enterprise funds that comprise the Town’s business-type activities. The enterprise funds account for the operations of providing sewer and water services to Town businesses and residents and to account for the Town’s Crestbrook golf course. Analysis of the Town’s enterprise funds is included in the above business-type activities section.

General Fund Budgetary Highlights

The actual revenues exceeded the budgetary revenues estimate of \$65.0 million by \$1.1 million as property tax collections exceeded budgetary estimates as the tax collector foreclosed on overdue real estate accounts. During the year the Town approved \$516 thousand of additional General Fund appropriations to fund various unanticipated expenditures. The Town expended \$740 thousand less than the amended appropriated budget amount of \$65.5 million.

The Town’s General Fund balance of \$7.5 million reported on Exhibit III differs from the General Fund’s budgetary fund balance of \$6.9 million. This is because budgetary fund balance included a reservation of \$563 thousand of outstanding encumbrances at year end which are reported as expenditures for budgetary purposes.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2014, the Town had \$212.3 million invested in a broad range of capital assets, including land, buildings, park facilities, vehicles and equipment, roads, bridges, and water and sewer lines - Table 4. This amount represents a net decrease of \$1.3 million, over last year.

TABLE 4
CAPITAL ASSETS AT YEAR-END (Net of Depreciation)
(In Thousands)

| | Governmental | | Business-Type | | Total | |
|----------------------------|---------------------|-------------------|----------------------|------------------|-------------------|-------------------|
| | Activities | | Activities | | | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Land | \$ 2,598 | \$ 2,598 | \$ 1,020 | \$ 1,020 | \$ 3,618 | \$ 3,618 |
| Construction in progress | 71,941 | 81,772 | | | 71,941 | 81,772 |
| Buildings and improvements | 69,230 | 61,308 | 1,007 | 988 | 70,237 | 62,296 |
| Vehicles | 1,167 | 827 | 52 | 33 | 1,220 | 860 |
| Machinery and equipment | 1,194 | 997 | 15 | 34 | 1,209 | 1,031 |
| Infrastructure | 51,243 | 50,726 | 12,880 | 13,319 | 64,123 | 64,045 |
| Total | \$ 197,373 | \$ 198,228 | \$ 14,974 | \$ 15,394 | \$ 212,347 | \$ 213,622 |

This year’s major capital outlay additions included:

| | |
|----------------|---------------------|
| Curtiss Lane | \$ 566,000 |
| Wolf Hill Road | <u>606,683</u> |
| Total | <u>\$ 1,172,683</u> |

The Town's fiscal year 2013-2014 capital budget calls for the continued capital outlay on the \$4.0 million of approved project authorization for various public works capital improvements. More detailed information about the Town's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2014, the Town had \$71 million in bonds and serial notes outstanding versus \$72.0 million last year as shown in Table 5.

TABLE 5
OUTSTANDING DEBT, AT YEAR END
(In Thousands)

| | Governmental | | Business-Type | | Total | |
|---|---------------------|------------------|----------------------|-----------------|------------------|------------------|
| | Activities | | Activities | | | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| General obligation bonds | \$ 58,876 | \$ 62,293 | \$ | \$ | \$ 58,876 | \$ 62,293 |
| Serial notes payable | | | 2,566 | 3,032 | 2,566 | 3,032 |
| Bond anticipation notes (backed by the Town) | 9,700 | 6,700 | | | 9,700 | 6,700 |
| | <u>\$ 68,576</u> | <u>\$ 68,993</u> | <u>\$ 2,566</u> | <u>\$ 3,032</u> | <u>\$ 71,142</u> | <u>\$ 72,025</u> |

The Town's general obligation bond rating is Aa2. The State limits the amount of general obligation debt that cities can issue based on formula determined under State Statutes based on type of debt and tax base. The Town's outstanding general obligation debt is significantly below this \$348.0 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 7 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 2014 budget tax rates, and fees that will be charged for the business-type activities. One of those factors is the economy. The Town's unemployment had a decrease, averaging annual rate of 8.05%. Unemployment in the Town now stands at 7.9% versus 8.2% a year ago. This compares with the State's unemployment rate of 7.4% and the national rate of 6.8%.

Inflation in the Northeast area continues to be less than the national Consumer Price Index (CPI) increase.

The Town required three budget referendums to pass its 2014-2015 budget. The mill rate for fiscal year 2014-2015 is 29.12 mills, which is a 4.03 mill increase from the prior year due to revaluation for the grand list dated October 1, 2013. The Board of Education budget increased 1.99% and the Town's portion increased 3.07%.

In the Town's 2013-2014 budget, the Town did not use any of the fund balance to balance the budget.

Future year's budgets will be impacted by health, insurance, energy costs and debt service.

As for the Town's business-type activities, we expect that the 2014-15 operating income will increase based on recent decisions. The Water and Sewer Department continues to expand its utilities, which increases users. This expansion program combined with maintaining stable rates and low operating costs should enable an increase in net position. The Water and Sewer Department has completed a Water and Sewer Cost of Services rate study, which will moderately increase rates in fiscal year 2014-2015.

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 Watertown, 424 Main Street, Watertown, Connecticut 06795.

Basic Financial Statements

TOWN OF WATERTOWN, CONNECTICUT

STATEMENT OF NET POSITION

JUNE 30, 2014

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|----------------------------------|------------------------------------|-------------------------------------|-----------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 15,935,950 | \$ 3,983,085 | \$ 19,919,035 |
| Receivables, net | 12,652,231 | 923,599 | 13,575,830 |
| Internal balances | 279,685 | (279,685) | - |
| Inventories | 23,788 | | 23,788 |
| Other charges | | 2,566,052 | 2,566,052 |
| Capital assets: | | | |
| Assets not being depreciated | 74,538,811 | 1,019,600 | 75,558,411 |
| Assets being depreciated, net | 122,834,657 | 13,954,715 | 136,789,372 |
| Total assets | <u>226,265,122</u> | <u>22,167,366</u> | <u>248,432,488</u> |
| Deferred Outflows of Resources: | | | |
| Deferred charge on refunding | <u>1,248,433</u> | | <u>1,248,433</u> |
| Liabilities: | | | |
| Accounts and other payables | 1,571,638 | 514,412 | 2,086,050 |
| Bond anticipation notes payable | 9,700,000 | | 9,700,000 |
| Unearned revenue | 864,431 | | 864,431 |
| Noncurrent liabilities: | | | |
| Due within one year | 7,421,127 | 539,765 | 7,960,892 |
| Due in more than one year | 70,426,968 | 2,229,987 | 72,656,955 |
| Total liabilities | <u>89,984,164</u> | <u>3,284,164</u> | <u>93,268,328</u> |
| Net Position: | | | |
| Net investment in capital assets | 132,293,489 | 12,408,263 | 144,701,752 |
| Restricted for trust purposes: | | | |
| Expendable | 127,819 | | 127,819 |
| Nonexpendable | 160,650 | | 160,650 |
| Unrestricted | <u>4,947,433</u> | <u>6,474,939</u> | <u>11,422,372</u> |
| Total Net Position | <u>\$ 137,529,391</u> | <u>\$ 18,883,202</u> | <u>\$ 156,412,593</u> |

The accompanying notes are an integral part of the financial statements

TOWN OF WATERTOWN, CONNECTICUT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net Revenue (Expense) and Changes in Net Position | | |
|--------------------------------|----------------------|--|------------------------------------|----------------------------------|---|--------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental activities: | | | | | | | |
| General government | \$ 9,636,520 | \$ 1,192,778 | \$ 315,716 | \$ | \$ (8,128,026) | \$ | \$ (8,128,026) |
| Public safety | 6,180,199 | 617,309 | | | (5,562,890) | | (5,562,890) |
| Public works | 5,194,580 | 153,864 | | 808,794 | (4,231,922) | | (4,231,922) |
| Parks and recreation | 1,362,980 | 363,279 | 6,960 | 126,600 | (866,141) | | (866,141) |
| Health and welfare | 528,987 | | 175,707 | | (353,280) | | (353,280) |
| Education | 48,281,395 | 1,133,310 | 18,829,866 | 14,156 | (28,304,063) | | (28,304,063) |
| Interest on long-term debt | 2,586,640 | | 151,391 | | (2,435,249) | | (2,435,249) |
| Total governmental activities | <u>73,771,301</u> | <u>3,460,540</u> | <u>19,479,640</u> | <u>949,550</u> | <u>(49,881,571)</u> | <u>-</u> | <u>(49,881,571)</u> |
| Business-type activities: | | | | | | | |
| Sewer | 2,098,201 | 2,063,450 | | | | (34,751) | (34,751) |
| Water | 1,462,966 | 1,254,222 | | | | (208,744) | (208,744) |
| Golf | 642,255 | 519,223 | | 92,558 | | (30,474) | (30,474) |
| Total business-type activities | <u>4,203,422</u> | <u>3,836,895</u> | <u>-</u> | <u>92,558</u> | <u>-</u> | <u>(273,969)</u> | <u>(273,969)</u> |
| Total | <u>\$ 77,974,723</u> | <u>\$ 7,297,435</u> | <u>\$ 19,479,640</u> | <u>\$ 1,042,108</u> | <u>(49,881,571)</u> | <u>(273,969)</u> | <u>(50,155,540)</u> |
| | | General revenues: | | | | | |
| | | Property taxes | | | 49,498,071 | | 49,498,071 |
| | | Grants and contributions not restricted to specific programs | | | 1,150,077 | | 1,150,077 |
| | | Unrestricted investment earnings | | | 29,017 | 6,011 | 35,028 |
| | | Miscellaneous | | | 443,722 | | 443,722 |
| | | Transfers | | | 43,051 | (43,051) | - |
| | | Total general revenues and transfers | | | <u>51,163,938</u> | <u>(37,040)</u> | <u>51,126,898</u> |
| | | Change in net position | | | 1,282,367 | (311,009) | 971,358 |
| | | Net Position at Beginning of Year | | | <u>136,247,024</u> | <u>19,194,211</u> | <u>155,441,235</u> |
| | | Net Position at End of Year | | | <u>\$ 137,529,391</u> | <u>\$ 18,883,202</u> | <u>\$ 156,412,593</u> |

The accompanying notes are an integral part of the financial statements

TOWN OF WATERTOWN, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

| | General | Capital Improvement Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|----------------|---|--|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 8,035,042 | \$ 5,237,594 | \$ 1,669,826 | \$ 14,942,462 |
| Accounts receivable, net | 4,879,335 | 6,644,986 | 1,127,910 | 12,652,231 |
| Due from other funds | 279,685 | | | 279,685 |
| Inventories | | | 23,788 | 23,788 |
| | | | | |
| Total Assets | \$ 13,194,062 | \$ 11,882,580 | \$ 2,821,524 | \$ 27,898,166 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts and other payables | \$ 653,452 | \$ | \$ 59,748 | \$ 713,200 |
| Bond anticipation notes payable | | 9,700,000 | | 9,700,000 |
| Unearned revenue | 620,196 | 89,981 | 154,254 | 864,431 |
| Total liabilities | 1,273,648 | 9,789,981 | 214,002 | 11,277,631 |
| Deferred inflows of resources: | | | | |
| Unavailable revenues - property taxes | 1,023,930 | | | 1,023,930 |
| Unavailable revenues - special assessments | 894,423 | | | 894,423 |
| Unavailable revenues - school building grants | 2,393,822 | | | 2,393,822 |
| Unavailable revenues - other receivables | 91,828 | | | 91,828 |
| Unavailable revenues - loans receivable | | | 899,319 | 899,319 |
| Total deferred inflows of resources | 4,404,003 | - | 899,319 | 5,303,322 |
| Fund balances: | | | | |
| Nonspendable | | | 184,438 | 184,438 |
| Restricted | | 2,092,599 | 162,965 | 2,255,564 |
| Committed | | | 1,376,710 | 1,376,710 |
| Assigned | 563,130 | | | 563,130 |
| Unassigned | 6,953,281 | | (15,910) | 6,937,371 |
| Total fund balances | 7,516,411 | 2,092,599 | 1,708,203 | 11,317,213 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 13,194,062 | \$ 11,882,580 | \$ 2,821,524 | \$ 27,898,166 |

(Continued on next page)

TOWN OF WATERTOWN, CONNECTICUT

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2014

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position:

Amounts reported for governmental activities in the statement of net position (Exhibit I) are different because of the following:

| | | |
|--|----|------------|
| Fund balances - total governmental funds | \$ | 11,317,213 |
|--|----|------------|

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

| | | | |
|-------------------------------|----|---------------------|-------------|
| Governmental capital assets | \$ | 259,861,901 | |
| Less accumulated depreciation | | <u>(62,488,433)</u> | |
| Net capital assets | | | 197,373,468 |

Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recorded in the funds:

| | |
|--|-----------|
| Property tax receivables greater than 60 days | 812,930 |
| Interest receivable on property taxes | 211,000 |
| Receivable from the State for school construction projects | 2,393,822 |
| Housing rehabilitation loans receivable | 899,319 |
| Assessment receivables | 894,423 |
| Other accounts receivable | 91,828 |

Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the statement of net position.

(139,512)

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

| | |
|--|------------------|
| Bonds payable | (57,335,000) |
| Deferred charge on refunding | 1,248,433 |
| Unamortized premiums | (1,540,676) |
| Interest payable on bonds | (858,438) |
| Capital leases | (953,043) |
| Compensated absences | (3,661,518) |
| Retirement obligations | (520,178) |
| Net OPEB obligation | (12,285,470) |
| Landfill closure monitoring obligation | <u>(419,210)</u> |

Net Position of Governmental Activities (Exhibit I)

\$ 137,529,391

The accompanying notes are an integral part of the financial statements

TOWN OF WATERTOWN, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

| | <u>General</u> | <u>Capital Improvement Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|--|---|
| Revenues: | | | | |
| Property taxes | \$ 49,654,477 | \$ | \$ | \$ 49,654,477 |
| Intergovernmental revenues | 18,760,371 | 289,435 | 2,493,135 | 21,542,941 |
| Licenses, permits and charges for services | 2,141,776 | | 1,559,411 | 3,701,187 |
| Investment income | 22,488 | 4,509 | 1,543 | 28,540 |
| Other revenue | 313,339 | 7,050 | 376,103 | 696,492 |
| Total revenues | <u>70,892,451</u> | <u>300,994</u> | <u>4,430,192</u> | <u>75,623,637</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 2,582,652 | | 138,228 | 2,720,880 |
| Public safety | 5,095,921 | | 71,894 | 5,167,815 |
| Public works | 3,426,475 | | 735,867 | 4,162,342 |
| Parks and recreation | 807,063 | | 322,636 | 1,129,699 |
| Health and welfare | 139,094 | | 389,950 | 529,044 |
| Education | 43,236,872 | | 2,803,887 | 46,040,759 |
| Other | 7,451,025 | | | 7,451,025 |
| Capital outlay | 592,437 | 1,775,810 | 61,995 | 2,430,242 |
| Debt service | 6,857,649 | | | 6,857,649 |
| Total expenditures | <u>70,189,188</u> | <u>1,775,810</u> | <u>4,524,457</u> | <u>76,489,455</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>703,263</u> | <u>(1,474,816)</u> | <u>(94,265)</u> | <u>(865,818)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | 130,787 | | 195,000 | 325,787 |
| Transfers out | (282,359) | | (377) | (282,736) |
| Bond premium | | 83,226 | | 83,226 |
| Issuance of capital leases | 592,437 | | | 592,437 |
| Total other financing sources | <u>440,865</u> | <u>83,226</u> | <u>194,623</u> | <u>718,714</u> |
| Net Change in Fund Balances | 1,144,128 | (1,391,590) | 100,358 | (147,104) |
| Fund Balances at Beginning of Year | <u>6,372,283</u> | <u>3,484,189</u> | <u>1,607,845</u> | <u>11,464,317</u> |
| Fund Balances at End of Year | <u>\$ 7,516,411</u> | <u>\$ 2,092,599</u> | <u>\$ 1,708,203</u> | <u>\$ 11,317,213</u> |

(Continued on next page)

TOWN OF WATERTOWN, CONNECTICUT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

| | |
|---|--------------|
| Net change in fund balances - total governmental funds (Exhibit IV) | \$ (147,104) |
|---|--------------|

Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

| | |
|----------------------|-------------|
| Capital outlay | 3,175,435 |
| Depreciation expense | (3,988,524) |

In the statement of activities, only the gain 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 position differs from the change in fund balance by the cost of the assets sold. (41,540)

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 funds are not reported in the statement of activities:

| | |
|---|-----------|
| School building grant receipts | (550,214) |
| Property tax receivable - accrual basis change | (69,406) |
| Property tax interest and lien revenue - accrual basis change | (87,000) |
| Assessment receivables | (7,320) |
| Other accounts receivable - accrual basis change | (20,616) |

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 has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized and deferred in the statement of activities. The details of these differences in the treatment of long-term debt and related items are as follows:

| | |
|--|-----------|
| Bond principal payments | 4,610,000 |
| Amortization of premiums | 97,992 |
| Amortization of deferred charge on refunding | (42,368) |
| Amortization of other costs | (351,827) |
| Accrued interest on bonds | 45,451 |
| Capital lease payments | 551,987 |
| Capital lease financing | (592,437) |

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 the governmental funds:

| | |
|--|-------------|
| Change in long-term compensated absences | (5,833) |
| Change in long-term retirement obligations | 156,181 |
| Change in landfill post closure care | 103,378 |
| Change in net OPEB obligation | (2,123,369) |

Internal service funds are used by management to charge costs to individual funds. The net revenue of certain activities of internal services funds is reported with governmental activities.

| |
|---------|
| 569,501 |
|---------|

| | |
|--|---------------------|
| Change in Net Position of Governmental Activities (Exhibit II) | \$ <u>1,282,367</u> |
|--|---------------------|

The accompanying notes are an integral part of the financial statements

TOWN OF WATERTOWN, CONNECTICUT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2014

| | Business-Type Activities | | | Total | Governmental |
|----------------------------------|--------------------------|---------------------|---|----------------------|---------------------|
| | Sewer Authority | Water Authority | Nonmajor Crestbrook Golf Operation | | Internal Service |
| Assets: | | | | | |
| Current: | | | | | |
| Cash and cash equivalents | \$ 2,036,984 | \$ 1,946,101 | \$ | \$ 3,983,085 | \$ 993,488 |
| Receivables, net: | | | | | |
| User charges | 589,226 | 334,373 | | 923,599 | |
| Total current assets | <u>2,626,210</u> | <u>2,280,474</u> | <u>-</u> | <u>4,906,684</u> | <u>993,488</u> |
| Noncurrent: | | | | | |
| Other charges | 2,566,052 | | | 2,566,052 | |
| Capital assets: | | | | | |
| Assets not being depreciated | | 84,600 | 935,000 | 1,019,600 | |
| Assets being depreciated, net | <u>7,141,653</u> | <u>6,470,418</u> | <u>342,644</u> | <u>13,954,715</u> | |
| Total noncurrent assets | <u>9,707,705</u> | <u>6,555,018</u> | <u>1,277,644</u> | <u>17,540,367</u> | <u>-</u> |
| Total assets | <u>12,333,915</u> | <u>8,835,492</u> | <u>1,277,644</u> | <u>22,447,051</u> | <u>993,488</u> |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts and other payables | 275,605 | 238,350 | 457 | 514,412 | |
| Due to other funds | 9,946 | | 269,739 | 279,685 | |
| Notes payable | 453,213 | | | 453,213 | |
| Compensated absences | 29,596 | 29,596 | 27,360 | 86,552 | |
| Risk management claims | | | | - | 708,000 |
| Total current liabilities | <u>768,360</u> | <u>267,946</u> | <u>297,556</u> | <u>1,333,862</u> | <u>708,000</u> |
| Noncurrent liabilities: | | | | | |
| Notes payable | 2,112,839 | | | 2,112,839 | |
| Compensated absences | 31,131 | 31,131 | 54,886 | 117,148 | |
| Risk management claims | | | | - | 425,000 |
| Total noncurrent liabilities | <u>2,143,970</u> | <u>31,131</u> | <u>54,886</u> | <u>2,229,987</u> | <u>425,000</u> |
| Total liabilities | <u>2,912,330</u> | <u>299,077</u> | <u>352,442</u> | <u>3,563,849</u> | <u>1,133,000</u> |
| Net Position: | | | | | |
| Net investment in capital assets | 4,575,601 | 6,555,018 | 1,277,644 | 12,408,263 | |
| Unrestricted | <u>4,845,984</u> | <u>1,981,397</u> | <u>(352,442)</u> | <u>6,474,939</u> | <u>(139,512)</u> |
| Total Net Position | <u>\$ 9,421,585</u> | <u>\$ 8,536,415</u> | <u>\$ 925,202</u> | <u>\$ 18,883,202</u> | <u>\$ (139,512)</u> |

The accompanying notes are an integral part of the financial statements

TOWN OF WATERTOWN, CONNECTICUT

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

| | Business-Type Activities | | | | Governmental |
|--|--------------------------|---------------------|---|----------------------|---------------------|
| | | | | Total | Activities |
| | Sewer Authority | Water Authority | Nonmajor Crestbrook Golf Operation | | Internal Service |
| Operating Revenues: | | | | | |
| Charges for services | \$ 2,008,272 | \$ 1,213,415 | \$ 480,389 | \$ 3,702,076 | \$ 11,906,381 |
| Permits and fees | 55,178 | 2,800 | | 57,978 | |
| Other | | 38,007 | 38,834 | 76,841 | |
| Total operating revenues | <u>2,063,450</u> | <u>1,254,222</u> | <u>519,223</u> | <u>3,836,895</u> | <u>11,906,381</u> |
| Operating Expenses: | | | | | |
| Salaries | 244,277 | 240,028 | 264,437 | 748,742 | |
| Benefits | 151,358 | 151,032 | 127,685 | 430,075 | |
| Purchased services | 923,611 | 838,315 | 201,393 | 1,963,319 | |
| Depreciation | 256,536 | 233,591 | 48,740 | 538,867 | |
| Amortization of deferred charge | 466,048 | | | 466,048 | |
| Claims | | | | - | 9,924,991 |
| Premiums and administrative charges | | | | - | 1,412,366 |
| Total operating expenses | <u>2,041,830</u> | <u>1,462,966</u> | <u>642,255</u> | <u>4,147,051</u> | <u>11,337,357</u> |
| Operating Income (Loss) | <u>21,620</u> | <u>(208,744)</u> | <u>(123,032)</u> | <u>(310,156)</u> | <u>569,024</u> |
| Nonoperating Revenues (Expenses): | | | | | |
| Investment earnings | 3,669 | 2,342 | | 6,011 | 477 |
| Interest expense | (56,371) | | | (56,371) | |
| Net nonoperating revenues (expenses) | <u>(52,702)</u> | <u>2,342</u> | <u>-</u> | <u>(50,360)</u> | <u>477</u> |
| Income (Loss) Before Contributions and Transfers | (31,082) | (206,402) | (123,032) | (360,516) | 569,501 |
| Transfers in | | 87,359 | | 87,359 | |
| Transfers out | (41,956) | (41,956) | (46,498) | (130,410) | |
| Capital contributions | | | 92,558 | 92,558 | |
| Change in Net Position | (73,038) | (160,999) | (76,972) | (311,009) | 569,501 |
| Net Position at Beginning of Year | <u>9,494,623</u> | <u>8,697,414</u> | <u>1,002,174</u> | <u>19,194,211</u> | <u>(709,013)</u> |
| Net Position at End of Year | <u>\$ 9,421,585</u> | <u>\$ 8,536,415</u> | <u>\$ 925,202</u> | <u>\$ 18,883,202</u> | <u>\$ (139,512)</u> |

The accompanying notes are an integral part of the financial statements

TOWN OF WATERTOWN, CONNECTICUT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Business-Type Activities</u> | | | | <u>Governmental</u> |
|--|---------------------------------|---------------------|--------------------|---------------------|---------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Nonmajor</u> | <u>Total</u> | <u>Internal</u> |
| | <u>Authority</u> | <u>Authority</u> | <u>Crestbrook</u> | | <u>Service</u> |
| | | | <u>Golf</u> | | |
| | | | <u>Operation</u> | | |
| Cash Flows from Operating Activities: | | | | | |
| Cash received from charges for services | \$ 2,044,789 | \$ 1,250,768 | \$ 519,223 | \$ 3,814,780 | \$ 1,669,081 |
| Cash received from interfund services provided | | | | - | 10,236,103 |
| Cash received from other | | | | - | 1,197 |
| Cash paid to vendors | (1,384,248) | (680,587) | (200,936) | (2,265,771) | (11,701,357) |
| Cash paid to employees for services | (391,840) | (387,265) | (387,658) | (1,166,763) | |
| Net cash provided by (used in) operating activities | <u>268,701</u> | <u>182,916</u> | <u>(69,371)</u> | <u>382,246</u> | <u>205,024</u> |
| Cash Flows from Noncapital and Related Financing Activities: | | | | | |
| Cash received from other funds | | 87,359 | 115,869 | 203,228 | - |
| Cash paid to other funds | (41,956) | (41,956) | (46,498) | (130,410) | |
| Net cash provided by (used in) noncapital and related financing activities | <u>(41,956)</u> | <u>45,403</u> | <u>69,371</u> | <u>72,818</u> | <u>-</u> |
| Cash Flows from Capital and Related Financing Activities: | | | | | |
| Purchase of capital assets | (13,084) | (13,084) | | (26,168) | |
| Principal payment on notes | (466,048) | | | (466,048) | |
| Interest payment on notes | (56,371) | | | (56,371) | |
| Net cash used in capital and related financing activities | <u>(535,503)</u> | <u>(13,084)</u> | <u>-</u> | <u>(548,587)</u> | <u>-</u> |
| Cash Flows from Investing Activities: | | | | | |
| Income on investments | 3,669 | 2,342 | - | 6,011 | 477 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (305,089) | 217,577 | - | (87,512) | 205,501 |
| Cash and Cash Equivalents at Beginning of Year | 2,342,073 | 1,728,524 | - | 4,070,597 | 787,987 |
| Cash and Cash Equivalents at End of Year | <u>\$ 2,036,984</u> | <u>\$ 1,946,101</u> | <u>\$ -</u> | <u>\$ 3,983,085</u> | <u>\$ 993,488</u> |
| Reconciliation of Operating Income (Loss) to Net Cash | | | | | |
| Provided by (Used in) Operating Activities: | | | | | |
| Operating income (loss) | \$ 21,620 | \$ (208,744) | \$ (123,032) | \$ (310,156) | \$ 569,024 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization expense | 722,584 | 233,591 | 48,740 | 1,004,915 | |
| Increase in receivables | (18,661) | (3,454) | | (22,115) | |
| Increase (decrease) in accounts payable and accrued liabilities | (460,637) | 157,728 | 457 | (302,452) | (364,000) |
| Increase in compensated absences | 3,795 | 3,795 | 4,464 | 12,054 | |
| Total adjustments | <u>247,081</u> | <u>391,660</u> | <u>53,661</u> | <u>692,402</u> | <u>(364,000)</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ 268,701</u> | <u>\$ 182,916</u> | <u>\$ (69,371)</u> | <u>\$ 382,246</u> | <u>\$ 205,024</u> |
| Noncash Capital and Financing Activities: | | | | | |
| Capital contributions | \$ | \$ | \$ 92,558 | \$ 92,558 | \$ |

The accompanying notes are an integral part of the financial statements

TOWN OF WATERTOWN, CONNECTICUT

STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS

JUNE 30, 2014

| | <u>Pension Trust Funds</u> | <u>OPEB Trust Fund</u> | <u>Agency Funds</u> |
|------------------------------------|------------------------------------|--------------------------------|-------------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ | \$ 1,404 | \$ 500,889 |
| Investments - mutual funds | <u>37,989,157</u> | | |
| Total Assets | <u>37,989,157</u> | <u>1,404</u> | <u>\$ 500,889</u> |
| Liabilities: | | | |
| Due to student groups and agencies | | | <u>\$ 500,889</u> |
| Net Position: | | | |
| Held in trust for pension benefits | <u>\$ 37,989,157</u> | <u>\$ 1,404</u> | |

The accompanying notes are an integral part of the financial statements

TOWN OF WATERTOWN, CONNECTICUT

STATEMENT OF CHANGES IN PLAN NET POSITION - FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Pension</u> <u>Trust Funds</u> | <u>OPEB</u> <u>Trust Fund</u> |
|--|--------------------------------------|----------------------------------|
| Additions: | | |
| Contributions: | | |
| Employer | \$ 1,134,953 | \$ |
| Plan members | 506,780 | |
| Total contributions | <u>1,641,733</u> | <u>-</u> |
| Investment income: | | |
| Net appreciation in fair value of investments | 4,484,507 | |
| Interest and dividends | 836,244 | 2 |
| Total investment gain | 5,320,751 | 2 |
| Less investment expense | (96,008) | |
| Net investment gain | <u>5,224,743</u> | <u>2</u> |
| Total additions | <u>6,866,476</u> | <u>2</u> |
| Deductions: | | |
| Benefits | 2,074,163 | |
| Administration | 77,854 | |
| Total deductions | <u>2,152,017</u> | <u>-</u> |
| Transfers out | <u>-</u> | <u>-</u> |
| Net Increase in Net Position | 4,714,459 | 2 |
| Net Position at Beginning of Year, as Restated | <u>33,274,698</u> | <u>1,402</u> |
| Net Position at End of Year | <u>\$ 37,989,157</u> | <u>\$ 1,404</u> |

The accompanying notes are an integral part of the financial statements

TOWN OF WATERTOWN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Watertown, Connecticut (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the Town are described below.

A. Reporting Entity

The Town was settled in 1780 and adopted its current Charter in 1961. The Town operates under a Town Council/Town Manager form of government as prescribed by the Connecticut General Statutes and its Charter. The Town Manager is responsible for presenting fiscal operating budgets to the Town Council for referendum. The Town provides the following services as authorized by its Charter: public safety (police and fire), public works (streets and highway), public health and social services, sewers and water, a free public library and education encompassing grades K-12.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

C. 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 funds and pension trust funds financial statements. 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, 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 Capital Improvement Fund accounts for the proceeds of general obligation bonds and grants for various construction, renovation and improvement projects.

The Town reports the following major proprietary funds:

Sewer Authority accounts for the cost of operations and collection of fees for the Town's sewer activities.

Water Authority accounts for the cost of operations and collection of fees for the Town's water consumption program.

Additionally, the Town reports the following fund types:

The Internal Service Funds account for the Town's risk management program.

The Pension Trust Funds account for the activities of the Town's retirement system, which accumulates resources for pension benefit payments to qualified Town employees.

The OPEB Trust Funds account for the activities of the Town's postemployment benefits system, which accumulates resources for health benefit payments to qualified Town retirees and their spouses.

The Agency Funds account for monies held by the Town in an agent capacity for student groups and developer funds.

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 fund 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. Unrestricted resources are used in the following order: committed, assigned then unassigned.

D. Deposits and Investments

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

State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and certain other investments as described in Note 3.

Investments for the Town are reported at fair value.

E. Receivables and Payables

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

Property taxes on all property are assessed as of October 1 prior to the beginning of the fiscal year and become legally due and payable on the following July 1 and January 1. If taxes are unpaid as of June 30 following the payable date, a lien is placed on the real property. Property assessments are made at 70% of the market value. Property taxes receivable are recorded on the due date. Taxes not paid within 30 days of the due date are subject to an interest charge of 1-1/2% per month.

Property tax revenue is recorded when it becomes available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, such time thereafter shall not exceed 60 days.

F. 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.

G. 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 \$5,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure asset thresholds for additions have been established at \$25,000 for road overlays and \$100,000 for new construction.

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 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> |
|-----------------------|--------------|
| Buildings | 50 |
| Building improvements | 20 |
| Infrastructure | 20-100 |
| Vehicles | 3 |
| Office equipment | 5 |

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports a deferred charge on refunding in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. For governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from several sources: property taxes, special assessments, school building grants, long-term loans and other receivables. These amounts are deferred and recognized as an inflow of resources (revenue) in the period in which the amounts become available.

I. Compensated Absences

Under the terms of various union contracts, Town and noncertified Board of Education employees may accumulate up to 200 days of sick time, which is vested. Upon termination, these employees receive up to 50% of their accumulated sick time. These employees may carryover a limited number of unused vacation days (limited to ten days) to the next year upon approval by the Town Manager. Board of Education

teachers can accumulate an unlimited amount of sick time. Upon termination, teachers receive 50% of the value of the first 150 days of sick time and 10% of the value of sick days accumulated in excess of 150 days. General Fund resources have been used in prior years to liquidate this liability.

J. 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 position. 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses.

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 expenses.

K. Equity

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

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position - Restrictions are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This component consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

Nonspendable Fund Balance - This represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

Restricted Fund Balance - This represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributors or laws and regulations of their governments.

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

Assigned Fund Balance - This balance represents amounts constrained for the intent to be used for a specific purpose by the Town Council or Town department heads who have been delegated authority to assign amounts by the Town Charter.

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

L. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Town adheres to the following procedures in establishing the budgetary data included in the General Fund.

In January, department heads, offices or agencies of the Town, including the Board of Education, must file estimates of expenditures for the ensuing fiscal year to the Town Manager.

In April, the Town Manager submits a proposed budget for the General Fund to the Town Council. After various public hearings, the Town Council recommends these budgets, as revised, for adoption at the referendum in May.

Budget control is established at the department level. Under the Town Charter, no officer of the Town may involve the Town in any obligation to spend money for any purpose in excess of the amount appropriated for the department until such matter has been approved and voted by the Council. Management may make changes to line items within a department without the approval of the Town Council. Town Meeting approval is required for additional appropriations over \$25,000. Additional appropriations of \$515,777 from fund balance were approved during the fiscal year for the General Fund in accordance with Charter requirements.

Formal budgetary integration is employed as a management control device for the General Fund during the year. Formal budgetary integration is not employed in Capital Projects and Special Revenue Funds because budgetary control is alternately achieved by constraints imposed by the project authorization or grant awards related to these funds.

Except for encumbrance accounting and budgeting for year end accrued payroll, the budget is prepared on the modified accrual basis of accounting. The legal level of control, the level at which expenditures may not exceed appropriations, is at the department level.

Generally, all unencumbered appropriations lapse at year end except those for capital projects funds. Appropriations for capital projects are continued until completion of applicable projects even when projects extend more than one fiscal year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as either reserved, committed or assigned fund balance, depending on the level of restriction. These reservations do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Deficit Fund Equity

Certain individual funds had fund balance/net position deficits at June 30, 2014 as follows:

| | | |
|------------------------------|----|---------|
| Nonmajor Governmental Funds: | | |
| Parks and Recreation | \$ | 145 |
| Internal Service Funds: | | |
| Health and Dental Benefits | | 1,890 |
| Workers' Compensation | | 151,249 |

Deficits will be reduced in future years when additional revenues are recognized by the funds or the General Fund appropriates and transfers funds.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a "qualified public depository" as defined by Statute or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit, in an "out of state bank" as defined by the Statutes, which is not a "qualified public depository."

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interests in custodial arrangements or pools maintaining constant net position values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net position values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds does not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF) and the State Tax Exempt Proceeds Fund (TEPF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer's Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

Deposits

Deposit Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposit will not be returned. The Town does not have a deposit policy for custodial credit risk. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the state of Connecticut. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk-based capital ratio.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$17,569,125 of the Town's bank balance of \$18,346,555 was exposed to custodial credit risk as follows:

| | |
|---|----------------------|
| Uninsured and uncollateralized | \$ 15,762,529 |
| Uninsured and collateral held by the pledging bank's trust department, not in the Town's name | <u>1,806,596</u> |
| Total Amount Subject to Custodial Credit Risk | <u>\$ 17,569,125</u> |

Cash Equivalents

At June 30, 2014 the Town's cash equivalents amounted to \$846,966. The following table provides a summary of the Town's cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than one year.

| | <u>Standard & Poor's</u> | <u>Fitch Ratings</u> |
|---|----------------------------------|--------------------------|
| State Short-Term Investment Fund (STIF) | AAA/m | |

Investments

As of June 30, 2014, the Town had the following investments:

| <u>Investment Type</u> | <u>Credit Rating</u> | <u>Fair Value</u> |
|------------------------|--------------------------|-----------------------|
| Other Investments: | | |
| Mutual funds | N/A | \$ <u>37,989,157</u> |

N/A - Not applicable

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. To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements.

Credit Risk - Investments - As indicated above, State Statutes limit the investment options of cities and towns. The Town has no investment policy that would further limit its investment choices. All of the Town's investments are invested in various pooled accounts and mutual funds that have not been rated by nationally recognized statistical rating organizations. The Town's Pension Trust investments are invested in Prudential Financial Pooled Accounts.

Concentration of Credit Risk - The Town does not have a formal investment policy that restricts investments in any one issuer that is in excess of five percent of the Town's total investments. A listing of the Town's pension investments held by individual organizations that represents more than five percent of the Town's total pension investments are identified in Note 11.

Custodial Credit Risk - Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Town or that sells investments to or buys them for the Town), the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk. At June 30, 2014, the Town did not have any uninsured and unregistered securities held by the counterparty, or by its trust department or agent that were not in the Town's name.

4. RECEIVABLES

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

| | <u>General</u> | <u>Capital Improvement Fund</u> | <u>Sewer Authority</u> | <u>Water Authority</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|------------------------------------|---------------------|---|----------------------------|----------------------------|---------------------------|----------------------|
| Receivables: | | | | | | |
| Taxes | \$ 1,198,102 | \$ | \$ | \$ | \$ | \$ 1,198,102 |
| Accrued interest on taxes | 235,000 | | | | | 235,000 |
| Intergovernmental | 2,393,822 | 6,644,986 | | | 228,591 | 9,267,399 |
| User charges | | | 589,226 | 334,373 | | 923,599 |
| Assessments | 894,423 | | | | | 894,423 |
| Accounts | 491,988 | | | | | 491,988 |
| Housing loans | | | | | 899,319 | 899,319 |
| Gross receivables | <u>5,213,335</u> | <u>6,644,986</u> | <u>589,226</u> | <u>334,373</u> | <u>1,127,910</u> | <u>13,909,830</u> |
| Less allowance for uncollectibles: | | | | | | |
| Taxes | (126,000) | | | | | (126,000) |
| Accrued interest on taxes | (24,000) | | | | | (24,000) |
| Accounts | (184,000) | | | | | (184,000) |
| Total allowance | <u>(334,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(334,000)</u> |
| Net Total Receivables | <u>\$ 4,879,335</u> | <u>\$ 6,644,986</u> | <u>\$ 589,226</u> | <u>\$ 334,373</u> | <u>\$ 1,127,910</u> | <u>\$ 13,575,830</u> |

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,597,876 | \$ | \$ | \$ 2,597,876 |
| Construction in progress | <u>81,771,971</u> | <u>18,264</u> | <u>9,849,300</u> | <u>71,940,935</u> |
| Total capital assets not being depreciated | <u>84,369,847</u> | <u>18,264</u> | <u>9,849,300</u> | <u>74,538,811</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 82,970,522 | 9,869,556 | | 92,840,078 |
| Vehicles | 8,033,487 | 801,869 | 456,347 | 8,379,009 |
| Machinery and equipment | 5,460,137 | 483,827 | 31,720 | 5,912,244 |
| Infrastructure | <u>76,340,540</u> | <u>1,851,219</u> | | <u>78,191,759</u> |
| Total capital assets being depreciated | <u>172,804,686</u> | <u>13,006,471</u> | <u>488,067</u> | <u>185,323,090</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 21,662,562 | 1,947,339 | | 23,609,901 |
| Vehicles | 7,206,740 | 419,765 | 414,807 | 7,211,698 |
| Machinery and equipment | 4,463,073 | 286,882 | 31,720 | 4,718,235 |
| Infrastructure | <u>25,614,061</u> | <u>1,334,538</u> | | <u>26,948,599</u> |
| Total accumulated depreciation | <u>58,946,436</u> | <u>3,988,524</u> | <u>446,527</u> | <u>62,488,433</u> |
| Total capital assets being depreciated, net | <u>113,858,250</u> | <u>9,017,947</u> | <u>41,540</u> | <u>122,834,657</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 198,228,097</u> | <u>\$ 9,036,211</u> | <u>\$ 9,890,840</u> | <u>\$ 197,373,468</u> |
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,019,600 | \$ | \$ | \$ 1,019,600 |
| Construction in progress | | | | - |
| Total capital assets not being depreciated | <u>1,019,600</u> | <u>-</u> | <u>-</u> | <u>1,019,600</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 2,667,269 | 92,558 | | 2,759,827 |
| Vehicles | 264,222 | 26,168 | | 290,390 |
| Machinery and equipment | 953,799 | | | 953,799 |
| System infrastructure | <u>23,240,251</u> | | | <u>23,240,251</u> |
| Total capital assets being depreciated | <u>27,125,541</u> | <u>118,726</u> | <u>-</u> | <u>27,244,267</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,679,055 | 73,410 | | 1,752,465 |
| Vehicles | 231,099 | 6,818 | | 237,917 |
| Machinery and equipment | 919,817 | 19,385 | | 939,202 |
| System infrastructure | <u>9,920,714</u> | <u>439,254</u> | | <u>10,359,968</u> |
| Total accumulated depreciation | <u>12,750,685</u> | <u>538,867</u> | <u>-</u> | <u>13,289,552</u> |
| Total capital assets being depreciated, net | <u>14,374,856</u> | <u>(420,141)</u> | <u>-</u> | <u>13,954,715</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 15,394,456</u> | <u>\$ (420,141)</u> | <u>\$ -</u> | <u>\$ 14,974,315</u> |

Depreciation expense was charged to functions/programs as follows:

| | |
|---|-------------------------|
| Governmental activities: | |
| General government | \$ 22,716 |
| Public safety | 638,505 |
| Public works | 1,682,454 |
| Parks and recreation | 175,321 |
| Education | <u>1,469,528</u> |
| Total Depreciation Expense - Governmental Activities | \$ <u>3,988,524</u> |
| Business-type activities: | |
| Sewer | \$ 256,536 |
| Water | 233,591 |
| Golf | <u>48,740</u> |
| Total Depreciation Expense - Business-Type Activities | \$ <u>538,867</u> |

Construction Commitments

The Town has the following active construction/renovation projects as of June 30, 2014. At year end, the Town's commitments with contractors are as follows:

| | <u>Project Authorization</u> | <u>Current Expenditures</u> | <u>Cumulative Expenditures</u> | <u>Encumbered</u> | <u>Project Balance</u> |
|--|----------------------------------|---------------------------------|------------------------------------|-----------------------|----------------------------|
| Watertown High School Renovation | \$ 56,157,000 | \$ 12,915 | \$ 56,064,968 | \$ | \$ 92,032 |
| Judson School Renovation | 15,877,000 | | 15,837,162 | | 39,838 |
| Polk School Renovation | 12,517,000 | 5,350 | 9,847,702 | 6,081 | 2,663,217 |
| Swift School Reconstruction | 34,368,919 | 17,412 | 33,966,147 | 2,514 | 400,258 |
| Roadway and Drainage Improvements | 2,034,704 | 33,643 | 1,810,637 | 14,949 | 209,118 |
| Road, Bridge, & Drainage Improvements | <u>4,000,000</u> | <u>787,503</u> | <u>843,618</u> | <u>822,265</u> | <u>2,334,117</u> |
| Total | \$ <u>124,954,623</u> | \$ <u>856,823</u> | \$ <u>118,370,234</u> | \$ <u>845,809</u> | \$ <u>5,738,580</u> |

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

During the course of operations, transactions are processed through a fund on behalf of another fund. Additionally, revenues received in one fund are transferred to another fund. A summary of interfund balances as of June 30, 2014 is presented below:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------------|-----------------------|
| General Fund | Sewer Authority | \$ 9,946 |
| | Crestbrook Golf Operation | <u>269,739</u> |
| | | \$ <u>279,685</u> |

A summary of interfund transfers is presented below:

| | Transfers In | | | |
|-----------------------------|---------------------|------------------------|------------------------------------|----------------------------|
| | General Fund | Water Authority | Nonmajor Governmental Funds | Total Transfers Out |
| Transfers: | | | | |
| General Fund | \$ | \$ 87,359 | \$ 195,000 | \$ 282,359 |
| Sewer Authority | 41,956 | | | 41,956 |
| Water Authority | 41,956 | | | 41,956 |
| Crestbrook Golf | 46,498 | | | 46,498 |
| Nonmajor Governmental Funds | <u>377</u> | | | <u>377</u> |
| Total Transfers In | <u>\$ 130,787</u> | <u>\$ 87,359</u> | <u>\$ 195,000</u> | <u>\$ 413,146</u> |

The Town pays the debt service of the water and sewer funds. The Town's cost is partially offset by transfer of the homeowner assessment payments collected by the Water and Sewer Authority to the Town's General Fund. Additionally, the Sewer Authority, Water Authority and Crestbrook Golf enterprise funds transfer funds to the Town's General Fund for reimbursement of indirect administrative costs incurred by the Town.

7. LONG-TERM DEBT

Governmental Activities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--------------------------|--------------------------|----------------------|----------------------|-----------------------|----------------------------|
| Governmental Activities: | | | | | |
| General obligation bonds | \$ 61,945,000 | \$ | \$ 4,610,000 | \$ 57,335,000 | \$ 4,745,000 |
| Add unamortized premiums | <u>1,638,668</u> | | <u>97,992</u> | <u>1,540,676</u> | |
| Total bonds payable | 63,583,668 | - | 4,707,992 | 58,875,676 | 4,745,000 |
| Capital leases | 912,593 | 592,437 | 551,987 | 953,043 | 430,255 |
| Compensated absences | 3,655,685 | 1,165,237 | 1,159,404 | 3,661,518 | 1,146,938 |
| Retirement obligations | 676,359 | 181,674 | 337,855 | 520,178 | 350,934 |
| Landfill closure | 522,588 | | 103,378 | 419,210 | 40,000 |
| Net OPEB obligation | 10,162,101 | 3,561,560 | 1,438,191 | 12,285,470 | |
| Risk management claims | <u>1,497,000</u> | <u>9,537,480</u> | <u>9,901,480</u> | <u>1,133,000</u> | <u>708,000</u> |
| Governmental Activity | | | | | |
| Long-Term Liabilities | <u>\$ 81,009,994</u> | <u>\$ 15,038,388</u> | <u>\$ 18,200,287</u> | <u>\$ 77,848,095</u> | <u>\$ 7,421,127</u> |

Typically, the General Fund liquidates the liabilities for the retirement obligation, the OPEB obligation and compensated absences.

Bonds and serial notes payable at June 30, 2014 comprise the following:

| | <u>Year of Issue</u> | <u>Maturity Date</u> | <u>Interest Rate (%)</u> | <u>Original Amount Issue</u> | <u>Balance June 30, 2014</u> |
|---------------------------------------|----------------------|----------------------|--------------------------|------------------------------|------------------------------|
| Governmental: | | | | | |
| General purpose and schools | 2008 | 9/15/2027 | 3.75-4.00 | \$ 5,900,000 | \$ 945,000 |
| General purpose and schools | 2009 | 4/1/2016 | 2.50-4.50 | 16,200,000 | 1,620,000 |
| General purpose and schools | 2013 | 3/15/2028 | 2.00-3.00 | 2,000,000 | 1,865,000 |
| Schools | 2010 | 3/15/2030 | 2.00-4.00 | 7,500,000 | 6,000,000 |
| Schools | 2008 | 1/15/2015 | 3.00-5.00 | 10,000,000 | 400,000 |
| Refunding bonds (1996, 1999 and 2000) | 2005 | 8/1/2019 | 3.00-5.00 | 15,535,000 | 5,645,000 |
| Refunding bonds (2003-2009) | 2010 | 6/30/2023 | 3.00-5.00 | 20,070,000 | 17,020,000 |
| Refunding bonds (2003, 2004, 2005) | 2012 | 8/2/2025 | 2.00-4.00 | 6,110,000 | 5,735,000 |
| Refunding bonds (2007, 2008, 2009) | 2012 | 5/29/2029 | 2.00-3.00 | 9,505,000 | 9,505,000 |
| Refunding bonds (2008, 2009) | 2013 | 1/15/2033 | 2.50-4.00 | <u>8,600,000</u> | <u>8,600,000</u> |
| Total General Town Bonds | | | | \$ <u>101,420,000</u> | \$ <u>57,335,000</u> |

The annual requirements to amortize bonds payable as of June 30, 2014 are as follows:

| <u>Due During Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|----------------------|----------------------|----------------------|
| 2015 | \$ 4,745,000 | \$ 2,135,069 | \$ 6,880,069 |
| 2016 | 4,765,000 | 1,938,069 | 6,703,069 |
| 2017 | 4,790,000 | 1,732,744 | 6,522,744 |
| 2018 | 4,870,000 | 1,530,194 | 6,400,194 |
| 2019 | 4,890,000 | 1,312,588 | 6,202,588 |
| 2020-2024 | 19,395,000 | 4,153,526 | 23,548,526 |
| 2025-2029 | 11,875,000 | 1,286,933 | 13,161,933 |
| 2030-2033 | <u>2,005,000</u> | <u>136,500</u> | <u>2,141,500</u> |
| Total | \$ <u>57,335,000</u> | \$ <u>14,225,623</u> | \$ <u>71,560,623</u> |

Prior Years Defeasance of Debt

In prior years, the Town advance refunded certain bond issuances to reduce its total debt service payments. As a result, the refunded bonds are considered defeased and have been removed from the Town's financial statements. At June 30, 2014, the amount of defeased bonds outstanding is \$21,070,000. The amount held in escrow related to these bonds is \$21,938,630 at June 30, 2014.

Capital Leases

The Town has entered into multi-year capital leases for the purchase of various capital items including public works equipment, vehicles and other office equipment. The assets acquired through capital leases are as follows:

| | |
|-------------------------------|--------------------------|
| Asset class: | |
| Vehicles | \$ 3,574,063 |
| Machinery and equipment | 849,340 |
| Total gross value | <u>4,423,403</u> |
| Less accumulated depreciation | <u>3,453,856</u> |
| Net Undepreciated Value | \$ <u><u>969,547</u></u> |

The net undepreciated value approximates the capital lease principal balance payable at June 30, 2014.

The following is a summary of capital lease commitments as of June 30, 2014:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|---|--------------------------|
| 2015 | \$ 462,390 |
| 2016 | 302,817 |
| 2017 | 160,838 |
| 2018 | 85,850 |
| Total lease payments | <u>1,011,895</u> |
| Less amount representing interest | <u>58,852</u> |
| Present Value of Minimum Lease Payments | \$ <u><u>953,043</u></u> |

Landfill Closure

Solid waste landfill closure and postclosure care requirements have been established by the State of Connecticut Department of Environmental Protection Agency and the Federal Environmental Protection Agency. The costs associated with monitoring and maintaining the landfill area during the postclosure period are the responsibility of the Town. The estimated project costs of this postclosure period are \$419,210. The cost estimate is subject to change due to inflation or changes in cost estimate components. Current year costs amounted to \$34,883.

Retirement Obligations

The liability for retirement obligations to retired employees of the Board of Education as of June 30, 2014 is \$520,178. This amount consists of payments due to retired individuals for compensated absences payments and retirement incentives that have been amortized over the following years:

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|--------------------------|
| 2015 | \$ 350,934 |
| 2016 | 111,037 |
| 2017 | <u>58,207</u> |
| Total | \$ <u><u>520,178</u></u> |

Bond Anticipation Notes

The Town uses bond anticipation notes during the construction period of various public projects prior to the issuance of the bonds at the completion of the project. The Town has issued the following bond anticipation notes during the year ended June 30, 2014:

| | |
|----------------------------|---------------------|
| Outstanding, July 1, 2013 | \$ 6,700,000 |
| Repayments | (6,700,000) |
| New borrowings | <u>9,700,000</u> |
| Outstanding, June 30, 2014 | <u>\$ 9,700,000</u> |

The bond anticipation notes outstanding on June 30, 2014 mature on March 26, 2015 and bear interest of 1.0%.

Business-Type Activities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Business-Type Activities: | | | | | |
| State of Connecticut - serial note | \$ 3,032,100 | \$ | \$ 466,048 | \$ 2,566,052 | \$ 453,213 |
| Compensated absences | <u>191,646</u> | <u>98,377</u> | <u>86,323</u> | <u>203,700</u> | <u>86,552</u> |
| Business-Type Activity: | | | | | |
| Long-Term Liabilities | <u>\$ 3,223,746</u> | <u>\$ 98,377</u> | <u>\$ 552,371</u> | <u>\$ 2,769,752</u> | <u>\$ 539,765</u> |

Serial Notes and Other Charges

The State of Connecticut Department of Environmental Protection has provided Clean Water Financing in the form of serial notes to the City of Waterbury for sewage treatment plant upgrades. Pursuant to the provisions of the Waterbury/Watertown Intermunicipal Agreement finalized in January 2001 regarding the Sewer Treatment Plant Upgrade Project CWF-201, the Town is responsible for \$9,026,538 (10.166%) of the capital cost of the project. The Watertown Fire District has been allocated 32.72% of the Town’s share of the project cost. The Town receives monthly reimbursements from the Watertown Fire District to offset the cost to the Sewer Authority Enterprise Fund. The Town pays its proportionate share of the project costs through the repayment of 2% serial notes directly to the State of Connecticut. The outstanding principal balance that the Town is responsible for is \$2,566,052 as of June 30, 2014.

The costs incurred and capitalized by the City of Waterbury to improve and upgrade its sewer treatment plant are not considered capital assets of the Town. Therefore, an Other Charge of \$2,566,052 has been recorded to offset the related liability reported in the Sewer Authority Enterprise Fund. The Other Charge will be amortized annually by the amount of principal paid to the State of Connecticut on the serial notes.

Serial notes payable at June 30, 2014 comprise the following:

| | <u>Year of Issue</u> | <u>Maturity Date</u> | <u>Interest Rate (%)</u> | <u>Original Amount Issue</u> | <u>Balance June 30, 2014</u> |
|---|----------------------|----------------------|--------------------------|------------------------------|------------------------------|
| State of Connecticut serial note: | | | | | |
| CWF 201-D-1 | 2001 | 7/31/2016 | 2.0 | \$ 616,135 | \$ 75,550 |
| CWF 201-C-2 | 2001 | 6/30/2020 | 2.0 | 8,085,318 | 2,487,793 |
| CWF 201-P | 2001 | 8/31/2014 | 2.0 | <u>325,085</u> | <u>2,709</u> |
| Total State of Connecticut serial notes | | | | <u>9,026,538</u> | <u>2,566,052</u> |
| Total Business-Type Activity Bonds and Serial Notes | | | | \$ <u>9,026,538</u> | \$ <u>2,566,052</u> |

The annual requirements to amortize serial notes payable as of June 30, 2014 are as follows:

| <u>Due During Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|
| 2015 | \$ 453,213 | \$ 47,145 | \$ 500,358 |
| 2016 | 451,228 | 38,121 | 489,349 |
| 2017 | 417,715 | 29,375 | 447,090 |
| 2018 | 414,632 | 21,077 | 435,709 |
| 2019 | 414,632 | 12,784 | 427,416 |
| 2020 | <u>414,632</u> | <u>4,492</u> | <u>419,124</u> |
| Total | \$ <u>2,566,052</u> | \$ <u>152,994</u> | \$ <u>2,719,046</u> |

Bonds Authorized/Unissued

Bonds authorized/unissued are as follows:

| <u>Description</u> | <u>Authorized</u> | <u>Bonds/ Notes</u> | <u>Grants Received</u> | <u>Authorized Unissued</u> |
|--|-----------------------|----------------------|------------------------|----------------------------|
| Watertown High School Renovations and Additions | \$ 56,157,000 | \$ 24,600,000 | \$ 26,262,988 | \$ 5,294,012 |
| Judson Elementary School Renovations and Additions | 15,859,000 | 7,500,000 | 7,389,408 | 969,592 |
| Polk School Renovation Renovations and Additions | 12,517,000 | 5,500,000 | 5,030,678 | 1,986,322 |
| Swift School Reconstruction | 33,768,919 | 13,900,000 | 18,328,315 | 1,540,604 |
| Roadway and Drainage Improvements | 1,730,000 | 1,700,000 | | 30,000 |
| Communications System Upgrade Road, Bridge, & Drainage | 1,881,000 | 1,460,000 | 300,000 | 121,000 |
| Improvements | 4,000,000 | 2,000,000 | | 2,000,000 |
| Fire Truck Aerial Ladder | <u>1,000,000</u> | | | <u>1,000,000</u> |
| Total | \$ <u>126,912,919</u> | \$ <u>56,660,000</u> | \$ <u>57,311,389</u> | \$ <u>12,941,530</u> |

Legal Debt Limit

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

| <u>Category</u> | <u>Debt Limitation</u> | <u>Net Indebtedness*</u> | <u>Balance</u> |
|-----------------|----------------------------|------------------------------|----------------|
| General purpose | \$ 111,854 | \$ 54,688 | \$ 57,166 |
| Schools | 223,709 | 13,797 | 209,912 |
| Sewers | 186,424 | | 186,424 |
| Urban renewal | 161,567 | | 161,567 |
| Pension deficit | 149,139 | | 149,139 |

* The indebtedness includes Watertown Fire District underlying debt of approximately \$.6 million.

The total of the Town's net statutory indebtedness of \$68.5 million does not exceed the legal debt limitation of \$348.0 million (seven times the base for debt limitation computation).

The indebtedness reflected above includes bonds outstanding in addition to the amount of bonds authorized and unissued against which debt is issued and outstanding. School building grants receivable for bond principal of \$2.4 million are reflected in the computation of net indebtedness.

8. FUND EQUITY

The components of fund balance for the governmental funds at June 30, 2014 are as follows:

| | <u>General Fund</u> | <u>Capital Improvement Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|-------------------------------------|-------------------------|---|--|----------------------|
| Nonspendable: | | | | |
| Inventory | \$ | \$ | \$ 23,788 | \$ 23,788 |
| Trust | | | 160,650 | 160,650 |
| Restricted for: | | | | |
| Bonds | | 2,092,599 | | 2,092,599 |
| Grants | | | 162,965 | 162,965 |
| Committed to: | | | | |
| General government | | | 199,873 | 199,873 |
| Public safety | | | 6,192 | 6,192 |
| Public works | | | 545,618 | 545,618 |
| Parks and recreation | | | 239,629 | 239,629 |
| Health and welfare | | | 33,281 | 33,281 |
| Education | | | 352,117 | 352,117 |
| Assigned to: | | | | |
| Education - encumbrances | 184,658 | | | 184,658 |
| General government - encumbrances | 50,316 | | | 50,316 |
| Public safety - encumbrances | 20,312 | | | 20,312 |
| Public works - encumbrances | 295,244 | | | 295,244 |
| Parks and recreation - encumbrances | 12,600 | | | 12,600 |
| Unassigned | <u>6,953,281</u> | | <u>(15,910)</u> | <u>6,937,371</u> |
| Total Fund Balances | <u>\$ 7,516,411</u> | <u>\$ 2,092,599</u> | <u>\$ 1,708,203</u> | <u>\$ 11,317,213</u> |

Significant encumbrances at June 30, 2014 are contained in the above table in the assigned category of the General Fund.

The Town has adopted a fund balance policy to maintain a minimum (total fund balance) of 7% of the fiscal years operating revenue with a target maximum of 12%.

9. RISK MANAGEMENT

The Town is exposed to various risks of loss including torts, thefts 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 (Workers' Compensation Fund) and employee health, dental and medical claims (Health Benefits Fund). These funds are reported as Internal Service Funds. Various Town funds contribute to these funds based on estimates made using historical data. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The Town has contracted with outside organizations to pay claims and provide administrative services for the Workers' Compensation Fund and the Health Benefits Fund. Additionally, stop loss insurance coverage has been purchased to limit the Town's liability for health and medical claims and workers' compensation claims. A workers' compensation claims liability of \$483,000 (Workers' Compensation Fund) reported at June 30, 2014 is based on a summary report of outstanding liabilities on incurred claims. The health, dental and medical claims liability of \$650,000 (Health and Dental Benefits Fund) reported at June 30, 2014 is based on estimated claims incurred but not reported. The changes in the claims liability were as follows:

| <u>Workers' Compensation Fund</u> | <u>Liability</u> <u>July 1,</u> | <u>Current Year Claims</u> <u>and Changes</u> <u>in Estimates</u> | <u>Claim</u> <u>Payment</u> | <u>Liability</u> <u>June 30,</u> |
|--|------------------------------------|---|--------------------------------|-------------------------------------|
| 2013-14 | \$ 758,000 | \$ 48,136 | \$ (323,136) | \$ 483,000 |
| 2012-13 | 620,000 | 752,240 | (614,240) | 758,000 |
| <u>Health and Dental Benefits Fund</u> | | | | |
| 2013-14 | \$ 739,000 | \$ 9,489,344 | \$ (9,578,344) | \$ 650,000 |
| 2012-13 | 462,476 | 12,018,193 | (11,741,669) | 739,000 |

10. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

A. Plan Description

The Town, in accordance with collective bargaining agreements, is committed to providing medical benefits to eligible retirees and their spouses. The retiree welfare plan (RWP) covers Town and Board of Education retired employees. The plan provides for a self-insured plan administered by Blue Cross including options such as BC65 High Option, Century Preferred, Century Preferred HAS, Lumenos HAS, Hospital Plans and more. Also, the Town offers Group Term Life Insurance in varying amounts based on contract and retirement date. All retired program members receiving benefits are required to contribute up to 13% of premiums for medical (teachers & BOE administrators pay 100% of premiums). Life insurance is 100% employer paid. The percentage contribution of the employees and retirees for these benefits vary and are detailed in the Town's various bargaining agreements.

The RWP is a single-employer defined-benefit plan. The plan is considered to be part of the Town's financial reporting entity and is included in the Town's financial report as the Other Post Employment Benefits (OPEB) Trust Fund. The plan does not issue stand-alone financial statements.

At July 1, 2012, plan membership consisted of the following:

| | Retiree Welfare Plan |
|----------------------------------|-------------------------------------|
| Retired participants and spouses | 220 |
| Active plan members | 433 |
| Total | <u>653</u> |

B. Funding Policy

The contribution requirements of plan members and the Town are established and may be amended through Town ordinances. The Town expects to contribute \$0 beyond the pay-as-you-go in the future. The goal is to absorb, within the budgetary process, the actual cost of benefits in the determination of the costs of providing services to taxpayers. For the 2014 fiscal year, the Town premiums plus implicit costs for the retiree medical program are \$1,438,191.

The Town's funding strategy for postemployment obligations are based upon characteristics of benefits on several distinct groups of employees established within their respective collective bargaining units and/or contracts. Full-time employees of the Town or Board of Education who retire from the Town are eligible if they meet the following criteria:

- Completion of 25 years of service (police only)
- Attainment of age 55 as an active member and completion of 10 years of service

C. Annual OPEB Cost and Net OPEB Obligations

The Town of Watertown's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Town's net OPEB obligation:

| | Retiree Welfare Plan |
|--|-------------------------------------|
| Annual required contribution (ARC) | \$ 3,115,459 |
| Interest on net OPEB obligation | 406,484 |
| Adjustment to annual required contribution | (565,072) |
| Amortization of actuarial losses | <u>604,689</u> |
| Annual OPEB cost | 3,561,560 |
| Contributions made | <u>1,438,191</u> |
| Increase in net OPEB obligation | 2,123,369 |
| Net OPEB obligation - beginning of year | <u>10,162,101</u> |
| Net OPEB Obligation - End of Year | <u>\$ 12,285,470</u> |

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation is presented below.

| Fiscal Year Ending | Annual OPEB Cost (AOC) | Actual Contribution | Percentage of AOC Contributed | Net OPEB Obligation |
|---------------------------|-------------------------------|----------------------------|--------------------------------------|----------------------------|
| 6/30/2012 | \$ 3,169,267 | \$ 1,227,816 | 38.74% | \$ 8,076,116 |
| 6/30/2013 | 3,424,645 | 1,338,660 | 39.09% | 10,162,101 |
| 6/30/2014 | 3,561,560 | 1,438,191 | 40.38% | 12,285,470 |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as accrual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| Schedule of Funding Progress | | | | | | |
|-------------------------------------|--------------------------------------|--|------------------------------------|---------------------------|----------------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Projected Unit Credit (b) | (Unfunded) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
| 7/1/2008 | \$ - | \$ 31,307,168 | \$ (31,307,168) | 0.00% | \$ 25,480,137 | -122.87% |
| 7/1/2009 | - | 32,914,496 | (32,914,496) | 0.00% | 25,480,137 | -129.18% |
| 7/1/2010 | 300,000 | 34,311,401 | (34,011,401) | 0.87% | 25,402,437 | -133.89% |
| 7/1/2012 | 600,613 | 38,325,972 | (37,725,359) | 1.57% | 26,415,121 | -142.82% |

| Schedule of Employer Contributions | | | |
|---|-------------------------------------|----------------------------|-------------------------------|
| Year Ended | Annual Required Contribution | Actual Contribution | Percentage Contributed |
| 6/30/2009 | \$ 2,968,986 | \$ 787,695 | 26.53% |
| 6/30/2010 | 2,899,351 | 837,045 | 28.87% |
| 6/30/2011 | 2,953,318 | 1,155,270 | 39.12% |
| 6/30/2012 | 2,950,503 | 1,227,816 | 41.61% |
| 6/30/2013 | 3,061,982 | 1,338,660 | 43.72% |
| 6/30/2014 | 3,115,459 | 1,438,191 | 46.16% |

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0% investment rate of return, which is the rate of the expected long-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date. Healthcare trend rates range from 6% and decrease to 5% for fiscal year 2015. The actuarial value of assets was determined using the market value method. The general inflation assumption is 2.5% per annum. Annual compensation increases are estimated to be 3.0%. The UAAL is being amortized on a level-dollar basis with a 30-year closed amortization period at July 1, 2009. The remaining amortization period was 26 years as of July 1, 2012.

11. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Town Employees

A. Plan Description

The Town of Watertown is the administrator of two single employer, contributory, defined benefit plans:

Town of Watertown - General Town Employees
Police Benefit Fund - Police Employees

The pension plans are included in the financial statements as Pension Trust Funds. Individual stand-alone statements are not issued. Prudential Financial is the trustee of the plans' assets.

Management of the pension plans rest with the Town Manager.

The Town of Watertown Retirement System covers all full-time employees other than police officers, supervisors, certified Board of Education teachers and Water and Sewer Authority employees hired prior to February 1986.

All employees working at least 30 hours per week and 40 weeks per year are eligible under the plan. All eligible employees are 100% vested after 10 years of continuous service. The retirement benefit is 2% of final earnings per year of credited service, subject to a maximum percentage offset of the social security benefit defined by division group. Final earnings are defined as the average earnings during the highest three full earnings computation periods prior to normal retirement. Normal retirement date is the first month coinciding with or next following the employee's 65th birthday, except for the Highway Division. The normal retirement date for the Highway Division is the first month coinciding with or next following the earlier of the employee's age of 55 and 25 years of service or age 65. For early retirement, the normal accrued benefit is actuarially reduced for the number of months the annuity commencement date precedes the normal retirement date. Disabled employees are entitled to receive normal pension benefits based on service and final pay at the time of disability.

The Police Benefit Fund is open to all police employees represented by the union for collective bargaining purposes.

All policemen who work more than 20 hours per week and 5 months per calendar year are eligible to participate in the plan. All employees are 100% vested after 10 years of continuous service. The retirement benefit is 2.5% of final earnings per year of credited service, less 35% of social security. Final earnings are defined as the average earnings received in the last three full calendar years before retirement date. A temporary retirement annuity equal to 35% of the social security benefit shall be paid from normal retirement date to age 65. The normal retirement age is 55 or 25 years of service. An employee may accumulate up to 30 years of service. For early retirement, age 50 with 10 years of service, the normal benefit accrued is actuarially reduced for the number of months the annuity commencement date precedes the normal retirement date.

Pension provisions include disability and death benefits to all eligible employees. Disabled employees are entitled to 75% of their salary at disability, less workman’s compensation and long-term disability payments. Pre-payment death benefits include: 1) nonservice connected death benefits which include a lump-sum payment based on employee contributions with interest. Spouse’s benefits include the greater of \$120 or 35% of the ultimate yearly amount of retirement income that the participant would have received had his date of death been his normal retirement date assuming his earnings remain the same, 2) service connected benefits which include 50% of the annual basic rate of pay at death to spouse or dependent children, and 3) postretirement death benefits that include a refund of employee contributions with interest less benefits paid.

Cost of living adjustments to benefits subsequent to retirement are not provided by the Town Retirement System and Police Benefit Fund retirement plans. Benefits of the retirement plans may be amended by Town Council.

At January 1, 2014, plan memberships consisted of:

| | Town of Watertown Retirement System | Police Benefit Fund |
|--|--|------------------------------------|
| | <hr/> | <hr/> |
| Retirees, disabled and beneficiaries currently receiving benefits | 91 | 28 |
| Terminated employees entitled to benefits but not yet receiving them | 18 | |
| Inactive members | 4 | |
| Current employees: | | |
| Vested | 81 | 22 |
| Nonvested | 56 | 14 |
| | <hr/> | <hr/> |
| Total | <u>250</u> | <u>64</u> |

B. Summary of Significant Accounting Policies, Plan Asset Matters and Plan Changes

Basis of Accounting: The Town’s Pension Trust Funds’ financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefit payments and refunds are payable when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: All funds are invested through various portfolio management plans of Prudential Financial and are reported at fair value.

Plan Changes: The projected salary increases were 3.5% for the Town plan and from 2.0% for the police plan.

Plan Expenses: Expenses of administering the plan are paid for by the Town’s annual contribution to the plan.

C. Funding Policy

The contribution requirements of plan members are established and may be amended by the Town Council, subject to union contract negotiation. Plan members of the Town of Watertown Retirement System are required to contribute 3% of their salary up to \$7,800 plus 4 1/2% of their salary in excess of \$7,800, except for the Highway Division employees who are required to contribute 7.1% of their salary up to \$7,800 plus

8.6% of the salary in excess of \$7,800. Plan members of the Police Benefit Fund are required to contribute 6% of their earnings. The Town is required to contribute the remaining amounts necessary to finance administrative costs and benefits for its employees. The Town's contributions are actuarially determined by the Prudential Retirement on an annual basis. The current rate for the Town's contribution is 5.70% for the Town Retirement System and 25.61% for the Police Benefit Fund.

D. Investments

Investment Policy: The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Town Manager at any time. It is the policy of the Town Manager to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the asset allocation policies for the Town and Police Pension plans, respectively, as of June 30, 2014:

Town Pension Plan:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|----------------------|--------------------------|
| Large Cap Equity | 31.00% |
| Mid-Cap Equity | 4.00% |
| Small Cap Equity | 8.00% |
| International Equity | 12.00% |
| Fixed Income | 24.00% |
| Real Estate | 5.00% |
| Stable Value | <u>16.00%</u> |
| Total Portfolio | 100.00% |

Police Pension Plan:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|----------------------|--------------------------|
| Large Cap Equity | 26.00% |
| Mid-Cap Equity | 7.00% |
| Small Cap Equity | 7.00% |
| International Equity | 10.00% |
| Fixed Income | 27.00% |
| Real Estate | 5.00% |
| Stable Value | <u>18.00%</u> |
| Total Portfolio | 100.00% |

Rate of Return: For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.40% for the Town Pension plan and 15.20% for the Police Pension plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net Pension Liability of the Town

In accordance with Government Accounting Standards Board Statement No. 67, the components of the net pension liability of the Town at June 30, 2014 were as follows:

TOWN PENSION

| | |
|--|-------------------|
| Total pension liability | \$ 20,382,466 |
| Plan fiduciary net position | <u>19,726,466</u> |
| Net Pension Liability | <u>\$ 656,000</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 96.78% |

POLICE PENSION

| | |
|--|---------------------|
| Total pension liability | \$ 22,703,939 |
| Plan fiduciary net position | <u>18,262,691</u> |
| Net Pension Liability | <u>\$ 4,441,248</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 80.44% |

The Town's net pension liabilities will be required to be recorded on the government-wide statement of net position at June 30, 2015.

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

TOWN PENSION

| | |
|---------------------------|--|
| Inflation | 2.5% |
| Salary increases | 3.50% |
| Investment rate of return | 7.50%, net of investment and contract fees |

POLICE PENSION

| | |
|---------------------------|--|
| Inflation | 2.5% |
| Salary increases | 4.0% |
| Investment rate of return | 7.50%, net of investment and contract fees |

Mortality rates were based on the RP-2000 Mortality Table for males or females, as appropriate.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period of January 1, 2013 to June 30, 2014.

The long-term expected rate of return on the Town Pension plan assets has been validated by applying the most recent capital market assumptions, as developed by Prudential Retirement, to the asset allocation strategy of the Town of Watertown Retirement Income Plan using a building block approach. Best

estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> | <u>Weighting</u> |
|-----------------------------------|--------------------------|---|------------------|
| Large Cap Equity | 31.00% | 8.50% | 2.64% |
| Mid-Cap Equity | 4.00% | 9.00% | 0.36% |
| Small Cap Equity | 8.00% | 9.25% | 0.74% |
| International Equity | 12.00% | 8.25% | 0.99% |
| Fixed Income | 24.00% | 5.00% | 1.20% |
| Real Estate | 5.00% | 7.25% | 0.36% |
| Stable Value | <u>16.00%</u> | 4.50% | <u>0.72%</u> |
| Total Portfolio | 100.00% | | 7.01% |
| Long-Term Inflation Expectation | | | <u>2.50%</u> |
| Long-Term Expected Nominal Return | | | 9.51% |

The long-term expected rate of return on the Police Pension plan assets has been validated by applying the most recent capital market assumptions, as developed by Prudential Retirement, to the asset allocation strategy of the Town of Watertown Retirement Income Plan using a building block approach. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> | <u>Weighting</u> |
|-----------------------------------|--------------------------|---|------------------|
| Large Cap Equity | 26.00% | 8.50% | 2.21% |
| Mid-Cap Equity | 7.00% | 9.00% | 0.63% |
| Small Cap Equity | 7.00% | 9.25% | 0.65% |
| International Equity | 10.00% | 8.25% | 0.83% |
| Fixed Income | 27.00% | 5.00% | 1.35% |
| Real Estate | 5.00% | 7.25% | 0.36% |
| Stable Value | <u>18.00%</u> | 4.50% | <u>0.81%</u> |
| Total Portfolio | 100.00% | | 6.84% |
| Long-Term Inflation Expectation | | | <u>2.50%</u> |
| Long-Term Expected Nominal Return | | | 9.34% |

The discount rate used to measure the total pension liability was 7.5% for both plans. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the Town contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Town and Police pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the Town, calculated using the discount rate of 7.5% as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

TOWN PENSION

| | <u>1% Decrease in Discount Rate (6.50%)</u> | <u>Current Discount Rate (7.50%)</u> | <u>1% Increase in Discount Rate (8.50%)</u> |
|---|---|--|---|
| Net pension liability (asset) as of June 30, 2014 | \$ 2,887,709 | \$ 656,000 | \$ (1,254,040) |

POLICE PENSION

| | <u>1% Decrease in Discount Rate (6.50%)</u> | <u>Current Discount Rate (7.50%)</u> | <u>1% Increase in Discount Rate (8.50%)</u> |
|---|---|--|---|
| Net pension liability as of June 30, 2014 | \$ 6,854,007 | \$ 4,441,248 | \$ 2,401,464 |

F. Annual Pension Cost and Net Pension Obligations

In accordance with Government Accounting Standards Board Statement No. 27, the Town's annual pension cost and net pension obligation to the Watertown's Retirement System and Police Benefit Fund for the current year were as follows:

| | <u>Town of Watertown Retirement System</u> | <u>Police Benefit Fund</u> |
|--|--|------------------------------------|
| Annual required contribution/annual pension cost | \$ 364,691 | \$ 770,262 |
| Contributions made | <u>364,691</u> | <u>770,262</u> |
| Net Pension Obligation, End of Year | <u>\$ -</u> | <u>\$ -</u> |

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

| | <u>Town of Watertown Retirement System</u> | <u>Police Benefit Fund</u> |
|--|--|------------------------------------|
| Actuarial Valuation Date | January 1, 2013 | January 1, 2013 |
| Actuarial Cost Method | Entry Age | Entry Age |
| Amortization Method | Level Cost | Level Cost |
| Remaining amortization period (Frozen Actuarial Accrued Liability) | 15 years, open | 20 years, open |
| Asset Valuation Method | Smoothed Market | Smoothed Market |
| Actuarial Assumptions: | | |
| Investment Rate of Return | 7.5% per annum | 7.5% per annum |
| Projected Salary Increase | 6.0% per annum* | 4.5% per annum* |

* Inflation rate included 2.5%

G. Pension Plan Required Supplementary Information

Town Retirement System

| Fiscal Year Ending | Annual Pension Cost (APC) | Actual Contribution | Percentage of APC Contributed | Net Pension Obligation |
|---------------------------|----------------------------------|----------------------------|--------------------------------------|-------------------------------|
| 6/30/2012 | \$ 360,695 | \$ 360,695 | 100.00% | \$ - |
| 6/30/2013 | 367,373 | 367,373 | 100.00% | - |
| 6/30/2014 | 364,691 | 364,691 | 100.00% | - |

Police Benefit Fund

| Fiscal Year Ending | Annual Pension Cost (APC) | Actual Contribution | Percentage of APC Contributed | Net Pension Obligation |
|---------------------------|----------------------------------|----------------------------|--------------------------------------|-------------------------------|
| 6/30/2012 | \$ 689,641 | \$ 689,641 | 100.00% | \$ - |
| 6/30/2013 | 736,930 | 736,930 | 100.00% | - |
| 6/30/2014 | 770,262 | 770,262 | 100.00% | - |

Schedule of Funding Progress

The aggregate actuarial cost method that is used for calculating the annual required contribution does not separately identify unfunded actuarial accrued liabilities. The schedule of funding progress presented below has been developed using the entry age actuarial cost method for the Town Retirement System.

Schedule of Funding Progress - Town Retirement System

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | (Unfunded) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---------------------------------|--------------------------------------|--|------------------------------------|---------------------------|----------------------------|---|
| 1/1/2008 | \$ 15,739,354 | \$ 15,238,116 | \$ 501,238 | 103.3% | \$ 5,779,045 | 8.7% |
| 1/1/2009 | 13,617,941 | 14,488,555 | (870,614) | 94.0% | 6,245,400 | -13.9% |
| 1/1/2010 | 15,888,764 | 16,624,132 | (735,368) | 95.6% | 6,466,618 | -11.4% |
| 1/1/2011 | 16,402,816 | 17,102,475 | (699,659) | 95.9% | 6,591,118 | -10.6% |
| 1/1/2012 | 16,935,651 | 18,004,766 | (1,069,115) | 94.1% | 6,443,786 | -16.6% |
| 1/1/2013 | 17,637,843 | 18,732,739 | (1,094,896) | 94.2% | 6,409,573 | -17.1% |

Police Benefit Fund

Schedule of Funding Progress - Police Benefit Fund

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | (Unfunded) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---------------------------------|--------------------------------------|--|------------------------------------|---------------------------|----------------------------|---|
| 1/1/2008 | \$ 13,856,444 | \$ 15,249,691 | \$ (1,393,247) | 90.9% | \$ 2,524,078 | -55.2% |
| 1/1/2009 | 12,513,012 | 16,253,686 | (3,740,674) | 77.0% | 2,574,363 | -145.3% |
| 1/1/2010 | 14,238,384 | 17,976,016 | (3,737,632) | 79.2% | 2,702,918 | -138.3% |
| 1/1/2011 | 14,982,718 | 18,719,827 | (3,737,109) | 80.0% | 2,953,780 | -126.5% |
| 1/1/2012 | 15,581,062 | 20,131,988 | (4,550,926) | 77.4% | 2,877,202 | -158.2% |
| 1/1/2013 | 16,381,494 | 21,296,992 | (4,915,498) | 76.9% | 3,059,132 | -160.7% |

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is presented in Section D above.

Pension Trust Funds

The Town maintains two pension trust funds (Town Retirement System and Police Benefit Fund) to account for its fiduciary responsibility. The following schedules present the net position held in trust for pension benefits at June 30, 2014 and the changes in net position for the year then ended.

Combining Schedule of Plan Net Position

Employee Retirement Funds

| | <u>Town</u> | <u>Police</u> | <u>Totals</u> |
|------------------------------------|---------------|---------------|---------------|
| Assets: | | | |
| Investments | \$ 19,726,466 | \$ 18,262,691 | \$ 37,989,157 |
| Net position: | | | |
| Held in Trust for Pension Benefits | \$ 19,726,466 | \$ 18,262,691 | \$ 37,989,157 |

Combining Schedule of Changes in Plan

Net Position

Employee Retirement Funds

| | <u>Town</u> | <u>Police</u> | <u>Totals</u> |
|--|----------------------|----------------------|----------------------|
| Additions: | | | |
| Contributions: | | | |
| Employer | \$ 364,691 | \$ 770,262 | \$ 1,134,953 |
| Plan members | 319,890 | 186,890 | 506,780 |
| Total contributions | <u>684,581</u> | <u>957,152</u> | <u>1,641,733</u> |
| Investment income: | | | |
| Net appreciation in fair value of investments | 2,424,872 | 2,059,635 | 4,484,507 |
| Interest and dividends | 428,001 | 408,243 | 836,244 |
| Total | <u>2,852,873</u> | <u>2,467,878</u> | <u>5,320,751</u> |
| Investment expense | (50,599) | (45,409) | (96,008) |
| Net investment income | <u>2,802,274</u> | <u>2,422,469</u> | <u>5,224,743</u> |
| Total additions | <u>3,486,855</u> | <u>3,379,621</u> | <u>6,866,476</u> |
| Deductions: | | | |
| Benefits | 958,346 | 1,115,817 | 2,074,163 |
| Administration | <u>52,566</u> | <u>25,288</u> | <u>77,854</u> |
| Total deductions | <u>1,010,912</u> | <u>1,141,105</u> | <u>2,152,017</u> |
| Net increase | 2,475,943 | 2,238,516 | 4,714,459 |
| Net position held in trust for pension benefits, beginning of year, as restated | <u>17,250,523</u> | <u>16,024,175</u> | <u>33,274,698</u> |
| Net Position Held in Trust for Pension Benefits, End of Year | <u>\$ 19,726,466</u> | <u>\$ 18,262,691</u> | <u>\$ 37,989,157</u> |

Connecticut Municipal Employees' Retirement Fund

All water and sewer authority employees hired prior to 1986 and a majority of department heads of the Town participate in the Municipal Employees' Retirement Fund (MERF), a cost-sharing multiple-employer public employee retirement system (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to the employees and beneficiaries of participating municipalities. Chapter 113 Part II of the General Statutes of Connecticut, which can be amended by legislative action, establishes PERS benefits, member contribution rates, and other plan provisions. MERF is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106 or by calling 860-702-3480.

Funding Policy: Plan members are required by State Statute to contribute 2-1/4% of earnings upon which Social Security tax is paid plus 5% of earnings on which no Social Security tax is paid. Each participating municipality is required to contribute at an actuarially determined rate. The current rate is 11.9% of annual covered payroll. The contribution requirements of the Town are established and may be amended by the State Retirement Commission. The Town's contributions to MERF for the years ended June 30, 2014, 2013 and 2012 were \$165,978, \$160,951, and \$153,286, respectively, equal to the required contributions for each year.

Teachers' Retirement System

All Town of Watertown teachers participate in the State of Connecticut Teachers' Retirement System, a cost-sharing multiple-employer public employee retirement system (PERS), established under Section 10.183 of the General Statutes of the State of Connecticut. This is a multiple employer PERS. A teacher is eligible to receive a normal retirement benefit if he or she has: 1) attained age 60 and has accumulated 25 years of credited service in the public schools of Connecticut, or 2) attained any age and has accumulated 35 years of credited service, at least 25 years of which is service in the public schools of Connecticut.

The Board of Education withholds 7.25% of all teachers' annual salaries and transmits the funds to the State Teachers' Retirement Board. Teacher payroll subject to retirement amounted to \$16,705,381 or 70.1% of the total Board of Education payroll of \$23,829,503. The teachers' contributions totaled \$1,215,143 for the year ended June 30, 2014.

The retirement system for teachers is funded by the State based upon the recommendation of the Teachers' Retirement Board. Such contribution includes amortization of actuarially computed unfunded liability. For the year ended June 30, 2014, the Town has recorded in the General Fund (Exhibit IV) intergovernmental revenue and education expenditures in the amount of \$4,155,062 as payments made by the State of Connecticut on behalf of the Town. The Town does not have any liability for teacher pensions.

The State of Connecticut Teacher Retirement System is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106.

12. LITIGATION

The Town is a defendant in a number of lawsuits. It is the opinion of management that such pending litigation will not be finally determined so as to result in a judgment or judgments against the Town that would materially affect its financial position.

13. PRIOR PERIOD ADJUSTMENT - RESTATEMENT OF NET POSITION

The Town had historically been accounting for the Guaranteed Deposit Account portion of their Town and Police Pension plans at its book value as opposed to the market value at fiscal year end. As of June 30, 2013, the recognition of the mark to market difference for the Guaranteed Deposit Account for the Town and Police Pension plan net positions resulted in increases of \$97,471 and \$99,886, respectively.

The following represents the effect of this restatement:

| | <u>Opinion Unit</u> | |
|--|--------------------------------|----------------------|
| | <u>Pension Trust Funds</u> | <u>Total</u> |
| Net position as reported in 2013 financial statements | \$ 33,077,341 | \$ 33,077,341 |
| Prior period adjustment - adjustment to market value for guaranteed deposit accounts at June 30, 2013 | <u>197,357</u> | <u>197,357</u> |
| Net Position, Beginning of Year, as Restated | <u>\$ 33,274,698</u> | <u>\$ 33,274,698</u> |

**Required Supplementary
Information**

TOWN OF WATERTOWN, CONNECTICUT

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2014

| | Budgeted Amounts | | Actual | Variance |
|--|-------------------|-------------------|-------------------|----------------|
| | Original | Final | | |
| Property Taxes: | | | | |
| Current year | \$ 48,466,095 | \$ 48,466,095 | \$ 48,506,760 | \$ 40,665 |
| Prior year taxes | 450,000 | 450,000 | 737,080 | 287,080 |
| Interest and lien fees | 267,000 | 267,000 | 410,637 | 143,637 |
| Total property taxes | <u>49,183,095</u> | <u>49,183,095</u> | <u>49,654,477</u> | <u>471,382</u> |
| Intergovernmental: | | | | |
| State of Connecticut - Education: | | | | |
| School construction | 548,925 | 548,925 | 554,129 | 5,204 |
| Interest subsidy | 142,541 | 142,541 | 151,391 | 8,850 |
| Public transportation | | | 182,074 | 182,074 |
| Nonpublic health and social services | 26,033 | 26,033 | 34,564 | 8,531 |
| Equalization (ECS) | 11,945,681 | 11,945,681 | 11,869,404 | (76,277) |
| Adult education | 5,103 | 5,103 | | (5,103) |
| Total State of Connecticut - Education | <u>12,668,283</u> | <u>12,668,283</u> | <u>12,791,562</u> | <u>123,279</u> |
| Federal and State of Connecticut - Other: | | | | |
| PILOT state property | | | 31,976 | 31,976 |
| Elderly tax relief | 197,925 | 197,925 | 197,944 | 19 |
| PILOT - Mashantucket Pequot | | | 82,610 | 82,610 |
| Tax relief - Veterans | 29,538 | 29,538 | 27,808 | (1,730) |
| Mini Bus | | | 40,000 | 40,000 |
| Video grant | 50,280 | 50,280 | 17,464 | (32,816) |
| Skilton Road bridge | | | 8,423 | 8,423 |
| Municipal aid adjustment | 651,356 | 651,356 | 604,064 | (47,292) |
| Total Federal and State of Connecticut - Other | <u>929,099</u> | <u>929,099</u> | <u>1,010,289</u> | <u>81,190</u> |
| Total intergovernmental | <u>13,597,382</u> | <u>13,597,382</u> | <u>13,801,851</u> | <u>204,469</u> |
| Departmental: | | | | |
| Local revenues: | | | | |
| Communication tower rental | 230,700 | 230,700 | 231,808 | 1,108 |
| Equipment and scrap sales | 22,500 | 22,500 | 44,821 | 22,321 |
| Town Clerk fees | 35,000 | 35,000 | 39,721 | 4,721 |
| Town Clerk recording | 98,000 | 98,000 | 155,659 | 57,659 |
| Town Clerk dog licenses | 13,112 | 13,112 | 13,912 | 800 |
| Town Clerk marriage licenses | 1,000 | 1,000 | 1,349 | 349 |
| Transfer Station fees | 81,636 | 81,636 | 98,554 | 16,918 |
| Landfill fees | 55,500 | 55,500 | 52,391 | (3,109) |
| Damage claims | 1,800 | 1,800 | 43,057 | 41,257 |

(Continued on next page)

TOWN OF WATERTOWN, CONNECTICUT

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND (CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|------------------------------|-------------------------|------------------|------------------|-----------------|
| | <u>Original</u> | <u>Final</u> | | |
| Local revenues (continued): | | | | |
| Recreation mini-bus | \$ 1,000 | \$ 1,000 | \$ 1,383 | \$ 383 |
| Fishing and hunting licenses | 14,000 | 14,000 | 13,694 | (306) |
| Conveyance tax | 135,000 | 135,000 | 148,386 | 13,386 |
| Assessor - photocopying | 750 | 750 | 693 | (57) |
| Town vehicle use | 10,500 | 10,500 | 11,521 | 1,021 |
| Housing Authority | 20,967 | 20,967 | | (20,967) |
| 3-LOCIP preservation | 11,500 | 11,500 | 8,928 | (2,572) |
| Miscellaneous | 96,300 | 96,300 | 131,338 | 35,038 |
| Total local revenues | <u>829,265</u> | <u>829,265</u> | <u>997,215</u> | <u>167,950</u> |
| Permits and fees: | | | | |
| Zoning Board of Appeals | 2,500 | 2,500 | 5,810 | 3,310 |
| Planning and Zoning | 15,000 | 15,000 | 25,596 | 10,596 |
| Zoning compliance fees | 22,500 | 22,500 | 24,245 | 1,745 |
| Subdivision inspection fees | 2,000 | 2,000 | | (2,000) |
| Soil/water State fee | 15,500 | 15,500 | 19,620 | 4,120 |
| Inland - wetlands | 2,600 | 2,600 | 6,540 | 3,940 |
| Building permits | 275,000 | 275,000 | 371,896 | 96,896 |
| Building inspection | 3,500 | 3,500 | 4,138 | 638 |
| Blasting permits | 240 | 240 | 120 | (120) |
| Street opening permits | 2,000 | 2,000 | 2,899 | 899 |
| Pool fees | 7,500 | 7,500 | 8,746 | 1,246 |
| Miscellaneous | 750 | 750 | 1,004 | 254 |
| Total permits and fees | <u>349,090</u> | <u>349,090</u> | <u>470,614</u> | <u>121,524</u> |
| Police: | | | | |
| Parking tickets | 2,000 | 2,000 | 7,558 | 5,558 |
| Pistol permits | 10,000 | 10,000 | 26,596 | 16,596 |
| Police reports | 1,650 | 1,650 | 1,313 | (337) |
| Solicitor permits | 1,200 | 1,200 | 848 | (352) |
| Bingo and raffle | 50 | 50 | 150 | 100 |
| Alarm charges | 10,000 | 10,000 | 23,000 | 13,000 |
| Police service | 549,500 | 549,500 | 535,834 | (13,666) |
| Animal control fees | 4,700 | 4,700 | 5,003 | 303 |
| Miscellaneous | 50,500 | 50,500 | 61,193 | 10,693 |
| Total police | <u>629,600</u> | <u>629,600</u> | <u>661,495</u> | <u>31,895</u> |
| Board of Education: | | | | |
| Latchkey Program | 2,000 | 2,000 | 4,432 | 2,432 |
| Tuition | | | 4,620 | 4,620 |
| Miscellaneous | 2,100 | 2,100 | 3,400 | 1,300 |
| Total Board of Education | <u>4,100</u> | <u>4,100</u> | <u>12,452</u> | <u>8,352</u> |
| Total departmental | <u>1,812,055</u> | <u>1,812,055</u> | <u>2,141,776</u> | <u>329,721</u> |
| Investment income | <u>27,500</u> | <u>27,500</u> | <u>22,488</u> | <u>(5,012)</u> |

(Continued on next page)

TOWN OF WATERTOWN, CONNECTICUT

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND (CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|---|--------------------------|--------------------------|-----------------------|-------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Other: | | | | |
| Taft contributions | \$ 125,000 | \$ 125,000 | \$ 150,000 | \$ 25,000 |
| Telephone access | 52,000 | 52,000 | 55,675 | 3,675 |
| Scholarship fund | 2,000 | 2,000 | 1,014 | (986) |
| Heritage bond reimbursement | 81,650 | 81,650 | 81,650 | - |
| Fusion Centers | | | 25,000 | 25,000 |
| Cancellation of prior years' encumbrances | | | 54,516 | 54,516 |
| Total other | <u>260,650</u> | <u>260,650</u> | <u>367,855</u> | <u>107,205</u> |
| Total revenues | <u>64,880,682</u> | <u>64,880,682</u> | <u>65,988,447</u> | <u>1,107,765</u> |
| Other Financing Sources: | | | | |
| Transfers in: | | | | |
| Water and Sewer Authority | 83,911 | 83,911 | 83,912 | 1 |
| Crestbrook Golf Operations | 46,498 | 46,498 | 46,498 | - |
| Board of Education community services | | | 377 | 377 |
| Total other financing sources | <u>130,409</u> | <u>130,409</u> | <u>130,787</u> | <u>378</u> |
| Total | <u>\$ 65,011,091</u> | <u>\$ 65,011,091</u> | 66,119,234 | <u>\$ 1,108,143</u> |

Budgetary revenues are different than GAAP revenues because:

| | |
|--|----------------|
| State of Connecticut on-behalf contributions to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted. | 4,155,062 |
| Underliquidation of prior year encumbrances is recorded as miscellaneous revenue for budgetary reporting. This amount is excluded for GAAP financial reporting purposes. | (54,516) |
| Capital lease issuances are not budgeted. | 592,437 |
| The Board of Education does not budget for intergovernmental grants that are credited against education expenditures for budgetary reporting. These amounts are recorded as revenues and expenditures for GAAP financial reporting purposes. | <u>803,458</u> |

Total Revenues and Other Financing Sources as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV \$ 71,615,675

TOWN OF WATERTOWN, CONNECTICUT

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual | Variance |
|--------------------------------|------------------|------------------|------------------|----------------|
| | Original | Final | | |
| General government: | | | | |
| Town Council | \$ 1,600 | \$ 1,600 | \$ 1,521 | \$ 79 |
| Town Manager | 233,691 | 233,691 | 232,079 | 1,612 |
| Finance Department: | | | | |
| Administration | 468,717 | 498,758 | 498,346 | 412 |
| Treasurer | 55,538 | 55,538 | 55,505 | 33 |
| Tax Collector | 182,208 | 184,489 | 183,389 | 1,100 |
| Assessor | 292,517 | 297,781 | 240,506 | 57,275 |
| Board of Tax Review | 4,500 | 4,500 | 4,500 | - |
| Town Clerk | 194,918 | 195,933 | 192,791 | 3,142 |
| Elections | 99,986 | 91,203 | 78,827 | 12,376 |
| Planning and Zoning | 216,952 | 238,437 | 236,602 | 1,835 |
| Board of Appeals | 13,076 | 13,949 | 13,383 | 566 |
| Conservation Commission | 13,626 | 15,216 | 14,048 | 1,168 |
| Public building | 546,059 | 715,665 | 610,793 | 104,872 |
| Building inspections | 173,633 | 173,633 | 170,431 | 3,202 |
| Economic development | 38,912 | 44,748 | 31,686 | 13,062 |
| Total general government | <u>2,535,933</u> | <u>2,765,141</u> | <u>2,564,407</u> | <u>200,734</u> |
| Public safety: | | | | |
| Fire Department: | | | | |
| Administration | 235,508 | 234,818 | 231,552 | 3,266 |
| Suppression and rescue | 353,658 | 359,256 | 319,278 | 39,978 |
| Maintenance and support | 202,690 | 206,848 | 194,831 | 12,017 |
| Police Department: | | | | |
| Administration | 421,855 | 438,279 | 430,249 | 8,030 |
| Patrol and detectives | 3,020,989 | 3,136,407 | 3,123,204 | 13,203 |
| Maintenance and support | 91,621 | 89,646 | 87,897 | 1,749 |
| Traffic | 6,928 | 5,128 | 4,789 | 339 |
| Animal control | 100,778 | 100,558 | 95,431 | 5,127 |
| Communications | 538,470 | 592,703 | 588,206 | 4,497 |
| Total public safety | <u>4,972,497</u> | <u>5,163,643</u> | <u>5,075,437</u> | <u>88,206</u> |
| Public works: | | | | |
| Engineering and administration | 533,203 | 556,384 | 541,977 | 14,407 |
| Highway | 1,918,282 | 1,928,565 | 1,884,990 | 43,575 |
| Snow removal | 407,921 | 443,428 | 440,358 | 3,070 |
| Solid waste disposal | 256,540 | 254,000 | 241,132 | 12,868 |
| Street lighting | 173,000 | 156,179 | 156,178 | 1 |
| Tree removal | 12,500 | 12,500 | 12,500 | - |
| Total public works | <u>3,301,446</u> | <u>3,351,056</u> | <u>3,277,135</u> | <u>73,921</u> |
| Parks and recreation: | | | | |
| Parks administration | 366,156 | 366,100 | 346,510 | 19,590 |
| Recreation administration | 297,615 | 304,519 | 303,989 | 530 |
| Senior Center | 92,983 | 96,974 | 94,346 | 2,628 |
| Total parks and recreation | <u>756,754</u> | <u>767,593</u> | <u>744,845</u> | <u>22,748</u> |
| Health and welfare: | | | | |
| Social services | 17,150 | 18,887 | 18,286 | 601 |
| Health services | 120,808 | 120,808 | 120,808 | - |
| Total health and welfare | <u>137,958</u> | <u>139,695</u> | <u>139,094</u> | <u>601</u> |
| Board of Education | 38,460,276 | 38,460,276 | 38,443,242 | 17,034 |

(Continued on next page)

TOWN OF WATERTOWN, CONNECTICUT

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND (CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual | Variance |
|---|----------------------|----------------------|-------------------|-------------------|
| | Original | Final | | |
| Miscellaneous: | | | | |
| Legal | \$ 154,639 | \$ 114,147 | \$ 114,146 | \$ 1 |
| Employee benefits | 5,009,156 | 5,006,073 | 4,793,309 | 212,764 |
| Centralized services | 821,829 | 818,853 | 792,820 | 26,033 |
| Non - Town agencies | 1,530,379 | 1,651,350 | 1,638,339 | 13,011 |
| Reserved for contingency | 35,000 | 10,554 | 7,483 | 3,071 |
| Reserved for wages and benefits | 154,637 | 137,900 | 56,014 | 81,886 |
| Historic district | 575 | 575 | 269 | 306 |
| Total miscellaneous | <u>7,706,215</u> | <u>7,739,452</u> | <u>7,402,380</u> | <u>337,072</u> |
| Debt service | <u>6,857,653</u> | <u>6,857,653</u> | <u>6,857,649</u> | <u>4</u> |
| Total expenditures | <u>64,728,732</u> | <u>65,244,509</u> | <u>64,504,189</u> | <u>740,320</u> |
| Other financing uses: | | | | |
| Transfers out: | | | | |
| Vehicle Replacement Fund | 125,000 | 125,000 | 125,000 | - |
| Public Works Equipment Replacement Fund | 70,000 | 70,000 | 70,000 | - |
| Water Authority | 87,359 | 87,359 | 87,359 | - |
| Total other financing uses | <u>282,359</u> | <u>282,359</u> | <u>282,359</u> | <u>-</u> |
| Total | \$ <u>65,011,091</u> | \$ <u>65,526,868</u> | 64,786,548 | \$ <u>740,320</u> |

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. | 4,155,062 |
| Payments on capital leases are not budgeted. | 592,437 |
| 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 GAAP financial reporting purposes. | (330,833) |
| Encumbrances for purchases and commitments ordered in the previous year that were received and liquidated in the current year are reported for GAAP financial statement reporting purposes. | 516,090 |
| The Town and Board of Education do not budget for accrued payroll services earned at year end. The accrued wages are charged to the subsequent year's budget. These amounts are recorded as a current year expenditure for GAAP financial statement purposes. | 188,379 |
| Reversal of prior year accrued payroll services charged to the current budget. These amounts were reported as a prior year expenditure for GAAP financial statement reporting purposes. | (239,594) |
| The Board of Education does not budget for intergovernmental grants that are credited against education expenditures for budgetary reporting. These amounts are recorded as revenues and expenditures for GAAP financial reporting purposes. | <u>803,458</u> |

Total Expenditures and Other Financing Uses as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV \$ 70,471,547

TOWN OF WATERTOWN, CONNECTICUT

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST FISCAL YEAR - TOWN PENSION**

| | <u>2014</u> |
|--|--------------------------|
| Total pension liability: | |
| Service cost | \$ 493,898 |
| Interest | 1,421,610 |
| Differences between expected and actual experience | (225,659) |
| Benefit payments, including refunds of member contributions | <u>(958,346)</u> |
| Net change in total pension liability | 731,503 |
| Total pension liability - beginning | <u>19,650,963</u> |
| Total pension liability - ending | <u>20,382,466</u> |
| Plan fiduciary net position: | |
| Contributions - employer | 364,691 |
| Contributions - member | 319,890 |
| Net investment income | 2,802,274 |
| Benefit payments, including refunds of member contributions | (958,346) |
| Administrative expense | <u>(52,566)</u> |
| Net change in plan fiduciary net position | 2,475,943 |
| Plan fiduciary net position - beginning | <u>17,250,523</u> |
| Plan fiduciary net position - ending | <u>19,726,466</u> |
| Net Pension Liability - Ending | \$ <u><u>656,000</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability | 96.78% |
| Covered-employee payroll | \$ 6,409,573 |
| Net pension liability as a percentage of covered-employee payroll | 10.23% |

TOWN OF WATERTOWN, CONNECTICUT

SCHEDULE OF EMPLOYER CONTRIBUTIONS - TOWN PENSION

LAST TEN FISCAL YEARS

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Actuarially determined contribution | \$ 364,691 | \$ 367,373 | \$ 360,695 | \$ 316,948 | \$ 299,018 | \$ 198,970 | \$ 161,247 | \$ 215,530 | \$ 257,541 | \$ 262,039 |
| Contributions in relation to the actuarially determined contribution | 364,691 | 367,373 | 360,695 | 316,948 | 299,018 | 198,970 | 161,247 | 215,530 | 257,541 | 262,039 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll | \$ 6,409,573 | \$ N/A | \$ N/A | \$ N/A | \$ N/A | \$ N/A | \$ N/A | \$ N/A | \$ N/A | \$ N/A |
| Contributions as a percentage of covered-employee payroll | 5.69% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Notes to Schedule

Valuation date: January 1, 2013

Measurement date: June 30, 2014

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

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|------------------------|
| Actuarial cost method | Entry age normal |
| Amortization method | Level cost, open |
| Remaining amortization period | 15 years, open |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.5% |
| Salary increases | 3.5% |
| Investment rate of return | 7.50% |

Retirement age - Highway Division Earlier of either (1) Age 55 with 25 years of service or (2) Age 65

Retirement age - All Other Divisions Age 65 Participants at or beyond this age are assumed to retire immediately

Mortality - Male The RP2000 Group Annuity Mortality Table (male)

Mortality - Female The RP2000 Group Annuity Mortality Table (female)

TOWN OF WATERTOWN, CONNECTICUT

SCHEDULE OF INVESTMENT RETURNS - TOWN PENSION

LAST FISCAL YEAR

2014

Annual money-weighted rate of return, net of investment expense

16.40%

TOWN OF WATERTOWN, CONNECTICUT

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST FISCAL YEAR - POLICE PENSION**

| | <u>2014</u> |
|--|----------------------------|
| Total pension liability: | |
| Service cost | \$ 329,808 |
| Interest | 1,600,613 |
| Differences between expected and actual experience | 317,189 |
| Benefit payments, including refunds of member contributions | <u>(1,115,817)</u> |
| Net change in total pension liability | 1,131,793 |
| Total pension liability - beginning | <u>21,572,146</u> |
| Total pension liability - ending | <u>22,703,939</u> |
| Plan fiduciary net position: | |
| Contributions - employer | 770,262 |
| Contributions - member | 186,890 |
| Net investment income | 2,422,469 |
| Benefit payments, including refunds of member contributions | (1,115,817) |
| Administrative expense | <u>(25,288)</u> |
| Net change in plan fiduciary net position | 2,238,516 |
| Plan fiduciary net position - beginning | <u>16,024,175</u> |
| Plan fiduciary net position - ending | <u>18,262,691</u> |
| Net Pension Liability - Ending | \$ <u><u>4,441,248</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability | 80.44% |
| Covered-employee payroll | \$ 3,059,132 |
| Net pension liability as a percentage of covered-employee payroll | 145.18% |

TOWN OF WATERTOWN, CONNECTICUT

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POLICE PENSION

LAST TEN FISCAL YEARS

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Actuarially determined contribution | \$ 770,262 | \$ 736,930 | \$ 689,641 | \$ 665,677 | \$ 625,539 | \$ 457,440 | \$ 425,017 | \$ 419,198 | \$ 401,147 | \$ 418,697 |
| Contributions in relation to the actuarially determined contribution | <u>770,262</u> | <u>736,930</u> | <u>689,641</u> | <u>665,677</u> | <u>625,539</u> | <u>457,440</u> | <u>425,017</u> | <u>419,198</u> | <u>401,147</u> | <u>418,697</u> |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll | \$ 3,059,132 | \$ N/A | \$ N/A | \$ N/A | \$ N/A | \$ N/A | \$ N/A | \$ N/A | \$ N/A | \$ N/A |
| Contributions as a percentage of covered-employee payroll | 25.18% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Notes to Schedule

Valuation date: January 1, 2013

Measurement date: June 30, 2014

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

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|------------------------|
| Actuarial cost method | Entry age normal |
| Amortization method | Level cost, open |
| Remaining amortization period | 20 years, open |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.5% |
| Salary increases | 4.0% |
| Investment rate of return | 7.50% |

Retirement age: Age 55 or the completion of 25 years of service, if later. Participants at or beyond this age are assumed to retire immediately.

Mortality - Male: The RP2000 Group Annuity Mortality Table (male)

Mortality - Female: The RP2000 Group Annuity Mortality Table (female)

TOWN OF WATERTOWN, CONNECTICUT

SCHEDULE OF INVESTMENT RETURNS - POLICE PENSION

LAST FISCAL YEAR

2014

Annual money-weighted rate of return, net of investment expense

15.20%

Appendix B

Opinion of Bond Counsel and Tax Exemption

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 successful bidder 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 successful bidder.

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 Watertown
Watertown, Connecticut

We have represented the Town of Watertown, Connecticut as Bond Counsel in connection with the issuance by the Town of \$3,000,000 General Obligation Bonds, Issue of 2015, dated as of March 26, 2015 and \$6,700,000 Bond Anticipation Notes, dated as of March 26, 2015.

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 Watertown 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 and Notes 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 and Notes having original issue premium, and especially any owner who is not an original owner of a Bond or Note who bought the Bond or 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 Bonds and 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. 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-1

Form of Continuing Disclosure Agreement for Bonds

APPENDIX C-1 - 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 March 26, 2015 by the Town of Watertown, Connecticut (the "Issuer") acting by its undersigned officers, duly authorized, in connection with the issuance of \$3,000,000 General Obligation Bonds, Issue of 2015, dated as of March 26, 2015 (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 March 17, 2015 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, 2015) as follows:

(i) Financial statements of the Issuer's general fund and, any special revenue, capital projects, permanent enterprise, 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 gross and 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, total net direct debt, and total overall net debt (reflecting overlapping and underlying debt), as of the close of the fiscal year,
- (F) total direct debt and total overall net debt of the Issuer per capita,
- (G) ratios of the total direct debt and total overall net debt of the Issuer to the Issuer's applicable 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 calls, if material, and tender offers;
- (i) Bond defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the Issuer;
- (m) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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 Director, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Finance Director is Town Hall Annex, 424 Main Street, Watertown, Connecticut 06795.

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 WATERTOWN

By _____
Robert M. Scannell
Town Manager

By _____
Frank J. Nardelli, Jr.
Finance Director

Appendix C-2

Form of Continuing Disclosure Agreement for Notes

APPENDIX C-2 - 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 March 26, 2015 by the Town of Watertown, Connecticut (the "Issuer") acting by its undersigned officers, duly authorized, in connection with the issuance of \$6,700,000 Bond Anticipation Notes, dated as of March 26, 2015 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:

- (f) principal and interest payment delinquencies;
- (g) non-payment related defaults, if material;
- (h) unscheduled draws on debt service reserves reflecting financial difficulties;
- (i) unscheduled draws on credit enhancements reflecting financial difficulties;
- (j) substitution of credit or liquidity providers, or their failure to perform;
- (k) 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;
- (l) modifications to rights of holders of the Notes, if material;
- (m) Note calls, if material, and tender offers;
- (n) Note defeasances;

- (o) release, substitution, or sale of property securing repayment of the Notes, if material;
- (p) rating changes;
- (q) bankruptcy, insolvency, receivership or similar event of the Issuer;
- (r) 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
- (s) 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 Director, or a successor, receives written notice from any beneficial owner of the Notes of such failure. The present address of the Finance Director is Town Hall Annex, 424 Main Street, Watertown, Connecticut 06795.

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 WATERTOWN

By: _____
Robert M. Scannell
Town Manager

By: _____
Frank J. Nardelli, Jr.
Finance Director

Appendix D-1

Notice of Sale and Bid Form - Bonds

NOTICE OF SALE
\$3,000,000
Town of Watertown, Connecticut
General Obligation Bonds
(BOOK-ENTRY)

SEALED PROPOSALS and ELECTRONIC BIDS via PARITY® will be received by the Town of Watertown, Connecticut at Town of Watertown, Town Hall Annex, Town Manager's Conference Room, 424 Main Street, Watertown, Connecticut, until **11:30 A.M. Eastern Time on TUESDAY,**

MARCH 17, 2015

for the purchase, when issued, at not less than par and accrued interest from the date of the Bonds to the date of delivery, of the whole of

\$3,000,000 General Obligation Bonds, Issue of 2015
Payable annually on March 15 as follows:

\$105,000 in 2016
\$155,000 in 2017 to 2025
\$150,000 in 2026 to 2035

The Bonds will be dated March 26, 2015, with interest payable on September 15, 2015 and thereafter semiannually on each March 15th and September 15th.

The Bonds will be general obligations of the Town payable from ad valorem taxes levied on all taxable property in the Town without limitation as to rate or amount except classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts.

DTC Book Entry. The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. The Bonds will be issued in registered form and one bond certificate for each maturity will be issued to The Depository Trust Company ("DTC"), New York, New York, registered in the name of its nominee, Cede & Co., and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Bonds in principal amounts of \$5,000 or any integral multiple thereof, with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures adopted by DTC and its Participants. The purchaser, as a condition to delivery of the Bonds, will be required to deposit the bond certificates with DTC, registered in the name of Cede & Co. Principal of, redemption premium, if any, and interest on the Bonds will be payable by the Town or its agent to DTC or its nominee as registered owner of the Bonds. Principal, redemption premium, if any, and interest payments by DTC to Participants of DTC will be the responsibility of DTC; principal, redemption premium, if any, and interest payments to Beneficial Owners by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The Town will not be responsible or liable for payments by DTC to its Participants or by DTC Participants or Indirect Participants to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds and the Town fails to identify another qualified securities depository to replace DTC, or (b) the Town determines to discontinue the book-entry system of evidence and transfer of ownership of the Bonds, the Town will authenticate and deliver replacement Bonds in the form of fully registered certificates. Any such replacement Bonds will provide that interest will be payable by check mailed by the Paying Agent to the registered owner whose name appears on the registration books of the Town as of the close of business on the record date preceding each interest payment date. The record dates will be the last business day of August and February.

Redemption. Bonds maturing on March 15, 2023 and thereafter are subject to redemption prior to maturity, at the option of the Town, on or after March 15, 2022, at any time, either in whole or in part, in such amounts and in such order of maturity (but by lot within a maturity) as the Town may determine, following notice mailed by first class mail at least 30 days prior to the redemption date to the registered owners of the Bonds to be redeemed, at the following redemption price, expressed as a percentage of the principal amount, plus accrued interest to the date set for redemption:

| <u>Period During Which Redeemed</u> | <u>Redemption Price</u> |
|---|-----------------------------|
| March 15, 2022 and thereafter | 100.0% |

Proposals. Each proposal must specify the amount bid for the Bonds (which shall be the aggregate par value of the Bonds, and, at the option of the bidder, a premium), and must specify in a multiple of one-twentieth or one eighth of one percent the rate or rates of interest per annum which the Bonds are to bear, but shall not specify (a) more than one interest rate for any Bonds having a like maturity, or (b) any interest rate for any Bonds which exceeds the interest rate specified in such proposal for any other Bonds by more than two (2%) percentage points. In addition to the amount bid for the Bonds, the purchaser must pay an amount equal to the interest on the Bonds accrued to the date of delivery. For the purpose of the bidding process, the time as maintained on PARITY® shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the Town, as described under "Basis of Award" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

Sealed Proposals Bidding Procedure. All proposals for the purchase of Bonds shall be submitted on forms furnished by the Town and submitted at the time and place indicated above. All proposals must be enclosed in sealed envelopes marked on the outside, in substance, "Proposal for Watertown Bonds." All proposals should be addressed to Mr. Frank J. Nardelli, Finance Director, Town of Watertown, Town Hall Annex, Town Manager's Conference Room, 424 Main Street, Watertown, Connecticut 06795.

Electronic Proposals Bidding Procedure. Electronic bids for the purchase of the Bonds must be submitted through the facilities of PARITY®. Any prospective bidder must be a subscriber of I-Deal's Bidcomp competitive bidding system. Further information about PARITY®, including any fee charged, may be obtained from PARITY®, 1359 Broadway, 2nd Floor, New York, New York 10018, Attention: Customer Service Department (telephone: (212) 849-5021 - email notice: parity@i-deal.com). The Town neither will confirm any subscription nor be responsible for any failure of a prospective bidder to subscribe.

Once an electronic bid made through the facilities of PARITY® is communicated to the Town, it shall constitute an irrevocable offer, in response to this Notice, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Town. By submitting a bid for the Bonds via PARITY®, the bidder represents and warrants to the Town that such bidder's bid for the purchase of the Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder by an irrevocable offer and that acceptance of such bid by the Town will bind the bidder by a legal, valid and enforceable contract, for the purchase of the Bonds on the terms described in this Notice. **The Town shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY®, the use of such facilities being the sole risk of the prospective bidder.**

Disclaimer - Each PARITY® prospective electronic bidder shall be solely responsible to make necessary arrangements to access PARITY® for the purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the Town nor PARITY® shall have any duty or obligation to undertake such arrangements to bid for any prospective bidder or to provide or assure such access to any prospective bidder, and neither the Town nor PARITY® shall be responsible for a bidder's failure to make a bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, PARITY®. The Town is using PARITY® as a communication mechanism, and not as the Town's agent, to conduct the electronic bidding for the Bonds. The Town is not bound by any advice and determination of PARITY® to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the bid requirements herein set forth.

All costs and expenses incurred by prospective bidders in connection with their subscription to, arrangements with and submission of bids via PARITY® are the sole responsibility of the bidders; and the Town is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder encounters any difficulty in arranging to bid or submitting, modifying or withdrawing a bid for the Bonds, the prospective bidder should telephone PARITY® at (212) 849-5021. If any provision of this Notice shall conflict with information provided by PARITY®, this Notice of Sale shall control.

All electronic bids shall be deemed to incorporate the provisions of this Notice and the form of Proposal for Bonds.

Basis of Award. As between proposals which comply with this Notice, the Bonds will be sold to the responsible bidder offering to purchase the Bonds at the lowest true interest cost to the Town. For the purpose of determining the successful bidder, the true interest cost to the Town will be the annual interest rate, compounded semiannually, which, when used to discount all payments of principal and interest payable on the Bonds to March 26, 2015, the date of the Bonds, results in an amount equal to the purchase price for the Bonds, excluding interest accrued to the date of delivery. If there is more than one responsible bidder making said offer at the same lowest true interest cost, the Bonds will be sold to the responsible bidder whose proposal is selected by the Town by lot from among all such proposals. It is requested that each proposal be accompanied by a statement of the percentage of true interest cost completed to four decimal places. Such statement shall not be considered as part of the proposal.

The right is reserved to reject any and all proposals and to reject any proposal not complying with this Notice of Sale and to waive any irregularity or informality with respect to any proposal.

The Town further reserves the right to postpone the sale to another time and date in its sole discretion for any reason, including internet difficulties. The Town will use its best efforts to notify prospective bidders in a timely manner of any need for a postponement. If the sale is postponed, an alternative bid date will be published on Bloomberg at least 48 hours prior to such alternative bid date. Upon the establishment of an alternative bid date, any bidder may submit proposals for the purchase of the Bonds in accordance with the provisions of this Notice of Sale.

Certifying and Paying Agent. The Bonds will be authenticated by U.S. Bank National Association, Hartford, Connecticut. U.S. Bank National Association will act as Registrar and Paying Agent.

Delivery. At or prior to the delivery of the Bonds the successful bidder shall be furnished, without cost, with (a) the approving opinion of Day Pitney LLP of Hartford, Connecticut, Bond Counsel, substantially in the form set out in Appendix B to the Official Statement; (b) a signature and no litigation certificate, in form satisfactory to said firm, dated as of the date of delivery of the Bonds, and stating that there is no litigation pending, or to the knowledge of the signer or signers thereof threatened, affecting the validity of the Bonds or the power of the Town to levy and collect taxes to pay them; (c) a signed copy of the Official Statement prepared for this bond issue; (d) a certificate of Town Officials relating to the accuracy and completeness of the Official Statement; (e) a Continuing Disclosure Agreement; and (f) a receipt of payment for the Bonds. U.S. Bank National Association will keep the original opinion and certificates and copies of the supporting documents, which may be examined at its principal office in Hartford, Connecticut, upon reasonable notice.

Bond Counsel Opinion. The opinion of Bond Counsel will cover the following matters: (1) that the Bonds will be valid general obligations of the Town when duly certified; (2) that, assuming the accuracy of and compliance by the Town with its representations and covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, under existing statutes, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; and the Bonds are not "private activity bonds" and interest on the Bonds is not treated as a preference item for purposes of calculating the Federal alternative minimum tax, 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; and (3) that, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the Bonds is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. The Bonds will *not* be "qualified tax-exempt obligations" for purposes of the deduction by financial institutions of interest expense that is allocable to tax-exempt obligations.

Official Statement. The Town of Watertown has prepared a preliminary Official Statement for the Bond issue which is dated March 9, 2015. The Town deems such preliminary Official Statement final as of its date for purposes of SEC Rule 15c2-12(b)(1), but it is subject to revision or amendment. The Town will make available to the winning purchaser 100 copies of the Official Statement as prepared by the Town at the Town's expense. The copies of the Official Statement will be made available to the winning purchaser at the office of the Town's financial advisor, Phoenix Advisors, LLC, Milford, CT, by the delivery of the Bonds or by the seventh business day after the day bids on the Bonds are received if earlier. If the Town's financial advisor is provided with the necessary information from the winning purchaser by noon of the day following the day bids on the Bonds are received, the copies of the Official Statement will include an additional cover page and other pages indicating the interest rates, ratings, yields or reoffering prices, the name of the managing underwriter, the name of the insurer, if any, on the Bonds and any corrections. The purchaser shall arrange with the financial advisor the method of delivery of the copies of the Official Statement to the purchaser. Additional copies of the Official Statement may be obtained by the purchaser at its own expense by arrangement with the printer.

Continuing Disclosure Agreement. The Town will enter into a Continuing Disclosure Agreement with respect to the Bonds, substantially in the form attached as Appendix C-1 to the Official Statement (the "Continuing Disclosure Agreement for Bonds"), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2-12, (i) annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds, and (iii) timely notice of a failure by the Town to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for Bonds. The winning bidder's obligation to purchase the Bonds shall be conditioned upon its receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement for Bonds.

CUSIP Numbers. The deposit of the Bonds with DTC under a book-entry system requires the assignment of CUSIP numbers prior to delivery. It shall be the responsibility of the purchaser to apply for CUSIP numbers for the Bonds prior to delivery. Neither the failure to print such CUSIP number on any bond, nor any error with respect thereto, shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the Town; provided, however, that the Town assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers, which charges shall be the responsibility of and shall be paid for by the purchaser.

Reoffering Prices. **IT SHALL BE THE RESPONSIBILITY OF THE PURCHASER TO FURNISH TO THE TOWN IN WRITING BEFORE THE DELIVERY OF THE BONDS THE REOFFERING PRICES AT WHICH A SUBSTANTIAL PORTION OF EACH MATURITY OF THE BONDS WERE SOLD.** The successful bidder may specify that the Bonds as "not reoffered" if the successful bidder certifies that it purchased the specified Bonds for its own account (or the account of a related party) without any present intention of reoffering such Bonds to any other investor.

Delivery Date and Payment. It is expected that the closing on the Bonds will occur on or about March 26, 2015 through the facilities of the Depository Trust Company, New York, New York, against payment in immediately available Federal funds.

More Information. For more information regarding this issue and the Town reference is made to the Official Statement. Proposal forms and copies of the Official Statement may be obtained from Mr. Barry Bernabe, Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, CT 06460 (telephone: (203) 283-1110) or from Mr. Frank J. Nardelli, Finance Director, Town of Watertown, Town Hall Annex, 424 Main Street, Watertown, Connecticut 06795 (telephone: (860) 945-5258).

ROBERT M. SCANNELL,
Town Manager

FRANK J. NARDELLI, JR.,
Finance Director

March 9, 2015

PROPOSAL FOR BONDS

March 17, 2015

Mr. Frank J. Nardelli
 Finance Director
 Town of Watertown
 Town Hall Annex
 424 Main Street
 Town Manager's Conference Room
 Watertown, Connecticut 06795

Subject to the provisions and in accordance with the terms of the annexed Notice of Sale dated March 9, 2015 which is hereby made a part of this proposal, we hereby offer to purchase all of the aggregate principal amount of \$3,000,000 General Obligation Bonds, Issue of 2015, of the Town of Watertown described in said Notice of Sale, and to pay therefor the price of par plus a premium of \$_____ plus interest accrued on said Bonds to the date of their delivery, provided that the Bonds maturing in the several years set forth below shall bear interest from their date until maturity at the respective rates per annum stated in the following table:

| <u>Year of Maturity</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Year of Maturity</u> | <u>Amount</u> | <u>Interest Rate</u> |
|-------------------------|---------------|----------------------|-------------------------|---------------|----------------------|
| 2016 | \$105,000 | _____% | 2026 | \$150,000 | _____% |
| 2017 | \$155,000 | _____% | 2027 | \$150,000 | _____% |
| 2018 | \$155,000 | _____% | 2028 | \$150,000 | _____% |
| 2019 | \$155,000 | _____% | 2029 | \$150,000 | _____% |
| 2020 | \$155,000 | _____% | 2030 | \$150,000 | _____% |
| 2021 | \$155,000 | _____% | 2031 | \$150,000 | _____% |
| 2022 | \$155,000 | _____% | 2032 | \$150,000 | _____% |
| 2023 | \$155,000 | _____% | 2033 | \$150,000 | _____% |
| 2024 | \$155,000 | _____% | 2034 | \$150,000 | _____% |
| 2025 | \$155,000 | _____% | 2035 | \$150,000 | _____% |

We acknowledge receipt of the Official Statement referred to in the Notice of Sale.

Name of Bidder: _____
 Address of Bidder: _____
 Signature of Officer or Authorized Agent of Bidder: _____
 Telephone Number: _____

The following is our computation of the percentage of true interest cost, made as provided in the above mentioned Notice of Sale, and certain other information, which is not part of the foregoing proposal.

Percent of True Interest Cost _____%
 (four decimals)
 Gross Interest \$ _____
 Premium \$ _____

Appendix D-2

Notice of Sale and Bid Form - Notes

NOTICE OF SALE
\$6,700,000
Town of Watertown, Connecticut
Bond Anticipation Notes
(BOOK-ENTRY)

SEALED PROPOSALS and ELECTRONIC BIDS via PARITY® will be received by the Town of Watertown, Connecticut at Town of Watertown, Town Hall Annex, 424 Main Street, Watertown, Connecticut until **11:00 A.M. Eastern Time on TUESDAY,**

MARCH 17, 2015

for the purchase of \$6,700,000 Bond Anticipation Notes of the Town of Watertown, dated March 26, 2015, maturing on March 24, 2016 (the "Notes").

The Notes will be payable with interest at maturity. Interest shall be computed on the basis of a 30-day month and a 360-day year. The Notes are not subject to redemption prior to maturity.

The Notes will be general obligations of the Town payable from ad valorem taxes levied on all taxable property in the Town without limitation as to rate or amount except classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts.

DTC Book-Entry. The Notes will be issued by means of a book-entry system with no physical distribution of note certificates made to the public. The Notes will be issued in registered form and one note certificate for each interest rate will be issued to The Depository Trust Company ("DTC"), New York, New York, registered in the name of its nominee, Cede & Co., and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Notes in principal amounts of \$5,000 or any integral multiple thereof, with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures adopted by DTC and its Participants. The purchaser, as a condition to delivery of the Notes, will be required to deposit the note certificates with DTC, registered in the name of Cede & Co. Principal of and interest on the Notes will be payable by the Town or its agent to DTC or its nominee as registered owner of the Notes. Principal and interest payments by DTC to Participants of DTC will be the responsibility of DTC; principal and interest payments to Beneficial Owners by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The Town will not be responsible or liable for payments by DTC to its Participants or by DTC Participants or Indirect Participants to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Notes and the Town fails to identify another qualified securities depository to replace DTC, or (b) the Town determines to discontinue the book-entry system of evidence and transfer of ownership of the Notes, the Town will authenticate and deliver replacement Notes in the form of fully registered certificates. Any such replacement Notes, will provide that principal of and interest on the Notes will be payable to the registered owner upon presentation and surrender of the Notes at the principal office of the Paying Agent, or of its successors as paying agent for the Notes.

Proposals. Proposals may be made for all or any part of the Notes. No proposal for less than the minimum denomination or for less than par and accrued interest will be entertained. Each proposal must state one rate of interest in a multiple of one-hundredth (1/100) of one-percent (1%) per annum for each part of the Notes bid for in the proposal. For the purpose of the bidding process, the time as maintained on PARITY® shall constitute the official time. For information purposes only, bidders are requested to state in their bids the net interest rate to the Town, as described under "Basis of Award" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

Sealed Proposals Bidding Procedure. All sealed proposals for the purchase of the Notes shall be submitted on forms furnished by the Town and submitted at the time and place indicated above. All proposals must be enclosed in sealed envelopes marked on the outside, in substance, "Proposal for Watertown Notes." All proposals should be addressed to Mr. Frank J. Nardelli, Finance Director, Town of Watertown, Town Hall Annex, 424 Main Street, Watertown, Connecticut 06795.

Electronic Proposals Bidding Procedure. Electronic bids for the purchase of the Notes must be submitted through the facilities of PARITY®. Any prospective bidder must be a subscriber of I-Deal's Bidcomp competitive bidding system. Further information about PARITY®, including any fee charged, may be obtained from PARITY®, 1359 Broadway, 2nd Floor, New York, New York 10018, Attention: Customer Service Department (telephone: (212) 849-5021, email notice: parity@i-deal.com). The Town neither will confirm any subscription nor be responsible for any failure of a prospective bidder to subscribe.

Once an electronic bid made through the facilities of PARITY® is communicated to the Town, it shall constitute an irrevocable offer, in response to this Notice, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Town. By submitting a bid for the Notes via PARITY®, the bidder represents and warrants to the Town that such bidder's bid for the purchase of the Notes is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder by an irrevocable offer and that acceptance of such bid by the Town will bind the bidder by a legal, valid and enforceable contract, for the purchase of the Notes on the terms described in this Notice. **The Town shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY®, the use of such facilities being the sole risk of the prospective bidder.**

Disclaimer - Each PARITY® prospective electronic bidder shall be solely responsible to make necessary arrangements to access PARITY® for the purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the Town nor PARITY® shall have any duty or obligation to undertake such arrangements to bid for any prospective bidder or to provide or assure such access to any prospective bidder, and neither the Town nor PARITY® shall be responsible for a bidder's failure to make a bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, PARITY®. The Town is using PARITY® as a communication mechanism, and not as the Town's agent, to conduct the electronic bidding for the Notes. The Town is not bound by any advice and determination of PARITY® to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the bid requirements herein set forth. All costs and expenses incurred by prospective bidders in connection with their subscription to, arrangements with and submission of bids via PARITY® are the sole responsibility of the bidders; and the Town is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder encounters any difficulty in arranging to bid or submitting, modifying or withdrawing a bid for the Notes, the prospective bidder should telephone PARITY® at (212) 849-5021. If any provision of this Notice of Sale shall conflict with information provided by PARITY®, this Notice of Sale shall control.

All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and the form of Proposal for Notes.

Basis of Award. As between proposals which comply with this Notice, the Notes will be sold to the responsible bidder or bidders offering to purchase the Notes at the lowest net interest rate, which will be determined for each interest rate stated in the proposal based on the total interest to be payable at such rate and deducting therefrom any premium. If there is more than one responsible bidder making said offer at the same lowest net interest rate, the Notes will be sold to the responsible bidder with a proposal for the highest principal amount of Notes specified or, if the same principal amount of Notes is specified in such proposals, to the responsible bidder whose proposal is selected by the the Town by lot from among all such proposals. If a bidder is awarded only a part of the Notes, any premium offered in such proposal will be proportionately reduced so that the resulting net interest rate with respect to the Notes awarded is the same as that contained in the bidder's proposal with respect to the entire amount bid at such rate, carried to four places.

The Town reserves the right to award to any bidder all or any part of the Notes bid for in its proposal. The right is reserved to reject any and all proposals and to reject any proposal not complying with this Notice of Sale and to waive any irregularity or informality with respect to any proposal.

The Town further reserves the right to postpone the sale to another time and date in its sole discretion for any reason, including internet difficulties. The Town will use its best efforts to notify prospective bidders in a timely manner of any need for a postponement. If the sale is postponed, an alternative bid date will be published on Bloomberg at least 48 hours prior to such alternative bid date. Upon the establishment of an alternative bid date, any bidder may submit proposals for the purchase of the Bonds in accordance with the provisions of this Notice of Sale.

Certifying and Paying Agent. The Notes will be authenticated by U.S. Bank National Association, Hartford, Connecticut. U.S. Bank National Association will act as Registrar and Paying Agent.

Delivery. At or prior to the delivery of the Notes the successful bidder shall be furnished, without cost, with (a) the approving opinion of Day Pitney LLP of Hartford, Connecticut, Bond Counsel, substantially in the form set out in Appendix B to the Official Statement; (b) a signature and no litigation certificate, in form satisfactory to said firm, dated as of the date of delivery of the Notes and receipt of payment therefor, and stating that there is no litigation pending, or to the knowledge of the signer or signers thereof threatened, affecting the validity of the Notes or the power of the Town to levy and collect taxes to pay them; (c) a signed copy of the Official Statement prepared for this Note issue; (d) a certificate of Town Officials relating to the accuracy and completeness of the Official Statement; (e) a Continuing Disclosure Agreement; and (f) a receipt of payment for the Notes. U.S. Bank National Association will keep the original opinion and certificates and copies of the supporting documents, which may be examined at its principal office in Hartford, Connecticut, upon reasonable notice.

Bond Counsel Opinion. The opinion of Bond Counsel will cover the following matters: (1) that the Notes will be valid general obligations of the Town when duly certified; (2) that, assuming the accuracy of and compliance by the Town with its representations and covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, under existing statutes, interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; the Notes are not "private activity bonds" and interest on 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; and (3) that, under existing statutes, interest on the Notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on 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. The Notes will *not* be "qualified tax-exempt obligations" for purposes of the deduction by financial institutions of interest expenses that is allocable to tax-exempt obligations.

Official Statement. The Town of Watertown has prepared a preliminary Official Statement for the Note issue which is dated March 9, 2015. The Town deems such preliminary Official Statement final as of its date for purposes of SEC Rule 15c2-12(b)(1) but it is subject to revision or amendment. The Town will make available to each winning purchaser 5 copies of the Official Statement as prepared by the Town at the Town's expense. The copies of the Official Statement will be made available to the winning purchaser(s) at the office of the Town's financial advisor, Phoenix Advisors, LLC, Milford, CT, by the delivery of the Notes or by the seventh business day after the day bids on the Notes are received if earlier. The purchaser shall arrange with the financial advisor the method of delivery of the copies of the Official Statement to the purchaser. Additional copies of the Official Statement may be obtained by the purchaser at its own expense by arrangement with the printer.

Continuing Disclosure Agreement. The Town will enter into a Continuing Disclosure Agreement with respect to the Notes, substantially in the form attached as Appendix C-2 to the Official Statement (the "Continuing Disclosure Agreement for Notes"), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2-12, timely notice of the occurrence of certain material events with respect to the Notes. The winning bidder's obligation to purchase the Notes shall be conditioned upon its receiving, at or prior to the delivery of the Notes, an executed copy of the Continuing Disclosure Agreement for Notes.

CUSIP Numbers. The deposit of the Notes with DTC under a book-entry system requires the assignment of CUSIP numbers prior to delivery. It shall be the responsibility of the purchaser to apply for CUSIP numbers for the Notes prior to delivery. Neither the failure to print such CUSIP number on any note, nor any error with respect thereto, shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Notes. All

expenses in relation to the printing of CUSIP numbers on the Notes shall be paid for by the Town; provided, however, that the Town assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers, which charges shall be the responsibility of and shall be paid for by the purchaser.

Reoffering Prices. IT SHALL BE THE RESPONSIBILITY OF THE PURCHASER TO FURNISH TO THE TOWN IN WRITING BEFORE THE DELIVERY OF THE NOTES THE REOFFERING PRICES AT WHICH A SUBSTANTIAL PORTION OF THE NOTES WERE SOLD. The successful bidder may specify that the Bonds as “not reoffered” if the successful bidder certifies that it purchased the specified Bonds for its own account (or the account of a related party) without any present intention of reoffering such Bonds to any other investor.

Delivery Date and Payment. The Notes will be delivered against payment in immediately available Federal funds through the facilities of The Depository Trust Company, New York, New York on March 26, 2015.

More Information. For more information regarding this issue and the Town reference is made to Official Statement. Proposal forms and copies of the Official Statement may be obtained from Mr. Barry Bernabe, Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, CT 06460 (telephone: (203) 283-1110) or from Mr. Frank J. Nardelli, Finance Director, Town of Watertown, Town Hall Annex, 424 Main Street, Watertown, Connecticut 06795 (telephone: (860) 945-5258).

ROBERT M. SCANNELL,
Town Manager

FRANK J. NARDELLI, JR.,
Finance Director

March 9, 2015

PROPOSAL FOR NOTES

March 17, 2015

Mr. Frank J. Nardelli
Finance Director
Town of Watertown
Town of Watertown
424 Main Street
Town Manager's Conference Room
Watertown, Connecticut 06795

Subject to the provisions and in accordance with the terms of the annexed Notice of Sale dated March 9, 2015 which is hereby made a part of this proposal, we hereby offer to purchase the principal amount of the Notes specified below at the interest rate per annum plus the premium, if any, specified below, and to pay therefor said principal amount, premium, if any, and interest accrued on said Notes to the date of their delivery, if any. The following is our computation of the net interest rate, made as provided in the above-mentioned Notice of Sale, but not constituting any part of the foregoing proposal.

Of the \$6,700,000 Bond Anticipation Notes of the Town of Watertown, dated March 26, 2015, maturing March 24, 2016, we bid the following:

| | | | | | |
|-------------------|----|----------------------------|-------------------|----|----------------------------|
| Principal Amount | \$ | _____ | Principal Amount | \$ | _____ |
| Interest Rate | | _____ % | Interest Rate | | _____ % |
| Premium | \$ | _____ | Premium | \$ | _____ |
| Net Interest Rate | | _____ % (four decimals) | Net Interest Rate | | _____ % (four decimals) |
| Principal Amount | \$ | _____ | Principal Amount | \$ | _____ |
| Interest Rate | | _____ % | Interest Rate | | _____ % |
| Premium | \$ | _____ | Premium | \$ | _____ |
| Net Interest Rate | | _____ % (four decimals) | Net Interest Rate | | _____ % (four decimals) |

Name of Bidder: _____

Address of Bidder: _____

Signature of Officer or
Authorized Agent of Bidder: _____

Telephone Number: _____

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