

City of Torrington, Connecticut

Financial Statements and
Supplementary Information

Year Ended June 30, 2017

City of Torrington, Connecticut

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Independent Auditors' Report

The City Council
City of Torrington, 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 City of Torrington, Connecticut ("City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City'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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 City as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, budgetary comparison information and pension and other post-employment benefit schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

Emphasis of Matter

As discussed in Note 2.D to the financial statements, the City adopted GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits ("OPEB") Other than Pensions*. This statement establishes improved standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. It identifies the methods and assumptions that are required to be used to project benefit payments, discounts projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements were also changed. The implementation of this statement increased the OPEB liability by \$78,006,156 and decreased Net Position in the governmental activities by the same amount. This is treated as a restatement of the beginning balances, as required. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2018 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

February 20, 2018

City of Torrington, Connecticut

Management's Discussion and Analysis
June 30, 2017

Our discussion and analysis of the City of Torrington's (the "City's") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the City's financial statements, which begin with Exhibit 1.

FINANCIAL HIGHLIGHTS

- The City's total government net position decreased by \$1.5 million during fiscal year 2016/2017. Net position of governmental activities decreased \$1.9 million. Net position of business type activities increased \$461 thousand.
- Total revenues of \$151 million from charges for services, operating and capital grants, and other general revenues along with total expenses and transfers totaling \$153 million resulted in a \$1.9 million decrease in the net position of governmental activities. The decrease is the net result of recognizing changes in capital and other long term assets, deferred inflows, outflows and long term liabilities that are not available resources or due and payable in the current year. Those changes include a \$6.3 million current year expense for the increase in OPEB and pension liabilities. Also impacting governmental net position was a \$1.8 million decrease in net position of the internal service funds due to increased health claim costs.
- The City's business type activities had a \$461 thousand increase in net position resulting from total revenues of \$4.5 million and \$4 million in total expenses and transfers.
- General Fund revenues of \$127 million and \$125 million in expenses resulted in a budgetary surplus of \$2 million.
- The General Fund reported a total fund balance of \$21.5 million for fiscal year 2016/2017. Restricted fund balance of \$7.7 million represents funds restricted for payment of debt relating to \$7.5 million crossover refunding due to be retired on 12/1/18. Committed fund balance of \$344 thousand reflects funds reserved for revaluation. Assigned fund balance of \$1.2 million is the total of outstanding encumbrance obligations at year end. Unassigned fund balance of \$12 million represents an increase of \$2.4 million over the prior year. In addition, \$1.6 million of the unassigned fund balance was assigned to the 2017/2018 budget.
- The City refunded \$13 million in existing bonds in 2016/2017 resulting in a \$1.1 million reduction in debt service payments.

USING THIS ANNUAL REPORT

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

Reporting the Government as a Whole

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

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

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

- **Governmental activities**—The City's basic services are reported here, including the education, public works, and general administration. Property taxes, state and federal grants and local revenues such as fees and licenses finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of the City's Water Pollution Control Authority's operations which are reported here.

Reporting the Government's Most Significant Funds

The fund financial statements begin with Exhibit 3 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds—*governmental* and *proprietary*—use different accounting approaches.

- **Governmental funds**—The City'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 City'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 City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.
- **Proprietary funds**—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—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 City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

City of Torrington, Connecticut
Management's Discussion and Analysis
June 30, 2017

The Government as Trustee

The City is the trustee, or *fiduciary*, for its employee pension plans, the school activity funds and other assets that can be used only for trust beneficiaries. These funds do not belong to the City. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Position in Exhibits 8 and 9. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE GOVERNMENT AS A WHOLE

The City's *combined* net position decreased by \$1.9 million from a year ago—*decreasing* from a deficit of \$49.7 million to a deficit of \$51.6 million. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City.

Table 1
Net Position (Figures taken from Exhibit 1)

	Governmental Activities		Business-Type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
ASSETS						
Cash and equivalents	\$ 31,956,387	\$ 26,996,466	\$ 4,612,979	\$ 3,926,962	\$ 36,569,366	\$ 30,923,428
Investments	8,383,975	8,289,377	-	-	8,383,975	8,289,377
Restricted investments	7,738,045	-	-	-	7,738,045	-
Receivables	7,124,489	8,134,830	28,386	44	7,152,875	8,134,874
Inventories and prepaid expenses	440,449	370,837	-	-	440,449	370,837
Capital assets						
Nondepreciable	13,931,440	25,002,830	-	-	13,931,440	25,002,830
Depreciable	92,250,592	81,174,589	6,459,208	6,725,570	98,709,800	87,900,159
	161,825,377	149,968,929	11,100,573	10,652,576	172,925,950	160,621,505
DEFERRED OUTFLOWS OF RESOURCES						
Related to refunding bonds	329,025	179,957	-	-	329,025	179,957
Related to pensions and OPEB	6,923,540	7,403,306	-	-	6,923,540	7,403,306
	7,252,565	7,583,263	-	-	7,252,565	7,583,263
LIABILITIES						
Payables, accruals and other liabilities	13,334,033	11,074,898	84,883	56,800	13,418,916	11,131,698
Pension liability	47,617,918	46,281,290	-	-	47,617,918	46,281,290
Other post-employment benefit liability	121,867,550	116,826,856	-	-	121,867,550	116,826,856
Non-current liabilities						
Due within one year	4,343,182	4,169,469	66,892	63,558	4,410,074	4,233,027
Due in more than one year	32,480,004	27,606,119	976,422	1,020,650	33,456,426	28,626,769
Total liabilities	219,642,687	205,958,632	1,128,197	1,141,008	220,770,884	207,099,640
DEFERRED INFLOWS OF RESOURCES						
Related to pensions and OPEB	1,107,772	1,350,282	-	-	1,107,772	1,350,282
NET POSITION						
Net investment in capital assets	82,449,665	84,186,257	5,673,304	5,888,374	88,122,969	90,074,631
Restricted	7,541,293	6,758,232	-	-	7,541,293	6,758,232
Unrestricted	(141,663,475)	(140,701,211)	4,299,072	3,623,194	(137,364,403)	(137,078,017)
	\$ (51,672,517)	\$ (49,756,722)	\$ 9,972,376	\$ 9,511,568	\$ (41,700,141)	\$ (40,245,154)

City of Torrington, Connecticut
Management's Discussion and Analysis
June 30, 2017

The most significant figure for discussion in the Statement of Net Position this year is the Other Post-Employment Benefit (OPEB) Liability. OPEB is the liability for health and life insurance costs the City pays for employees after they retire. Generally accepted accounting standards first recorded this on the Statement of Net Position approximately 10 years ago with the issuance of GASB 45. At that time the liability was going to be phased in over 30 years. With this phase in, last year we had recorded \$38,820,700 of the total \$102,954,000 liability. The rules changed again this year with GASB 75. The methods of calculating the liability changed and phasing in the liability was discontinued. This caused the 2016 liability to be restated. Instead of \$38,820,700 being recorded on the Statement of Net Position, the 2016 liability was restated to \$116,826,856. This increased the liability by \$78,006,156 and decreased Net Position by the same amount.

Other significant changes will be discussed further in the capital asset and long-term debt discussions later in management's discussion and analysis.

Table 2
Change in Net Position (Figures taken from Exhibit 2)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 4,641,872	\$ 3,980,025	\$ 4,531,237	\$ 4,301,525	\$ 9,173,109	\$ 8,281,550
Operating grants and contributions	49,829,975	46,683,995	-	-	49,829,975	46,683,995
Capital grants and contributions	3,341,918	182,648	-	-	3,341,918	182,648
General revenues:						
Property taxes	88,833,716	90,001,887	-	-	88,833,716	90,001,887
Grants and contributions	3,628,114	1,258,301	-	-	3,628,114	1,258,301
Interest and investment earnings	101,614	107,701	532	897	102,146	108,598
Other general revenues	316,871	-	-	-	316,871	-
Total revenues	150,694,080	142,214,557	4,531,769	4,302,422	155,225,849	146,516,979
Program expenses						
General government	16,132,662	15,042,167	-	-	16,132,662	15,042,167
Public safety	26,216,768	25,442,078	-	-	26,216,768	25,442,078
Public works	12,003,835	10,875,221	-	-	12,003,835	10,875,221
Public health and social services	4,548,538	4,743,515	-	-	4,548,538	4,743,515
Recreation	642,213	817,333	-	-	642,213	817,333
Education	92,386,440	89,000,670	-	-	92,386,440	89,000,670
Interest on long-term debt	1,296,773	1,158,417	-	-	1,296,773	1,158,417
Sewer	-	-	3,453,607	3,480,787	3,453,607	3,480,787
Total expenses	153,227,229	147,079,401	3,453,607	3,480,787	156,680,836	150,560,188
Excess (deficiency) before transfers	(2,533,149)	(4,864,844)	1,078,162	821,635	(1,454,987)	(4,043,209)
Transfers	617,354	588,805	(617,354)	(588,805)	-	-
Increase (decrease) in net position	(1,915,795)	(4,276,039)	460,808	232,830	(1,454,987)	(4,043,209)
Beginning net position, as restated	(49,756,722)	(45,480,683)	9,511,568	9,278,738	(40,245,154)	(36,201,945)
Ending net position	\$ (51,672,517)	\$ (49,756,722)	\$ 9,972,376	\$ 9,511,568	\$ (41,700,141)	\$ (40,245,154)

Governmental Activities

The City's total revenue increased by \$8.5 million (5.96%). Most of this, \$5.2 million was due to the increase in the State's contribution to the pension plan on behalf of the City's teachers. This is recorded in operating grants and contributions. The State pays 100% of the cost of the teachers' pension on behalf of all the Cities and Towns in accordance with State Statutes.

Additionally, general grants and contributions increased due to a new grant, the \$2.4 million municipal revenue sharing grant. This grant was to be an annual grant, but with the State budget issues, this was not continued for the 2017/2018 fiscal year.

Finally, there were increases in the charges for services, primarily building permits and outside duty for police services.

Expenses increased by \$6.1 million. Most of this, \$5.2 million was due to the increase in the State's contribution to the pension plan discussed above. The expense is expected to continue to increase each year going forward. This expense is included in Education expenses. Other significant increases in expenses were in health benefit costs. These increased \$2.2 million during the year. These increases were offset by tight controls on all discretionary costs.

Business-type Activities

The only business-type activity in Torrington is the Water Pollution Control Authority. Table 1 and 2 also present the business-type activities in the center rows. The total revenues increased \$229,347 from last year. Sewer user fees increased from \$212 to \$224 for fiscal year 2016/2017. The residential rate was \$224/unit and the commercial rate was \$224.00 per 65,000 gallons of volume of flow.

Because the expenses stayed flat, the net income before transfers increased from \$821 thousand last year to \$1 million this year. This allowed us to transfer \$617 thousand into the Sanitary Sewer Capital Improvement Fund. Last year \$589 thousand was transferred.

THE GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, uncommitted fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. Fiscal year 2017 ended with the City's governmental funds reporting a combined ending fund balance of \$35.9 million which was a \$12.4 million increase over the previous year. The unassigned portion of the combined ending fund balance was \$9.2 million. The unassigned balance is available for spending at the government's discretion. The remaining \$26.7 million fund balance is classified as either nonspendable, restricted, committed or assigned (see page 31 of financial statements for clarification) to indicate that it is not available for new spending because it has already been committed to liquidate contracts, purchase orders or other obligations. The increase to fund balance included an \$11.1 million increase in the General Fund and a \$1.3 million increase to other governmental funds. While the year showed a decrease in net position, it showed an increase in fund balance in the governmental funds as presented in Exhibits 3 and 4. The difference for this is primarily the treatment of long-term debt and capital assets.

In addition, these other changes in fund balances should be noted:

- WPCA Infrastructure Upgrade – additional \$1.3 million in bond anticipation notes payable and \$1.6 million expended

- \$7.8 million General fund balance is restricted for payment of crossover refunding bonds
- Increase of \$2.8 million Committed fund balance for capital projects

General Fund Budgetary Highlights

Over the course of the year, the City Council along with the Board of Finance can revise the Government budget with additional appropriations and budget transfers. Additional appropriates increase the total budget. Transfers do not increase the total budget, but instead pull appropriations from one department that needs additional funding from other departments that might have excess funding. Below is a summarized view of the final budget and actual results for the General Fund:

Table 3
General Fund - Budget Summary

	Final		
Revenues	Budget	Actual	Variance
General Government	\$ 95,096,236	\$ 95,264,788	\$ 168,552
Building Department	444,500	621,615	177,115
City Clerk Department	893,500	873,489	(20,011)
Public Safety Department	1,460,599	1,732,393	271,794
Public Works Department	149,300	78,247	(71,053)
Recreation	15,000	10,875	(4,125)
City Real Estate	19,000	14,417	(4,583)
Board of Education	29,891,938	28,224,083	(1,667,855)
Total Revenues	127,970,073	126,819,907	(1,150,166)
Expenditures			
General Government	5,372,739	5,048,381	324,358
Public Safety	18,329,630	17,536,310	793,320
Public Works	9,168,682	8,975,109	193,573
Health	2,887,969	2,835,655	52,314
Recreation	397,991	377,442	20,549
Financial	17,191,071	16,967,975	223,096
Board of Education	74,335,700	72,765,694	1,570,006
Contingency	286,291	140,000	146,291
Total Expenditures	127,970,073	124,646,566	3,323,507
Increase (Decrease)			
in Fund Balance	\$ -	\$ 2,173,341	\$ 2,173,341

The General Fund activity for fiscal year resulted in a \$2.2 million increase in fund balance.

- There was no fund balance appropriation included in the 2016/2017 budget.
- Expenditure total included \$3.2 million transferred to other funds for capital projects and purchases.

Significant variances are summarized as follows:

- Public Safety revenue variance of \$182 thousand relates to Outside Duty charges
- General Government revenue variance of \$262 thousand for motor vehicle supplemental collections
- Building Department revenue variance of \$126 thousand for new buildings and alterations
- Public Safety expenditure variance of \$793 thousand included unexpended funds budgeted for anticipated hiring of police officers and other various line items.
- Financial expenditures variance of \$223 thousand due to net lawful corrections refunded to the tax collector and changes to debt service resulting from refunding.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of this year, the City had \$112.6 million invested in its capital assets (net of depreciation). This amount represents a minor change of \$262 thousand from last year. This is the net effect of public safety and public works equipment acquisitions as well as depreciation. More detailed information about the Government's capital assets is presented in Note 7 to the financial statements.

Debt

At year end, the City had \$26.6 million in general obligation bonds and \$3.3 million in bond anticipation notes outstanding. This is a net increase of \$6 million over last year. A portion of the increase relates to the crossover refunding of City Hall Renovation taxable Build America Bonds. With the crossover refunding, \$7.5 million was placed in an escrow account to pay a portion of the original debt service and retire the original debt on the crossover date of 12/1/18. Although the funds for payment of the original debt are held in escrow, both the original and new debt must be reflected in the current financial statements until the original debt is retired. There was also an increase of \$1.3 million in bond anticipation notes to fund the WPCA Infrastructure Upgrade. The City also has a Clean Water Fund Loan balance of \$786 thousand. The City was issued an "AA-/Stable" - general obligation bond rating and an SP-1+ short term rating from Standard and Poor's on August 26, 2016. More detailed information about the Government's long-term liabilities is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected and appointed officials considered many factors when setting the fiscal-year 2018 budget and tax rates including the local economy.

The June 2017 unemployment rate (not seasonally adjusted) for the City of Torrington was 5.6% which was higher than the state rate of 5% (Source: CT DOL 2017)

Population growth: Torrington .7%, State of CT .1% (Source CERC Town Profile 2017)

There was no job growth in our area. (Source State of CT DOL)

All of these factors were considered in preparing the City's budget for the 2017/2018 fiscal year.

City of Torrington, Connecticut
Management's Discussion and Analysis
June 30, 2017

The State imposed a motor vehicle tax cap of 37 mills for fiscal year 2016/2017 which reduced tax collections from motor vehicles by an estimated \$2 million. The State did reimburse the City for the estimated revenue loss in fiscal year 2016/2017. In fiscal year 2017/2018 the State imposed motor vehicle tax cap was increased to 39 mills. The reduced motor vehicle tax collections as a result of the cap are estimated to be \$1.5 million. The State has not to date made the City whole for fiscal year 2018 and the shift of this tax burden to homeowners and businesses continues to be cause for concern in planning future budgets.

The mill rate remained level @ 45.75.

There was a \$1.6 million designation of fund balance applied to the 2017/2018 budget.

Total budget for fiscal year 2017/2018 is \$125,666,923.

CONTACTING THE GOVERNMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Government's finances and to show the Government's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Comptroller at City of Torrington, Finance Department, 140 Main Street, Torrington, CT 06790.

City of Torrington, Connecticut

Basic Financial Statements
June 30, 2017

Statement of Net Position
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and equivalents	\$ 31,956,387	\$ 4,612,979	\$ 36,569,366
Investments	8,383,975	-	8,383,975
Receivables			
Accounts	907,173	28,386	935,559
Loans	3,211,259	-	3,211,259
Intergovernmental	3,006,057	-	3,006,057
Prepaid expenses	423,917	-	423,917
Inventory	16,532	-	16,532
Restricted investments	7,738,045	-	7,738,045
Capital assets			
Nondepreciable	13,931,440	-	13,931,440
Depreciable, net of accumulated depreciation	92,250,592	6,459,208	98,709,800
Total Assets	<u>161,825,377</u>	<u>11,100,573</u>	<u>172,925,950</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred charge on refunding bonds	329,025	-	329,025
Difference between expected and actual pension experience	2,708,486	-	2,708,486
Change in assumptions	2,453,683	-	2,453,683
Net difference between projected and actual pension earnings	1,761,371	-	1,761,371
Total Deferred Outflows of Resources	<u>7,252,565</u>	<u>-</u>	<u>7,252,565</u>
LIABILITIES			
Accounts payable	4,134,767	84,883	4,219,650
Accrued payroll and related	4,685,966	-	4,685,966
Accrued interest payable	120,118	-	120,118
Bond anticipation notes	3,295,000	-	3,295,000
Unearned revenues	1,098,182	-	1,098,182
Pension liability	47,617,918	-	47,617,918
OPEB liability	121,867,550	-	121,867,550
Non-current liabilities			
Due within one year	4,343,182	66,892	4,410,074
Due in more than one year	32,480,004	976,422	33,456,426
Total Liabilities	<u>219,642,687</u>	<u>1,128,197</u>	<u>220,770,884</u>
DEFERRED INFLOW OF RESOURCES			
Difference between expected and actual pension experience	<u>1,107,772</u>	<u>-</u>	<u>1,107,772</u>
NET POSITION			
Net investment in capital assets	82,449,665	5,673,304	88,122,969
Restricted net position			
Expendable	7,537,793	-	7,537,793
Nonexpendable	3,500	-	3,500
Unrestricted net position	<u>(141,663,475)</u>	<u>4,299,072</u>	<u>(137,364,403)</u>
Total Net Position	<u>\$ (51,672,517)</u>	<u>\$ 9,972,376</u>	<u>\$ (41,700,141)</u>

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

Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
Governmental activities							
General government	\$ (16,132,662)	\$ 1,497,112	\$ 694,936	\$ -	\$ (13,940,614)		\$ (13,940,614)
Public safety	(26,216,768)	1,379,568	565,592	16,560	(24,255,048)		(24,255,048)
Public works	(12,003,835)	303,492	1,433,318	3,058,080	(7,208,945)		(7,208,945)
Public health and social services	(4,548,538)	510,548	1,447,820	-	(2,590,170)		(2,590,170)
Recreation	(642,213)	219,818	25,167	-	(397,228)		(397,228)
Board of Education	(92,386,440)	731,334	45,573,788	267,278	(45,814,040)		(45,814,040)
Debt interest and costs	(1,296,773)	-	89,354	-	(1,207,419)		(1,207,419)
Total Governmental Activities	<u>(153,227,229)</u>	<u>4,641,872</u>	<u>49,829,975</u>	<u>3,341,918</u>	<u>(95,413,464)</u>		<u>(95,413,464)</u>
Business-type activities							
Sewer	<u>(3,453,607)</u>	<u>4,531,237</u>	<u>-</u>	<u>-</u>		<u>1,077,630</u>	<u>1,077,630</u>
Total Government	<u>\$ (156,680,836)</u>	<u>\$ 9,173,109</u>	<u>\$ 49,829,975</u>	<u>\$ 3,341,918</u>		<u>1,077,630</u>	<u>(94,335,834)</u>
General Revenues							
Property taxes, payments in lieu of taxes, interest and					88,833,716	-	88,833,716
Grants and contributions not restricted to specific program					3,628,114	-	3,628,114
Unrestricted interest and investment earnings					101,614	532	102,146
Other revenues					<u>316,871</u>	<u>-</u>	<u>316,871</u>
Total General Revenues					<u>92,880,315</u>	<u>532</u>	<u>92,880,847</u>
Change in Net Position before transfers					(2,533,149)	1,078,162	(1,454,987)
Transfers in (transfers out)					<u>617,354</u>	<u>(617,354)</u>	<u>-</u>
Change in Net Position after transfers					(1,915,795)	460,808	(1,454,987)
Net Position - Beginning of Year, as restated					<u>(49,756,722)</u>	<u>9,511,568</u>	<u>(40,245,154)</u>
Net Position - End of Year					<u>\$ (51,672,517)</u>	<u>\$ 9,972,376</u>	<u>\$ (41,700,141)</u>

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

Balance Sheet
Governmental Funds
June 30, 2017

	General	WPCA Infrastructure Upgrade	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equivalents	\$ 11,217,022	\$ 791,299	\$ 14,451,657	\$ 26,459,978
Investments	8,383,975	-	-	8,383,975
Receivables				
Accounts	566,588	-	288,222	854,810
Loans	-	-	3,211,259	3,211,259
Intergovernmental	2,264,317	-	741,740	3,006,057
Advances to other funds	-	-	536,000	536,000
Due from other funds	601,478	-	-	601,478
Inventory	-	-	16,532	16,532
Restricted investments	7,738,045	-	-	7,738,045
Total Assets	<u>\$ 30,771,425</u>	<u>\$ 791,299</u>	<u>\$ 19,245,410</u>	<u>\$ 50,808,134</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,757,134	\$ 246,882	\$ 583,708	\$ 2,587,724
Accrued payroll and related	4,685,966	-	-	4,685,966
Due to other funds	-	-	313,578	313,578
Advances from other funds	536,000	-	-	536,000
Bond anticipation notes payable	-	3,295,000	-	3,295,000
Unearned revenues	-	-	1,098,182	1,098,182
Total Liabilities	<u>6,979,100</u>	<u>3,541,882</u>	<u>1,995,468</u>	<u>12,516,450</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				
Intergovernmental	2,286,379	-	-	2,286,379
Other	-	-	70,751	70,751
Total Deferred Inflows of Resources	<u>2,286,379</u>	<u>-</u>	<u>70,751</u>	<u>2,357,130</u>
Fund Balances				
Nonspendable	-	-	20,032	20,032
Restricted	7,738,045	-	7,521,261	15,259,306
Committed	343,792	-	9,934,637	10,278,429
Assigned	1,170,764	-	-	1,170,764
Unassigned	12,253,345	(2,750,583)	(296,739)	9,206,023
Total Fund Balances	<u>21,505,946</u>	<u>(2,750,583)</u>	<u>17,179,191</u>	<u>35,934,554</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 30,771,425</u>	<u>\$ 791,299</u>	<u>\$ 19,245,410</u>	<u>\$ 50,808,134</u>

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

Reconciliation of Governmental Funds Balance Sheet
to the Government Wide Statement of Net Position - Governmental Activities
June 30, 2017

Amounts reported for the governmental activities in the Statement of Net Position (Exhibit 1)
are different from the Governmental Fund Balance Sheet. The differences are due to:

Total Fund Balances (Exhibit 3)	\$ 35,934,554
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	106,182,032
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Other long-term assets and deferred outflows are not available resources and, therefore, are not reported in the funds:	
Receivables not considered available because they were not collected in 60 days	2,357,130
Deferred outflows for difference between expected and actual experience	2,708,486
Deferred outflows for changes in assumptions	2,453,683
Deferred outflows for net difference between projected and actual earnings	1,761,371

Internal service funds are used by management to charge the cost of medical insurance to individual funds and departments:	
The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	4,137,746

Long-term liabilities and deferred inflows are not due and payable in the current period and, therefore, are not reported in the funds.	
General obligation bonds payable	(26,570,000)
Premiums on bonds	(1,269,738)
Accrued interest payable	(120,118)
Capital leases	(426,654)
Pension liability payable	(47,617,918)
Other post-employment benefits obligations payable	(121,867,550)
Special termination benefits	(4,383,476)
Compensated absences	(3,897,318)
Post closure landfill costs	(276,000)
Deferred outflow on advance refunding	329,025
Deferred inflows for difference between expected and actual experience	<u>(1,107,772)</u>

Net Position of Governmental Activities	<u>\$ (51,672,517)</u>
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The notes to financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2017

	General	WPCA Infrastructure Upgrade	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 87,997,590	\$ -	\$ -	\$ 87,997,590
Sewer line fees	-	-	248,715	248,715
Intergovernmental	43,002,447	-	12,305,340	55,307,787
Charges for services	5,077,445	-	-	5,077,445
Investment income	97,437	-	2,329	99,766
Program income	-	-	1,681,534	1,681,534
Other revenues	948,970	-	459,988	1,408,958
Total Revenues	<u>137,123,889</u>	<u>-</u>	<u>14,697,906</u>	<u>151,821,795</u>
EXPENDITURES				
Current Expenditures				
General government	4,653,732	-	626,164	5,279,896
Public safety	16,910,905	-	174,654	17,085,559
Public works	7,203,335	-	3,075,447	10,278,782
Public health and social services	2,821,095	-	1,687,262	4,508,357
Pension and miscellaneous	13,553,976	-	-	13,553,976
Recreation	375,549	-	260,259	635,808
Education	81,823,240	-	6,528,389	88,351,629
Other	29,656	-	-	29,656
Debt Service				
Principal	2,530,000	-	-	2,530,000
Interest	1,117,200	70,857	-	1,188,057
Bond issuance costs	149,280	-	89,924	239,204
Capital Outlay	1,136,779	1,606,017	3,327,390	6,070,186
Total Expenditures	<u>132,304,747</u>	<u>1,676,874</u>	<u>15,769,489</u>	<u>149,751,110</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,819,142</u>	<u>(1,676,874)</u>	<u>(1,071,583)</u>	<u>2,070,685</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,400,000	24,366	3,802,018	5,226,384
Transfers out	(3,212,471)	-	(152,656)	(3,365,127)
Proceeds from capital lease	-	-	311,381	311,381
Issuance of refunding bonds	12,840,000	-	-	12,840,000
Premium on financing	1,054,392	39,112	-	1,093,504
Payment to refunded bond escrow agent	(5,773,866)	-	-	(5,773,866)
Total Other Financing Sources (Uses)	<u>6,308,055</u>	<u>63,478</u>	<u>3,960,743</u>	<u>10,332,276</u>
Net Change in Fund Balance	11,127,197	(1,613,396)	2,889,160	12,402,961
Fund Balances - Beginning of Year	10,378,749	(1,137,187)	14,290,031	23,531,593
Fund Balances - End of Year	<u>\$ 21,505,946</u>	<u>\$ (2,750,583)</u>	<u>\$ 17,179,191</u>	<u>\$ 35,934,554</u>

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

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

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

Net Change in Fund Balances - Total Governmental Funds \$ 12,402,961

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

Capital outlay expenditures	5,579,701
Depreciation expense	(5,552,235)
Undepreciated basis of assets disposed of or sold	(22,853)
	4,613

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

School construction grants and other revenues in the General Fund	(838,728)
Revenues in the Sanitary Sewer Capital Improvement Program Fund	(1,537)
Revenues in the Other Capital Projects Fund	(289,340)
	(1,129,605)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Proceeds from long-term debt - refunding bonds	(12,840,000)
Proceeds from capital leases	(311,381)
Premium on issuance of long-term debt	(1,054,392)
Principal payments on long-term debt - bonds	2,530,000
Principal payments on long-term debt - leases	55,889
Payments to refunding bond escrow agent	5,773,866
	(5,846,018)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, including the change in

Accrued interest	91,376
Early retirement incentive	689,045
Compensated absences	176,201
Landfill closure and postclosure	40,000
Pension costs (net pension liability, deferred inflows and outflows of resources)	(1,573,884)
OPEB costs (net OPEB liability, deferred inflows and outflows of resources)	(5,040,694)
	(5,617,956)

Internal service funds are used by management to charge the costs of medical, risk management and other claims to individuals funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

Change in Net Position of Governmental Activities	\$ (1,915,795)
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Statement of Net Position
 Proprietary Funds
 June 30, 2017

	Business-type Activities WPCA Enterprise Fund	Governmental Activities Internal Service Funds
ASSETS		
Current Assets		
Cash and equivalents	\$ 4,612,979	\$ 5,496,409
Receivables		
Accounts	28,386	52,363
Prepaid expense	-	423,917
Total Current Assets	<u>4,641,365</u>	<u>5,972,689</u>
Capital assets		
Land improvements	686,400	-
Buildings and improvements	1,104,750	-
Machinery and equipment	11,848,971	-
Infrastructure	<u>7,579,715</u>	<u>-</u>
Total Capital Assets	21,219,836	-
Accumulated depreciation	<u>(14,760,628)</u>	<u>-</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>6,459,208</u>	<u>-</u>
Total Assets	<u>11,100,573</u>	<u>5,972,689</u>
LIABILITIES		
Current Liabilities		
Accounts payable	84,883	1,547,043
Due to other funds	-	287,900
Current maturities of notes payable	52,328	-
Compensated absences	<u>14,564</u>	<u>-</u>
Total Current Liabilities	<u>151,775</u>	<u>1,834,943</u>
Noncurrent Liabilities		
Notes payable, less current maturities	733,576	-
Compensated absences	<u>242,846</u>	<u>-</u>
Total Noncurrent Liabilities	<u>976,422</u>	<u>-</u>
Total Liabilities	<u>1,128,197</u>	<u>1,834,943</u>
NET POSITION		
Net investment in capital assets	5,673,304	-
Unrestricted	<u>4,299,072</u>	<u>4,137,746</u>
Total Net Position	<u>\$ 9,972,376</u>	<u>\$ 4,137,746</u>

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

Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Funds
 For the Year Ended June 30, 2017

	Business-type Activities WPCA Enterprise Fund	Governmental Activities Internal Service Funds
OPERATING REVENUES		
Charges for services	\$ 3,961,476	\$ 20,648,595
Other	569,761	481,671
Total Operating Revenues	<u>4,531,237</u>	<u>21,130,266</u>
OPERATING EXPENSES		
Payroll and employee benefits	1,535,723	783,882
Professional services	47,619	-
Repairs and maintenance	54,742	247,986
Materials and supplies	125,755	30,801
Utilities	356,869	324,824
Other operating expense	525,776	3,734
Insurance and program services	74,756	20,226,816
Administrative expense	357	-
Depreciation	691,369	-
Total Operating Expenses	<u>3,412,966</u>	<u>21,618,043</u>
Income from Operations	<u>1,118,271</u>	<u>(487,777)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	532	1,890
Interest expense	(40,641)	-
Total Non-Operating Revenues (Expenses)	<u>(40,109)</u>	<u>1,890</u>
Income Before Transfers	1,078,162	(485,887)
Transfers in	-	161,789
Transfers out	(617,354)	(1,405,692)
Net Transfers	<u>(617,354)</u>	<u>(1,243,903)</u>
Change in Net Position	460,808	(1,729,790)
Net Position - Beginning of Year	<u>9,511,568</u>	<u>5,867,536</u>
Net Position - End of Year	<u>\$ 9,972,376</u>	<u>\$ 4,137,746</u>

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

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities WPCA Enterprise Fund	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 4,502,895	\$ 21,126,835
Cash payments to employees	(1,525,324)	(783,882)
Cash payments to suppliers	(1,157,791)	(608,163)
Cash payments for benefits and claims	-	(20,105,015)
Net Cash from Operating Activities	<u>1,819,780</u>	<u>(370,225)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on debt	(51,293)	-
Acquisition and construction of capital assets	(425,007)	-
Interest paid on debt	(40,641)	-
Net Cash from Capital and Related Financing Activities	<u>(516,941)</u>	<u>-</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Advances from other funds	-	(502,235)
Transfers in (out)	(617,354)	(1,243,903)
Net Cash from Non-Capital Financing Activities	<u>(617,354)</u>	<u>(1,746,138)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>532</u>	<u>1,890</u>
Net Increase (Decrease) in Cash and Equivalents	686,017	(2,114,473)
Cash and Equivalents - Beginning of Year	<u>3,926,962</u>	<u>7,610,882</u>
Cash and Equivalents - End of Year	<u>\$ 4,612,979</u>	<u>\$ 5,496,409</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Income from operations	\$ 1,118,271	\$ (487,777)
Adjustments to reconcile income from operations to net cash from operating activities		
Depreciation	691,369	-
Changes in operating assets and liabilities		
Accounts receivable	(28,342)	(3,432)
Prepaid expenses	-	(85,334)
Accounts payable	28,083	206,318
Compensated absences	<u>10,399</u>	<u>-</u>
Net Cash from Operating Activities	<u>\$ 1,819,780</u>	<u>\$ (370,225)</u>

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

Statement of Fiduciary Net Position
 Fiduciary Funds
 June 30, 2017

	Pension/OPEB Trust Funds	Agency Funds
ASSETS		
Cash	\$ 239,709	\$ 888,605
Investments, at fair value		
Mutual funds - US equity index	64,298,624	-
Mutual funds - Bond index fund	30,783,799	-
US Government Agencies	228	-
Total Investments	95,082,651	-
Accrued interest and dividends	12,831	-
Total Assets	95,335,191	888,605
LIABILITIES		
Due to others	-	888,605
Claims payable	32,910	-
Total Liabilities	32,910	\$ 888,605
NET POSITION		
Restricted for pensions	95,250,864	
Restricted for OPEB	51,417	
Total	\$ 95,302,281	

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

Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 For the Year Ended June 30, 2017

	<u>Pension/OPEB Trust Funds</u>
ADDITIONS	
Contributions	
Employer	\$ 9,389,728
Plan members	<u>1,044,901</u>
Total Contributions	<u>10,434,629</u>
Investment Income	
Net change in fair value of investments	10,481,879
Interest and dividends	<u>2,691</u>
Total Investment Income	<u>10,484,570</u>
Total Additions	20,919,199
DEDUCTIONS	
Pension\OPEB benefits	12,714,252
Administrative fees	<u>90,937</u>
Total Deductions	<u>12,805,189</u>
Change in Net Position	<u>8,114,010</u>
Net Position - Beginning of Year	<u>87,188,271</u>
Net Position - End of Year	<u>\$ 95,302,281</u>

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

1. Summary of Significant Accounting Policies

The City of Torrington, Connecticut ("City") was incorporated as a City in 1740 and chartered as a City in 1923. The City covers an area of 40 square miles and is located in Litchfield County. The City is governed under the provision of its charter and the Connecticut General Statutes. The City operates under a Mayor and a City Council that consists of six members. The City provides the following services as authorized by its Charter: public safety (police and fire), public works (streets and highway), health and social services for the elderly, recreation, sewage disposal, wastewater treatment and education encompassing grades K-12.

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

A. Financial Reporting Entity

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

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

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position in Exhibit 1 and the Statement of Activities in Exhibit 2) report information on all non-fiduciary activities of the primary government as a whole. For the most part, the effect of interfund activity has been removed from these statements, except for interfund services provided and used. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities (if any), which rely to a significant extent on fees and charges for support.

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

1. Summary of Significant Accounting Policies (Continued)

C. Fund Financial Statements

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the enterprise funds and the internal service funds are charges to customers for services. Operating expenses for the enterprise funds and the internal service funds include the cost of services, administrative expenses, depreciation, and benefit costs. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

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

Fund Categories

- a) Governmental Funds - Governmental funds finance most functions of the general government. Governmental funds account for the acquisition, use and balances of expendable financial resources and the related liabilities. The following are the City's major governmental funds:

The **General Fund** constitutes the primary operating fund of the City and reports all financial resources not accounted for and reported in another fund.

WPCA Infrastructure Upgrade Fund reports financial resources that have been committed to expenditures for the upgrade of the Water Pollution Control Facility.

1. Summary of Significant Accounting Policies (Continued)

- b) Proprietary Funds - Proprietary funds include enterprise and internal service funds. Enterprise funds account for operations financed and operated in a manner similar to private enterprises where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability. Enterprise funds account for those operations that provide services to the public. The City reports the following major proprietary fund:

The **Water Pollution Control Authority ("WPCA") Enterprise Fund** accounts for activities that are funded by charging rates designed to cover the operations of the WPCA, including related capital assets.

Internal service funds account for the City's risk financing activities; specifically, the City reports the revenues and expenses for employee health insurance as well as maintenance provided to departments of the City and Board of Education ("BOE").

- c) Fiduciary Funds (Not Included in Government-Wide Financial Statements) - The City's fiduciary funds account for assets held by the City in an agency capacity on behalf of others. These include pension trust and agency funds. The pension trust funds account for the activities of the City's defined benefit pension and OPEB plans, which accumulate resources for pension payments to qualified employees upon retirement. Agency funds account for monies held as a custodian for outside groups and agencies.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds and pension trust funds. The agency fund has no measurement focus, but utilizes the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

1. Summary of Significant Accounting Policies (Continued)

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures, when applicable, related to early retirement incentives, compensated absences, capital leases, post-closure landfill costs, pollution remediation obligations, other post-employment benefit liabilities, certain pension liabilities and certain claims payable are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

a) Deposits, Investments and Risk Disclosure

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

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). The City's custodial credit risk policy is to allow the City to use banks that are in the State of Connecticut. The State of Connecticut requires that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk-based capital ratio. Deposits may be made in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit, in an out of state bank as defined by the Statutes.

The Short-Term Investment Fund ("STIF") is a money market investment pool managed by the Cash Management Division of the State Treasurer's Office created by Section 3-27 of the Connecticut General Statutes ("CGS"). Pursuant to CGS 3-27a through 3-27f, the State, municipal entities, and political subdivisions of the State are eligible to invest in the fund. The fund is considered a "2a7-like" pool and reports its investments at amortized cost (which approximates fair value). The pool is rated AAAM by Standard & Poor. This is the highest rating for money market funds and investment pools. The pooled investment funds' risk category cannot be determined since the City does not own identifiable securities but invests as a shareholder of the investment pool.

1. Summary of Significant Accounting Policies (Continued)

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

The City follows U.S. GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quote prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

Interest Rate Risk - Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The City minimizes interest rate risk by structuring the investment portfolio so that the securities mature to meet cash requirements for ongoing operations, avoiding the need to sell securities on the open market prior to maturity. Generally, the City does not invest in any long-term investment obligations.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for custodial credit risk is to invest in obligations allowable under the Connecticut General Statutes as described previously and pre-qualifying institutions with which the City may do business.

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The City's policy for credit risk is to invest in obligations allowable under the Connecticut General Statutes as described previously and pre-qualifying institutions with which the City may do business.

1. Summary of Significant Accounting Policies (Continued)

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

- b) Taxes Receivable** - Property taxes are assessed on property values as of October 1st. The tax levy is divided into two billings; the following July 1st and January 1st. This is used to finance the fiscal year from the first billing (July 1st) to June 30th of the following year. The billings are considered due on those dates; however, the actual due date is based on a period ending 31 days after the tax bill. On these dates (August 1st and February 1st), the bill becomes delinquent at which time the applicable property is subject to lien, and penalties and interest are assessed. The City has entered into an agreement with an outside vendor to collect its property taxes and sewer fees. The City receives 100% of its tax collections by the end of the year. The outside vendor receives the right to the interest on the delinquent property taxes and sewer fees.
- c) Loans Receivable** – Loans receivable, which are related primarily to Small Cities grants, are stated at their unpaid principal balance. Allowances are recorded when appropriate.
- d) Other Receivables** - Other receivables include amounts due from other governments and individuals for services provided by the City. Receivables are recorded and revenues recognized as earned or as specific program expenditures/expenses are incurred. Allowances are recorded when appropriate.
- e) Prepaid Expenses/Expenditures** - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method in both the government-wide and fund financial statements. Reported amounts are equally offset by nonspendable fund balance, in the fund financial statements, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.
- f) Inventories** - Inventories in the governmental funds are valued at cost on a first-in, first-out basis. The cost is recorded as inventory at the time individual items are purchased. The City uses the consumption method to relieve inventory. In the fund financial statements, reported amounts are equally offset by nonspendable fund balances in governmental funds, which indicates that they do not constitute "available spendable resources" even though they are a component of current assets.
- g) Due From/To Other Funds** - During the course of its operations, the City has numerous transactions between funds to finance operations, provide services and construct assets. To the extent that certain transactions between funds had not been paid or received as of fiscal year-end, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

1. Summary of Significant Accounting Policies (Continued)

- h) Advances From/To Other Funds** - Advances from/to other funds represent loans to other funds, which are not expected to be repaid within the subsequent annual operating cycle. The advances are offset by restricted fund balance in the fund financial statements. They are not "available" for appropriation and are not expendable available financial resources.
- i) 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 City as assets with an initial, individual cost of more than the capitalization threshold for that asset type and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value at the date of donation.

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land is considered inexhaustible and, therefore, not depreciated. Construction in progress has not been put into service yet and, therefore, is not depreciated. Property, plant, and equipment of the City are depreciated or amortized using the straight line method over the following estimated useful lives:

Assets	Years	Capitalization Threshold
Land	N/A	\$ 1,000
Construction in progress	N/A	1,000
Land improvements	20	1,000
Buildings and systems	25-50	1,000
Infrastructure	10-65	1,000
Machinery and equipment	5-20	1,000

- j) Unearned Revenues** - Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In the government-wide financial statements, unearned revenues consist of revenue received in advance and/or amounts from grants received before the eligibility requirements have been met.
- k) Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

1. Summary of Significant Accounting Policies (Continued)

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

The City reports deferred outflows and inflows related to pensions and other post-employment benefits ("OPEB") in the government-wide statement of net position. A deferred outflow or inflow of resources related to pension results from differences between expected and actual experience, the net difference between projected and actual earnings, and changes in assumptions or other inputs. These amounts are deferred and included in pension or OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

Deferred outflows of resources also include deferred outflows relating to advance refunding of debt. These amounts are deferred and are amortized over the life of the debt.

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

- l) Long-Term Liabilities** - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any significant applicable bond premium or discount. Bond issuance costs, whether or not withheld from the actual debt proceed received, are reported as expenditures.

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

- m) Compensated Absences** - City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if the liability has matured through employee resignation or retirement.

Vested sick leave and accumulated vacation leave of the City's proprietary fund is recorded as an expense and liability within the fund, as the benefits accrue to employees.

1. Summary of Significant Accounting Policies (Continued)

- n) **Net Pension Liability** - The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.
- o) **Net OPEB Liability** - The net OPEB liability represents the cumulative difference between the annual OPEB cost and the City's contributions to the plans. These amounts are calculated on an actuarial basis and are recorded as noncurrent liabilities, accordingly, in the government-wide financial statements.
- p) **Net Position** - Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position on the Statement of Net Position includes net investment in capital assets and restricted. The balance is classified as unrestricted.

In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been completely depleted before unrestricted net position is applied.

The components of net position are detailed below:

- *Net Investment in Capital Assets* - the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.
- *Restricted Net Position - Nonexpendable* - the component of net position that reflects funds set aside in accordance with laws, regulations, grants, and other agreements that must be kept intact and cannot be spent.
- *Restricted Net Position - Expendable* - the component of net position that reflects funds that can only be spent subject to the laws, regulations, grants, and other agreements relating to these funds.
- *Unrestricted* - all other amounts that do not meet the definition of "restricted" or "net investment in capital assets".

1. Summary of Significant Accounting Policies (Continued)

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

- Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form (inventories, prepaid amounts, long-term receivables) or they are legally or contractually required to be maintained intact (the corpus of a permanent fund). However, if the use of the proceeds from amounts not in spendable form is restricted, committed, or assigned, then they are included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance.
- Fund balances are to be reported as restricted when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation. This fund balance classification will be used to report funds that are restricted for debt service obligations and for other items contained in the Connecticut Statutes.
- Committed fund balances are those that can only be used for specific purposes pursuant to formal action of the City's highest level of decision making authority. The City Council is the highest level of decision making authority for the City that can, by the adoption of a resolution prior to the end of the fiscal year, commit a fund balance. Once committed, these funds may only be used for the purpose specified unless the City removes or changes the purpose by taking the same action that was used to establish the commitment.
- Assigned fund balance, in the General Fund, represents amounts constrained either by policies of a governing board or a body or official that has been delegated authority to assign amounts by the City Charter. It is used for amounts assigned for balancing the subsequent year's budget or management for amounts assigned for encumbrances. Unlike commitments, assignments generally only exist temporarily, in that additional action does not normally have to be taken for the removal of an assignment. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. Assigned fund balances in all funds except the General Fund includes all remaining amounts, except for negative balances, that are not classified as nonspendable and are neither restricted nor committed.
- Unassigned fund balance, in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balances would necessarily be negative, since the fund's liabilities and deferred inflows, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets and deferred outflows.

1. Summary of Significant Accounting Policies (Continued)

In order to calculate the amounts to report as restricted and unrestricted fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order: committed, assigned, and unassigned.

F. Encumbrances

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

G. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budget Basis

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

- **Teachers' Retirement** - The City does not recognize as income or expenditures payments made for the teachers' retirement by the State of Connecticut under a special funding situation in its budget. U.S. GAAP requires that the employer government recognize payments for salaries and fringe benefits paid under a special funding situation for its employees.
- **Long-Term Debt and Lease Financing** - Revenues and expenditures from refunding or renewing long-term debt or issuing lease financing are included in the budget as the net revenues or expenditures expected.
- **Encumbrances** - Unless committed through a formal encumbrance (e.g., purchase orders, signed contracts), all annual appropriations lapse at fiscal year-end. Encumbrances outstanding at year-end are reported on the budgetary basis statements as expenditures.

2. Stewardship, Compliance and Accountability (Continued)

- **Transfers** – certain internal transfers, not recognized as expenditures on the GAAP basis, are treated as expenditures in the budget.
- **Excess Cost Grant** - The State reimburses the City for certain costs incurred for special educational needs of students that exceed a set multiple of a student in the regular program. This reimbursement is the Excess Cost Grant – Student Based. Connecticut General Statute 10-76g states that this grant should reduce the education expenditures instead of being reported as revenue.
- **Accrued Education Payroll** – When teachers elect to be paid in 26 biweekly installments, the four payments made after June 30th are not accrued and included in the current year's expenditures on a budgetary basis. The payments are recorded against the subsequent period's budget when they are paid.

B. General Fund Budget Policies

The City adheres to the following procedures in establishing the budgetary data included in the General Fund financial statements. On or before February 15 of each year, every department, board or commission of the City shall furnish to the City Council an estimate of the amount of money required for its business for the ensuing year. On or before March 20 of each year, the Board of Finance reviews the budgets submitted by the City Council. The Board of Education shall submit its proposed budget to the Board of Finance on or before the 15th day of April.

The Board of Finance/City Council holds public hearings on the budget in May to obtain taxpayer comments. In mid-May, a joint meeting of the City Council and Board of Finance is held to make final recommendations on the budget. Prior to June 1, the Board of Finance votes final approval of the proposed budget and adopts the budget ordinance.

- Upon request by the City Council, the Board of Finance may authorize the transfer of any unencumbered appropriation from one department to another during the year. The Board of Finance may approve additional appropriations up to \$100,000. Additional appropriations of over \$100,000 must be approved by voter referendum whenever there is no offsetting revenue source to the appropriation so that it falls below this threshold.
- 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 alternatively achieved by constraints imposed by the project authorization or grant awards related to those funds.
- The Board of Education, which is not a separate legal entity but a function of the City, is authorized under State law to make any transfers required within its budget at its discretion. Any additional appropriations must have Board of Education and Board of Finance approval.

During the year there were \$419,629 of additional appropriations which were each offset by additional revenue.

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

2. Stewardship, Compliance and Accountability (Continued)

C. Fund Deficits

The following funds had deficit unassigned fund balances at yearend:

		Expected Coverage	
	Deficit	Other Fund	Future Bonding
Capital Project Funds			
WPCA Infrastructure Upgrade	\$ 2,750,583	\$ -	\$ 2,750,583
City Hall Renovations Fund	296,739	296,739	-
Internal Service Funds			
Maintenance Fund	290,825	290,825	-
Total	<u>\$ 3,338,147</u>	<u>\$ 587,564</u>	<u>\$ 2,750,583</u>

D. Application of Accounting Standards and Restatement of Net Position

The City implemented a new accounting standard that resulted in additional disclosures and adjustments to the beginning net position:

- GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits (“OPEB”) Other than Pensions* – This statement established standards of accounting and financial reporting for defined benefit and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans administered through trusts and applies to all governments whose employees are provided with OPEB.

This implementation increased the Net OPEB liability for the plan by \$78,006,156 and as a result, the beginning net position decreased by the same amount. This liability is discussed further in Note 14.

3. Cash, Equivalents and Investments

Cash, equivalents and investments of the City consist of the following at year-end:

Statement of Net Position (Exhibit 1)	
Cash and equivalents	\$ 36,569,366
Investments	8,383,975
Restricted investments	<u>7,738,045</u>
	<u>52,691,386</u>
Fiduciary Funds (Exhibit 8)	
Cash and equivalents	
Pension/OPEB trust funds	239,709
Agency funds	888,605
Investments - pension/OPEB trust funds	<u>95,082,651</u>
	<u>96,210,965</u>
Total Cash and Investments	<u>\$148,902,351</u>

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

3. Cash, Equivalents and Investments (Continued)

Cash and Equivalents - The carrying amount of the deposits with financial institutions was:

Cash and Equivalents	
Deposits with financial institutions	\$ 45,990,289
Plus external investment pools	91,366
Less Certificates of deposits (in investments)	(8,383,975)
	<u>\$ 37,697,680</u>

The bank balance of the deposits was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 1,428,998
Uninsured and uncollateralized	46,228,053
	<u>\$ 47,657,051</u>

Investments – Investments are summarized as follows at yearend:

	General Fund	Pension/OPEB Trust Funds	Total Investments
Certificates of deposit	\$ 8,383,975	\$ -	\$ 8,383,975
U.S. government agencies	7,738,045	228	7,738,273
Mutual funds - equity	-	64,298,624	64,298,624
Mutual funds - bonds	-	30,783,799	30,783,799
	<u>\$ 16,122,020</u>	<u>\$ 95,082,651</u>	<u>\$ 111,204,671</u>

The following are major categories of investments measured at fair value on a recurring basis, grouped by the fair value hierarchy:

Type of Investment	Investments not Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of deposit	\$8,383,975	\$ -	\$ -	\$ -	\$ 8,383,975
U.S. government agencies	-	7,738,273	-	-	7,738,273
Mutual funds - equity	-	64,298,624	-	-	64,298,624
Mutual funds - bonds	-	30,783,799	-	-	30,783,799
Total	<u>\$8,383,975</u>	<u>\$ 102,820,696</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,204,671</u>

Below is a summary of the interest rate risk and credit risk on the investments at yearend:

Type of Investment	Average Credit Rating	Fair Value	Investment Maturities (in Years)		
			Less Than 1 Year	1-5 Years	Over 5 Years
Certificates of deposit	*	\$ 8,383,975	\$ 8,383,975	\$ -	\$ -
U.S. government agencies	NA	7,738,273	259,341	7,478,932	-
Mutual funds - equity	NA	64,298,624	64,298,624	-	-
Mutual funds - bonds	BBB	30,783,799	4,404,186	10,025,999	16,353,614
Total		<u>\$ 111,204,671</u>	<u>\$ 77,346,126</u>	<u>\$ 17,504,931</u>	<u>\$ 16,353,614</u>

* Subject to Federal Depository insurance and collateralization
NA Not applicable

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

4. Receivables and Unavailable Revenue

Receivables - Of the intergovernmental receivables, \$2,130,934 in reimbursements for education bonds from the State is a long-term receivable and not expected to be collected within one year.

Unavailable Revenue – Governmental funds report *unavailable revenue* on the modified accrual basis (Exhibit 3) in connection with certain receivables that are not available within 60 days to liquidate liabilities of the current period as follows:

	General Fund	Other Governmental Funds
Intergovernmental revenue	\$2,286,379	\$ -
Other	-	70,751
	<u>\$2,286,379</u>	<u>\$ 70,751</u>

5. Interfund Transactions

The outstanding balances between funds result mainly from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur; 2) transactions are recorded in the accounting system; and 3) payments between funds are made. At June 30, 2017, the General Fund was owed \$313,578 from the Other Governmental Funds and \$287,900 from the Internal Service Funds for a total of \$601,478.

Fund transfers are used to fund special projects with general fund revenues. Transfers during the year ended June 30, 2017 were as follows:

	Transfers into				
	General Fund	WPCA Infrastructure Upgrade	Other Governmental Funds	Internal Service Funds	Total
Transfers out of					
General Fund	\$ -	\$ 24,366	\$3,026,316	\$ 161,789	\$3,212,471
Other governmental funds	-	-	152,656	-	152,656
WPCA Enterprise Fund	-	-	617,354	-	617,354
Internal Service Funds	1,400,000	-	5,692	-	1,405,692
	<u>\$1,400,000</u>	<u>\$ 24,366</u>	<u>\$3,802,018</u>	<u>\$ 161,789</u>	<u>\$5,388,173</u>

6. Advances To/From Funds

The Other Special Revenue Fund has advanced the General Fund \$670,000 in 2014-15 to remediate a City property. The City will repay \$67,000 per year for 10 years to the Other Special Revenue Fund. The balance at June 30, 2017 was \$536,000.

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

7. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 3,797,034	\$ -	\$ -	\$ 3,797,034
Construction in progress	21,205,796	4,193,565	(15,264,955)	10,134,406
	<u>25,002,830</u>	<u>4,193,565</u>	<u>(15,264,955)</u>	<u>13,931,440</u>
Capital assets being depreciated				
Land improvements	5,913,371	169,267	-	6,082,638
Buildings and systems	87,941,687	14,975,140	-	102,916,827
Machinery and equipment	29,771,927	1,506,685	(270,105)	31,008,507
Infrastructure	72,928,874	-	-	72,928,874
	<u>196,555,859</u>	<u>16,651,092</u>	<u>(270,105)</u>	<u>212,936,846</u>
Less accumulated depreciation				
Land improvements	(4,745,136)	(85,466)	-	(4,830,602)
Buildings and systems	(30,616,965)	(2,163,374)	-	(32,780,339)
Machinery and equipment	(23,063,239)	(2,068,930)	247,251	(24,884,918)
Infrastructure	(56,955,930)	(1,234,465)	-	(58,190,395)
	<u>(115,381,270)</u>	<u>(5,552,235)</u>	<u>247,251</u>	<u>(120,686,254)</u>
	<u>81,174,589</u>	<u>11,098,857</u>	<u>(22,854)</u>	<u>92,250,592</u>
	<u>\$106,177,419</u>	<u>\$ 15,292,422</u>	<u>\$ (15,287,809)</u>	<u>\$106,182,032</u>

The major projects included in construction in progress are the high school track and field project, sewer rehab project, WPCA plant upgrade and Coe Park renovations.

Depreciation and amortization expense was charged to the governmental activities as follows:

General government	\$ 226,198
Public safety	947,944
Public works	1,764,429
Public health & social services	40,181
Recreation	6,405
Board of Education	2,567,078
	<u>\$ 5,552,235</u>

Changes in the City's capital assets used in the business-type activities are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Land improvements	\$ 691,500	\$ -	\$ (5,100)	\$ 686,400
Buildings and systems	1,104,750	-	-	1,104,750
Machinery and equipment	11,574,211	425,007	(150,247)	11,848,971
Infrastructure	7,579,715	-	-	7,579,715
	<u>20,950,176</u>	<u>425,007</u>	<u>(155,347)</u>	<u>21,219,836</u>
Less accumulated depreciation				
Land improvements	(685,204)	(1,286)	5,100	(681,390)
Buildings and systems	(467,693)	(22,402)	-	(490,095)
Machinery and equipment	(10,184,873)	(354,918)	150,247	(10,389,544)
Infrastructure	(2,886,835)	(312,764)	-	(3,199,599)
	<u>(14,224,605)</u>	<u>(691,370)</u>	<u>155,347</u>	<u>(14,760,628)</u>
	<u>\$ 6,725,571</u>	<u>\$ (266,363)</u>	<u>\$ -</u>	<u>\$ 6,459,208</u>

Depreciation and amortization expense totaling \$691,370 was charged to this program.

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

8. Long-Term Liabilities – Governmental Funds

The changes in the City's governmental long-term indebtedness for the year were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 21,820,000	\$ 12,840,000	\$ (8,090,000)	\$ 26,570,000	\$ 2,585,000
Premiums on bonds	322,385	1,054,392	(107,039)	1,269,738	107,036
Capital leases	171,162	311,381	(55,889)	426,654	117,785
Special termination benefits	5,072,522	426,175	(1,115,221)	4,383,476	1,088,819
Compensated absences	4,073,519	253,148	(429,349)	3,897,318	404,542
Post closure landfill costs	316,000	-	(40,000)	276,000	40,000
	<u>\$ 31,775,588</u>	<u>\$ 14,885,096</u>	<u>\$ (9,837,498)</u>	<u>\$ 36,823,186</u>	<u>\$ 4,343,182</u>

Each governmental funds liability is liquidated by, and interest is expensed to, the respective fund to which it relates, primarily the General Fund.

A. General Obligation Bonds

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

Purpose	Year of Issue	Original Amount	Final Maturity	Interest Rates	Amount Outstanding
School	2010	\$ 2,150,000	2019	3.0-4.5%	\$ 220,000
Build America Bonds	2010	11,855,000	2019	2.6-6.9%	8,750,000
Refunding 2006 Schools	2016	4,760,000	2027	3.0-4.0%	4,760,000
Refunding Various	2017	12,840,000	2031	2.0-5.0%	12,840,000
					<u>\$ 26,570,000</u>

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

Year End	Principal	Interest	Year End	Principal	Interest
2018	\$ 2,585,000	\$ 1,060,644	2025	\$ 1,875,000	\$ 448,456
2019	2,555,000	985,557	2026	1,895,000	361,532
2020	3,145,000	883,013	2027	1,905,000	276,402
2021	1,800,000	780,100	2028	1,350,000	205,065
2022	1,820,000	702,588	2029	1,335,000	147,813
2023	1,835,000	621,188	2030	1,315,000	89,443
2024	1,855,000	536,138	2031	1,300,000	30,000
				<u>\$ 26,570,000</u>	<u>\$ 7,127,939</u>

The City also issued \$3,295,000 in general obligation bond anticipation notes dated June 9, 2016 for the WPCA infrastructure upgrade project. These were due and paid subsequent to the yearend, on July 6, 2017 with new bond anticipation notes dated July 6, 2017 and maturing June 29, 2018. The new bonds carry an interest rate of 1.34%.

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

8. Long-Term Liabilities – Governmental Funds (Continued)

The City has \$48,739,872 of debt authorized but unissued as follows:

Project	Amount of Total Debt Authorized	Bonds Issued	Paydowns/ Grants	Authorized But Unissued Debt
Infrastructure Improvements	\$ 1,800,000	\$ (1,475,000)	\$ (179,666)	\$ 145,334
Torrington Elementary School	25,750,000	(9,020,000)	(16,134,059)	595,941
City Hall / City Barn	14,982,597	(12,840,000)	(849,000)	1,293,597
Sewer Improvements	52,000,000	(2,000,000)	(3,295,000)	46,705,000
	<u>\$ 94,532,597</u>	<u>\$(25,335,000)</u>	<u>\$ (20,457,725)</u>	<u>\$ 48,739,872</u>

B. Current, Advance and Crossover Refunding

During the year, the City issued serial bonds to current and advance refund existing bonds. The net proceeds were used to purchase U.S. Government securities. Those securities were deposited in irrevocables trust with an escrow agent to provide for future debt service payments on the bonds. The 2006 current refunded and 2010A advance refunded serial bonds are considered partially defeased and a portion of the liability for those bonds has been removed from the Statement of Net Position.

Part of the refunding bonds were used to crossover refund 2010B taxable Build America Bonds. The net proceeds purchased U.S. Government securities and were placed in an escrow account. The escrow account will be used to pay a portion of the original debt service through the crossover date of December 1, 2018. At that time, the original debt will be retired and removed from the Statement of Net Position and the City will begin making payments on the new debt.

Purpose	New Debt	Old Debt		
		Current Refunding	Advance Refunding	Crossover Refunding
		2006 Various Refunding Bonds	2010A School Bonds	2010B Build America Bonds
Range of Interest Rates	2.0%-5.0%	3.75%-5.0%	2.85%-4.5%	4.6%-6.9%
Face Value of Debt	\$ 12,840,000	\$ 4,240,000	\$ 1,320,000	\$ 7,500,000
Net Original Issue Premium	1,054,392	NA	NA	NA
Underwriting Fees	(149,280)	NA	NA	NA
Net Proceeds	<u>\$ 13,745,112</u>	NA	NA	NA
Deferred Charge on Refunding		104,334	109,534	471,244
Deposit to Escrow Deposit Fund		<u>\$ 4,344,334</u>	<u>\$ 1,429,534</u>	<u>\$ 7,971,244</u>
Savings on Refunding				
Reduction in Debt Service Payments		\$ 1,131,751		
Net Present Value of Economic Gain		\$ 1,047,667		

C. Defeasance of Debt

The City defeased the above bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2017, \$1,320,000 of bonds outstanding are considered defeased.

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

8. Long-Term Liabilities – Governmental Funds (Continued)

D. Capital Leases Payable

The City has entered into a lease agreement to finance the acquisition of various types of equipment. The equipment is included in the capital assets with a cost of \$608,541 and accumulated depreciation of \$64,533. These leases qualify as capital leases for accounting purposes. The City's capital lease obligations at year-end are as follows:

2018	\$	125,977
2019		125,977
2020		66,545
2021		66,545
2022		66,545
		<u>451,589</u>
Less the amount representing interest		<u>(24,935)</u>
Present value of future minimum lease payments	\$	<u>426,654</u>

E. Special Termination Benefits

This amount represents scheduled payouts, as well as eligible payouts, to the Board of Education retirees who have taken, and are expected to take, advantage of the City's retirement program. The amount is based on percentages applied to salaries after an employee meets certain age and years of service requirements.

F. Post Closure Landfill Costs

The City has a closed landfill with no further capacity or estimated useful life. State and Federal laws and regulations require that the City perform certain maintenance and monitoring functions on its closed landfill site for thirty years after closure. These costs will be paid through the General Fund each year as part of the annual budget. Total estimated costs based on the current actual costs are included in the long-term debt. The actual costs may vary based on actual events, inflation, changes in technology and applicable laws and regulations. During the year, the actual costs amounted to \$43,184.

G. Heart and Hypertension Claims

The City has claims outstanding for various heart and hypertension cases. No loss accrual has been made for these claims because the loss cannot be reasonably estimated. These claims are being paid on a pay as you go basis. The total paid on these claims this year was \$527,226.

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

8. Long-Term Liabilities – Governmental Funds (Continued)

H. Legal Debt Limit

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

Total tax collections (including interest and lien fees) for the year	\$ 87,997,590
Reimbursement for revenue loss on tax relief for the elderly (C.G.S. 12-129d)	-
Debt limitation base	<u>\$ 87,997,590</u>

	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
Debt limitation					
2 1/4 times base	\$197,994,578	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	395,989,155	-	-	-
3 3/4 times base	-	-	329,990,963	-	-
3 1/4 times base	-	-	-	285,992,168	-
3 times base	-	-	-	-	263,992,770
Total debt limitation	<u>197,994,578</u>	<u>395,989,155</u>	<u>329,990,963</u>	<u>285,992,168</u>	<u>263,992,770</u>

Indebtedness					
Bonds payable	16,950,000	9,620,000	-	-	-
Bond anticipation notes	-	-	3,295,000	-	-
Clean water fund	-	-	785,904	-	-
Amount to be provided by CT	-	(2,130,935)	-	-	-
Total indebtedness	<u>16,950,000</u>	<u>7,489,065</u>	<u>4,080,904</u>	<u>-</u>	<u>-</u>

Debt limitation in excess of debt outstanding and authorized	<u>\$181,044,578</u>	<u>\$388,500,090</u>	<u>\$325,910,059</u>	<u>\$285,992,168</u>	<u>\$263,992,770</u>
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In no case shall total indebtedness exceed seven times the annual receipts from taxation	<u>\$615,983,130</u>
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9. Long-Term Liabilities – Enterprise Funds

The following table summarizes changes in the long-term indebtedness in the enterprise funds:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clean Water Loans	\$ 837,197	\$ -	\$ (51,293)	\$ 785,904	\$ 52,328
Compensated Absences	247,011	22,664	(12,265)	257,410	14,564
	<u>\$ 1,084,208</u>	<u>\$ 22,664</u>	<u>\$ (63,558)</u>	<u>\$ 1,043,314</u>	<u>\$ 66,892</u>

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

9. Long-Term Liabilities – Enterprise Funds (Continued)

Payments to maturity on the enterprise portion of the clean water loans are as follows:

Year End	Principal	Interest	Year End	Principal	Interest
2018	\$ 52,328	\$ 15,240	2026	\$ 61,399	\$ 6,169
2019	53,384	14,184	2027	62,639	4,929
2020	54,462	13,106	2028	63,903	3,665
2021	55,561	12,007	2029	65,193	2,375
2022	56,683	10,886	2030	66,509	1,059
2023	57,830	9,742	2031	16,834	56
2024	58,994	8,574		<u>\$ 785,904</u>	<u>\$ 109,376</u>
2025	60,185	7,384			

10. Net Position

In addition to the \$3,500 of nonexpendable restricted net position, the City has expendable net position as follows:

General Government	\$ 671,276
Public Safety	116,262
Public Works	964,035
Public Health/Social Services	180,468
Culture and Recreation	902,005
Education	1,051,633
Housing rehab program	3,355,795
Other Purposes	296,319
	<u>\$7,537,793</u>

11. Fund Balances

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

	General Fund	Other Governmental Funds	Total Governmental Funds
Inventories	\$ -	\$ 16,532	\$ 16,532
Trust principal	-	3,500	3,500
	<u>\$ -</u>	<u>\$ 20,032</u>	<u>\$ 20,032</u>

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

11. Fund Balances (Continued)

Restricted			
Debt	\$7,738,045	\$ -	\$ 7,738,045
General Government	-	671,276	671,276
Public Safety	-	116,262	116,262
Public Works	-	964,035	964,035
Public Health/Social Services	-	180,468	180,468
Culture and Recreation	-	902,005	902,005
Education	-	1,035,101	1,035,101
Housing rehab program	-	3,355,795	3,355,795
Other Purposes	-	296,319	296,319
	<u>\$7,738,045</u>	<u>\$ 7,521,261</u>	<u>\$15,259,306</u>
Committed			
Revaluation	\$ 343,792	\$ -	\$ 343,792
Capital Projects	-	9,934,637	9,934,637
	<u>\$ 343,792</u>	<u>\$ 9,934,637</u>	<u>\$10,278,429</u>
Assigned			
General Government	\$ 98,888	\$ -	\$ 98,888
Education	1,071,876	-	1,071,876
	<u>\$1,170,764</u>	<u>\$ -</u>	<u>\$ 1,170,764</u>

12. City Pension Plans – Municipal Plan and Police and Fire Plan

- A. Plan Description** - The City is the administrator of two single-employer, contributory, defined benefit pension plans. Plan provisions are established and amended by the plans' Boards of Trustees. The plans cover substantially all full-time employees except professional personnel at the Board of Education. The pension plans are part of the City's financial reporting entity and are accounted for in the pension trust funds as the Police & Fire Pension, and the City Employees' Pension. Separate financial statements are not issued.

Management of the plans rests with the Board of Trustees. The Police and Fire's Retirement Plan Board of Trustees consists of the mayor, city treasurer, the four members of the board of public safety, one member of the regular fire department to be chosen biennially by the members of the regular fire department and one member of the police department to be chosen biennially by the members of the regular police department. The Municipal Employees' Retirement Plan Board of Trustees is made up of ten members consisting of the mayor, city treasurer, the six members of the City Council, one street department employee and one city hall employee, which are chosen biennially by the employees participating in the benefits.

B. Plan Benefits

Police and Fire's Retirement

The Plan provides normal retirement, death, and disability benefits through a single-employer contributory defined benefit plan. All regular employees of the Police Department and regular employees of the Fire Department hired before June 8, 2009 are participants of the Plan.

12. City Pension Plans – Municipal Plan and Police and Fire Plan (Continued)

The retirement benefit is calculated at 2% of the member's highest 1-year compensation during the final 5 years of employment multiplied by years of service with the following changes:

- Effective September 8, 2000, all police members who have not yet reached the 25th anniversary of date of hire shall have years of service (including any buyback service) maximized at 27 years.
- Effective September 8, 2005, the benefit for police members shall be based on a salary that is the average annual compensation during the 3-year period immediately preceding separation from service.
- Effective September 8, 2000, police members may buy back City service, for benefit accrual purposes only, during the year following September 8, 2000 or during the first year of employment for police hired after that date subject to the restrictions in the Plan.

Normal retirement age is 55 with 10 years of service or following the completion of 25 years of continuous service. Participants are 100% vested in their accrued benefit after 10 years of service. Benefits and contributions are established by the City and may be amended by the City. The City has not given any post-retirement benefit increase. Effective May 5, 2008, participants are required to contribute 8% of their gross pay and the yearly credit was raised to 2.5% up to a maximum of 27 years of credited service.

Participants are assumed to retire upon reaching 25 years of credited service, but not before age 51 (Police) or 53 (Fire). All active and terminated vested participants are assumed to retire by age 57.

Effective May 5, 2008 for police members, the percentage for the yearly credit is 2.5% as shown above; however, the service is maximized at 27 years, a 10-years of service requirement was added to the disability benefit, and they must contribute 8% of compensation for a maximum of 27 years. For the period May 5, 2008 through May 4, 2011, no more than 5 police members may retire annually under this provision.

Municipal Employees' Retirement

The Plan provides normal retirement, early retirement, termination and death benefits through a single employer contributory defined benefit plan. All members of Public Works Employees', City Hall, School Maintenance, and Custodial Employees' Local #1579 and their supervisory employees, hired prior to September 2, 2008 are members of the Plan.

New employees are no longer eligible for this plan. The retirement benefit for all aforementioned employees other than supervisory employees is calculated at 2% of the participant's average monthly earnings during the final 3 years of employment multiplied by years of service with a minimum annual benefit of \$240 per year of service, maximum 35 years. Benefits for supervisory employees are based on the highest of the last 3 years of annual gross earnings.

12. City Pension Plans – Municipal Plan and Police and Fire Plan (Continued)

Normal retirement age is age 65 or following age 60 with 25 years of service. Participants are 100% vested in their accrued benefit after 5 years of continuous service as long as their employee contributions remain in the fund upon termination. Member's contributions are returnable on termination or death while active or retired (less any benefits paid) provided in each case that no death benefits are otherwise payable.

Benefits and contributions are established by the City and may be amended by the City. The City has not given any post-retirement benefit increases.

C. Funding Policy

Police and Fire's Retirement

Member contributions of 8% of gross weekly earnings are required. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees as determined through biennial valuations.

Municipal Employees' Retirement

Member contributions of 5% of gross weekly earnings are required. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees as determined through biennial valuations.

D. Plan Membership – As of the date of the latest actuarial valuation (July 1, 2016), membership consisted of the following:

	<u>Municipal</u>	<u>Police & Fire</u>
Active participants	109	101
Participants receiving a benefit	128	174
Terminated vested participants	10	4
	<u>247</u>	<u>279</u>

E. Investments

Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees by a majority vote of its members. It is the policy of the Trustees 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.

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

12. Employee Retirement Systems and Pension Plans (Continued)

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

Asset Class	Target Allocation		Long-term Expected Real Rate of Return
	Municipal	Police & Fire	
US Large Cap Equities	36.66%	36.66%	4.65%
US Mid/Small Cap Equities	5.84%	5.84%	5.50%
Developed International Equities	17.50%	17.50%	5.50%
Intermediate Corporate Fixed Income	30.15%	30.15%	2.25%
International Bonds	4.85%	4.85%	2.00%
Real Estate	5.00%	5.00%	5.00%

Money-Weighted Rate of Return

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense for the year, was 11.84% for the Municipal Employees' Plan and 11.80% for the Police and Fire's Plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

F. Net Pension Liability

The components of the net pension liabilities at yearend were as follows:

	Municipal	Police & Fire
Municipal pension liability	\$47,605,686	\$95,263,096
Plan fiduciary net position	(38,542,425)	(56,708,439)
Net pension liability	<u>\$ 9,063,261</u>	<u>\$38,554,657</u>
Plan fiduciary net position as a percent of total pension liability	80.96%	59.53%

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

12. Employee Retirement Systems and Pension Plans (Continued)

The changes in the net pension liability during the year were as follows:

	Municipal	Police & Fire
Total Pension Liability		
Service cost	\$ 903,306	\$ 1,777,628
Interest on total pension liability	3,447,081	6,453,191
Changes in benefit terms	-	(127,841)
Differences between expected and actual experience	(587,142)	2,581,055
Changes of assumptions	63,642	3,158,910
Benefit payments	(2,557,951)	(5,689,529)
Net change in total pension liability	1,268,936	8,153,414
Total pension liability, beginning	46,336,750	87,109,682
Total pension liability, ending	47,605,686	95,263,096
Fiduciary Net Position		
Employer contributions	1,360,145	3,599,764
Member contributions	334,994	709,907
Investment income net of investment expenses	4,264,011	6,219,142
Benefit payments	(2,644,903)	(5,689,530)
Administrative expenses	(38,278)	(52,659)
Net change in plan fiduciary net position	3,275,969	4,786,624
Fiduciary net position, beginning	35,266,456	51,921,815
Fiduciary net position, ending	38,542,425	56,708,439
Change in net pension liability	(2,007,033)	3,366,790
Net pension liability, beginning	11,070,294	35,187,867
Net pension liability, ending	\$ 9,063,261	\$38,554,657

12. Employee Retirement Systems and Pension Plans (Continued)

G. Actuarial Methods and Significant Assumptions

The following actuarial methods and assumptions were used in the July 1, 2016 valuation and projected forward to a measurement date of June 30, 2017:

Valuation timing	Actuarially determined contribution rates are calculated as of July 1, twelve months prior to the beginning of the fiscal year in which the contributions are reported.
Actuarial cost method	Entry Age Normal
Amortization method	
Level percent or level dollar	Level dollar
Closed, open or layered	Closed period
Amortization period at 7/1/16	26 years as of July 1, 2016
Asset valuation method	
Smoothing period	4 year
Recognition method	25% per year
Inflation	2.60%
Discount Rate	7.25%
Salary increases	2.6% (due to inflation) plus merit component based on age
Turnover	Based on the participants age and gender
Post-retirement mortality	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2015 - June 30, 2016.

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

		1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Municipal	Net Pension Liability	<u>\$ 14,338,022</u>	<u>\$ 9,063,261</u>	<u>\$ 4,571,086</u>
Police & Fire	Net Pension Liability	<u>\$ 49,581,216</u>	<u>\$38,554,657</u>	<u>\$29,337,139</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate until fiscal year end 2080 (municipal plan) and 2084 (police and fire) when only a portion of the projected benefit payments can be made from the projected fiduciary net position.

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

12. Employee Retirement Systems and Pension Plans (Continued)

After that the payments are discounted at the municipal bond rate of 2.85% (the June 30, 2017 Bond Buyer 20-Bond GO Index) to the extent that fiduciary net position is not available. Since the payments discounted at the municipal bond rate are relatively few and far in the future, the municipal bond rate does not affect the single equivalent rate when rounded to two decimal places. Consequently, the single equivalent rate used to determine the total pension liability as of year-end is 7.25%.

Changes in the Plan and the Plan Assumptions – 1) Reduce the investment rate of return from 7.50% to 7.25%; 2) Reduce the inflation rate from 3.00% to 2.60%; 3) Update mortality tables to projects versions of the RP-2014 mortality table; 4) Reduced the percentage of eligible participants that are assumed to retire at age 55 and 10 years of credited service from 10% to 5%.

- H. Pension Expense** – The total pension expense recognized for the year ended June 30, 2017 for the municipal plan was \$784,367 and \$5,772,557 for the police and fire plan. Pension expense for the next 4 years will be affected by the following deferred outflows and inflows of resources:

Increase (Decrease) in Pension Expense from the Recognition of the Effects of deferred inflows and outflows:

	To Be Recognized in				
	2018	2019	2020	2021	Total
Municipal	\$ (708,406)	\$ 512,985	\$ 155,107	\$ (323,231)	\$ (363,545)
Police & Fire	2,222,829	2,353,396	1,794,384	(191,296)	6,179,313

- I. Defined Contribution Plan** – For employees not on the defined pension plan discussed above, the City has established the City of Torrington Money Purchase Plan. Normal retirement age under this plan is 60 years old. The employee is vested after 5 years of completed service. The City contributes between 6-8% of employee earnings based on their specific bargaining unit. The total contributed for the year was \$322,039 on \$5,262,075 of covered payroll.

13. Teachers' Retirement System

Plan Description – Teachers and certain other certified personnel in the City are eligible to participate in the Connecticut State Teachers' Retirement System ("TRS"), a cost-sharing multiple employer public employee retirement system described in the Connecticut General Statutes, Chapter 167a. The TRS has been established to provide retirement and other benefits for teachers, their survivors and beneficiaries. The Teachers' Retirement System is administered by the Teachers' Retirement Board. The plan does not issue a separate financial statement.

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

13. Teachers' Retirement System (Continued)

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

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

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

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

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

Funding Policy – In accordance with the Connecticut General Statutes, Section 10-183z, contribution requirements of active employees and the State of Connecticut is amended and certified by the Teachers' Retirement Board and appropriated by the General Assembly. The statutes require the State of Connecticut to contribute 100% of each school districts' required contribution. Contributions are actuarially determined as an amount that, when combined with employee contributions and investment earning, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

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

The City is not required to make contributions to the plan. The City's proportionate share has been determined on the same basis as that used by the plan as has the basis of accounting, including policies with respect to benefit payments (including refunds of employee contributions) and the valuation of plan investments.

13. Teachers' Retirement System (Continued)

Actuarial Methods and Significant Assumptions – The following assumptions were used in the pension valuations, prepared as of June 30, 2016 (the Valuation Date and Measurement Date) for use in the June 30, 2017 financial statements (Reporting Date):

Experience study dates	July 1, 2010 - June 30, 2015
Inflation	2.75%
Salary increases	3.25-6.50%, including inflation
Investment rate of return	8.00%, net of investment related expense, including inflation
Discount rate	8.00%, the projection of cash flows assumed that plan member contributions will be made at the current contribution rate and employer contributions will be made at rates equal to the difference between the actuarially determined rate and the member rate.
Cost of living adjustment	Annually compounded increases vary based on member age and date of retirement and range from 2.00% to 6.00%
Post-retirement mortality	RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale

Changes in Assumptions – 1) Reduce the inflation assumption from 3.00% to 2.75%; 2) Reduce the real rate of return assumption from 5.50% to 5.25% which, when combined with the inflation assumption rate of return assumption from 8.50% to 8.00%; 3) Reduce the annual rate of wage increase assumption from 0.75% to 0.50%; 4) Slightly modify the merit portion of the salary scale; 5) Reduce the payroll growth assumption from 3.75% to 3.25%; 6) Update mortality tables to projected versions of the RPH-2014 mortality tables; 7) Increase normal retirement rates for females at most ages and prorable retirement rates for males at most ages. Decrease early retirement rates for both males and females; 8) Increase rate of withdrawal; 9) Decrease rates of disability for males.

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

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

13. Teachers' Retirement System (Continued)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equities	21.00%	5.80%
Developed Non-U.S. Equities	18.00%	6.60%
Emerging Markets (Non-U.S.)	9.00%	8.30%
Core Fixed Income	7.00%	1.30%
Inflation Linked Bond Fund	3.00%	1.00%
Emerging Market Bond	5.00%	3.70%
High Yield Bonds	5.00%	3.90%
Real Estate	7.00%	5.10%
Private Equity	11.00%	7.60%
Alternative Investments	8.00%	4.10%
Cash	6.00%	0.40%

City's Proportionate Share of the Collective Net Pension Liability – Connecticut school teachers participate in the TRS pursuant to Section 10-183b et seq. of the Connecticut General Statutes (the "Teachers' Retirement Act"). The Teachers' Retirement Act governs the pension benefits and eligibility of the active and retired teachers of the Torrington Public Schools. The Teachers' Retirement Act requires the Connecticut General Assembly, not any city, town or local school district, to appropriate the funds necessary to pay the pension benefits due to retirees under the System, including retired teachers of the Torrington Public Schools. Section 10-183c of the Connecticut General Statutes provides that the retirement benefits of teachers who have vested under the TRS are contractual in nature and may not be diminished by act of the General Assembly. Accordingly, funding the pension benefits of retired teachers of the Torrington Public Schools is a statutory and contractual obligation of the State government, not an obligation of the City of Torrington.

City of Torrington Net Pension Liability	\$ -
State of Connecticut's Net Pension Liability for the City of Torrington	107,322,905
Net Pension Liability	<u>\$ 107,322,905</u>
Net Pension Liability percentage of the total	0.753405%
Deferred outflows of resources	
Contributions subsequent to the Measurement Date	\$ -
Deferred inflows of resources	
Net difference projected and actual earnings on investments	\$ 594,339
Pension expense	\$ 6,468,095
Proportion Basis	Employee contributions
Change in proportion since prior measurement date	None

13. Teachers' Retirement System (Continued)

Sensitivity Analysis – The following presents Connecticut's net pension liability with respect to the City of Torrington, Connecticut's employee group, calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease 7.0%	Current Discount Rate 8.0%	1% Increase 9.0%
State's Net Pension Liability	<u>\$ 132,406,401</u>	<u>\$ 107,322,905</u>	<u>\$ 86,118,795</u>

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

Support Provided by Nonemployer Contributing Entities – The City has a special funding situation whereby the State is obligated to pay the pension costs of the Teachers' Retirement System and the City is not required to pay any of the costs. However, the City must record the costs paid by the State on behalf of the City's employees as revenue and expense in its GAAP financial statements which amounted to \$11,703,948.

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

14. Other Post-Employment Benefits ("OPEB")

From an accrual accounting perspective, the cost of post-employment health care benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. The City recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows.

Changes in Reporting – As discussed in note 2D, the City implemented GASB 75 this year. The objective of this statement is to improve the usefulness of information about post-employment benefits other than pensions included in the general-purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

14. Other Post-Employment Benefits ("OPEB") (Continued)

Plan Description – The City, in accordance with various collective bargaining agreements, is committed to providing health and other benefits to certain eligible retirees and their spouses. The City's Post-Retirement Medical Program ("RMP") is a single-employer OPEB plan administered by the City and covers City, Board of Education, Police and Fire employees. The City does not issue a separate standalone financial statement for this program.

Plan Benefits and Contributions Rates by employee group are as follows:

The City's funding strategy for postemployment obligations are based upon characteristics of benefits on nine distinct groups of employees established within their respective collective bargaining units and/or contracts and include the following:

- City Hall employees and Public Works Employees contribute an average 12% of the contribution for medical and dental coverage to age 65 with none at ages 65 and older. They are eligible to receive medical coverage under various CIGNA medical plans and an Anthem dental plan to age 65. At age 65, if eligible, they are enrolled in an Anthem Medicare supplemental plan. They also receive life insurance benefits of \$10,000 - \$15,000 at no cost to the retiree.
- Police and Fire employees who meet certain criteria for retirement are eligible to receive medical coverage under various CIGNA medical plans and an Anthem dental plan to age 65. At age 65, if eligible, they are enrolled in an Anthem Medicare supplemental plan. They also receive life insurance benefits of \$3,000 at no cost to the retiree. Eligibility for normal retirement or early retirement is age 55 with 10 years of service or they qualify under disability retirement.
- City supervisory employees who meet certain criteria for retirement are eligible to receive medical coverage under various CIGNA medical plans and an Anthem dental plan to age 65. At age 65, if eligible, they are enrolled in an Anthem Medicare supplemental plan. They also receive life insurance benefits of \$5,000 at a contribution rate of 5% or 10% of the contribution with no contribution over age 65. Eligibility for normal retirement or early retirement is age 55 with 10 years of service or they qualify under disability retirement.
- Teachers are eligible for medical and dental coverage if they retire under the State Teacher's Plan and must contribute 100% of the cost for this coverage.
- Board of Education Cafeteria employees are eligible for medical and dental coverage if they retire at age 60 with 10 years of service or qualify under disability retirement and must contribute 100% of the cost for this coverage.
- Board of Education Custodians who retire at age 55 with 20 years of service or qualify under disability retirement can receive dental coverage to age 65 and medical coverage for ages 65 and over and must contribute 7% of the cost of coverage. They may also receive life insurance benefits of \$5,000.

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

14. Other Post-Employment Benefits ("OPEB") (Continued)

- Board of Education Nurses and paraprofessionals who retire at age 60 with 15 years of service or qualify under disability retirement can receive medical benefits up to age 65, and must contribute 25% of the cost for this coverage for themselves and 100% for their spouse, as well as dental coverage at 25% of the contribution only until they reach the age of 65.

Plan Membership – As of the date of the latest actuarial valuation (July 1, 2016), plan membership consisted of the following:

Retired members	388
Active plan members	<u>887</u>
	<u><u>1,275</u></u>

Funding Policy – The City's funding policy is to contribute the annual health insurance payments for retirees, plus an additional annual amount not less than \$50,000.

Investment Policy – The OPEB plan's policy in regards to allocation of invested assets is established and may be amended by the OPEB Committee. It is the policy of the OPEB Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

Plan Fiduciary Net Position – The plan's fiduciary net position displays the net position, held in trust, to pay OPEB benefits as follows:

ASSETS

Cash and equivalents	<u>\$ 51,417</u>
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NET POSITION

Restricted for pensions benefits	<u>\$ 51,417</u>
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Long-Term Expected Rate of Return – The best estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation.

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

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

14. Other Post-Employment Benefits ("OPEB") (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighting
Equity - US Large Cap	31.50%	4.65%	1.46%
Equity - US Small/Mid Cap	13.50%	5.50%	0.74%
Developed International Equities	20.00%	5.50%	1.10%
Intermediate Corporate Fixed Income	21.35%	2.25%	0.48%
Intermediate Governmental Fixed Income	13.65%	1.65%	0.23%
	100.00%		4.01%
	Long-Term Inflation		2.60%
	Long-Term Expected Nominal Return		6.61%

Calculation of Money-Weighted Rate of Return – The money-weighted rate of return considers the cash flow of the changing amounts actually invested during the period and weighs the amount of OPEB plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the end of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated, net of investment expense, as 2.83%.

Net OPEB Liability

The components of the net OPEB liability of the Town as of June 30, 2017 were as follows:

Total OPEB liability	\$ 121,918,967
Less: Plan fiduciary net position	51,417
Net OPEB liability	<u>\$ 121,867,550</u>
Plan fiduciary net position as a percentage of total OPEB liability	0.04%

Changes in the net OPEB liability during the year were as follows:

Total OPEB Liability	
Service cost	\$ 4,889,457
Interest on total OPEB liability	4,190,877
Differences between expected and actual experience	391,596
Benefit payments	<u>(4,379,819)</u>
Net change in total OPEB liability	5,092,111
Total OPEB liability, beginning as restated	116,826,856
Total OPEB liability, ending	<u>\$ 121,918,967</u>

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

14. Other Post-Employment Benefits ("OPEB") (Continued)

Plan Fiduciary Net Position	
Employer contributions	\$ 4,306,115
Teachers Retirement Board contributions	123,704
Investment income net of investment expenses	1,417
Benefit payments	(4,379,819)
Net change in plan fiduciary net position	51,417
Fiduciary net position, beginning	-
Fiduciary net position, ending	<u>\$ 51,417</u>
Net OPEB liability, beginning as restated	116,826,856
Net OPEB liability, ending	<u>\$ 121,867,550</u>

Actuarial Methods and Significant Assumptions

The following actuarial methods and assumptions were used in the July 1, 2016 valuation and projected forward to a measurement date of June 30, 2017:

Valuation timing	Biennial, July 1, 2016 was used to calculate the OPEB liability
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	
Level percent or level dollar	Level percent of salary
Closed, open or layered	Open
Amortization period a	30 years
Asset valuation method	Fair value
Inflation	2.60%
Payroll growth	4.75%
Discount rate	3.50%
Healthcare cost trends	7.75% in 2016 reducing by .5% each year to a final 4.75% per year for 2020 and later
Retirement age	25 years of service with varying retirement rates
Post-retirement mortality	RP-2014 projected to the valuation date with Scale BB for projections for the current year.

Sensitivity Analysis - The following presents the net OPEB liability, calculated using the current discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current discount rate:

	Discount Rate Sensitivity		
	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Net OPEB Liability (Asset)	\$ 141,472,378	\$ 121,867,550	\$ 106,218,352

City of Torrington, Connecticut

Notes to Financial Statements (Continued)
June 30, 2017

The following presents the total OPEB liability of the City, calculated using the current healthcare cost trend rates, as well as what the City's OPEB liability would be if it were calculated using a healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

	Healthcare Cost Trend Rates		
	1% Decrease	Current	1% Increase
	6.75% decreasing to 3.75%	7.75% decreasing to 4.75%	8.75% decreasing to 5.75%
Net OPEB Liability	\$ 104,638,969	\$ 121,867,550	\$ 143,740,018

Changes in the Plan and the Plan Assumptions – There were no changes in the plan or the assumptions used.

OPEB Expense – The total OPEB expense recognized for the year was \$5,090,694.

15. Risk Management

The City is exposed to various risks of loss including torts; public official liabilities; police liability; heart and hypertension claims; theft of, damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for all risks of loss except medical benefits. The City established an internal service fund, health insurance fund, to account for and finance the retained risk of loss for the City's medical benefits claims.

A third party administers the medical insurance plan for which the City pays a fee. The medical insurance fund provides coverage for most City employees. The City purchases individual stop loss coverage for claims over \$250,000. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no reduction in insurance coverage from that in the prior year.

Changes in the balances of claims are as follows:

Year Ended	Beginning Claims Payable	Current Year Claims	Claim Payments	Ending Claims Payable
2016	1,144,911	18,114,045	(17,943,890)	1,315,066
2017	1,315,066	20,180,460	(20,226,816)	1,268,710

15. Risk Management (Continued)

The internal service funds are substantially funded by the General Fund based on estimates for the number of employees and type of coverage (single or family) and trends in the insurance claims and estimates for administration. The claims liabilities, reported in the internal service funds at June 30, 2017, are based on the requirements of U.S. GAAP, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is possible that a liability has been incurred at the date of the financial statements and the amount of the possible loss can be reasonably estimated. The amount of claim accrual estimated is based on the ultimate cost of settling the claim which includes past experience data, inflation, other future economic and societal factors and incremental claim adjustment expenses, net of estimated subrogation recoveries. The claim accrual estimate does not include other allocated or unallocated claims adjustment expenses.

16. Contingencies

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

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

School Building Grants - Section 10-283(a)(3)(A) of the Connecticut General Statutes states that if the City abandons, sells, leases, demolishes or otherwise redirects the use of a school building project authorized on or after July 1, 1996, paid partially with State funding, to other than a public school, will owe a portion of the State funding back to the State. For projects with a cost of two million dollars or over, the contingency will be amortized over twenty years. For smaller projects, the contingency will be amortized over ten years.

16. Contingencies (Continued)

Investment Securities – The City invests in various securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position and activities.

17. Other Information

State's Financial Condition – The State's bond rating has decreased to AA- and its outlook for the future has been changed from stable to negative. This reflects increasing constraints on Connecticut achieving long-term structural balance according to the rating agency Standard and Poor's Global Ratings. This has caused approximately one-third of Connecticut cities and towns' bond ratings to drop or their outlook for the future to be changed from stable to negative. In the current year, the City of Torrington received \$9,023,758 in payments from the State's budget plus the State paid \$11,703,948 on behalf of the City for teachers' retirement benefits. These payments may be greatly or totally reduced in subsequent years. In addition, the City may be required to pay additional costs charged by the State.

17. Other Information (Continued)

As discussed in note 13 and above, the City participates in a cost-sharing multiple employer public employee retirement system with the State of Connecticut ("Plan") covering teachers' retirement benefits. Currently the plan is funded solely by the State. During Connecticut budget negotiations, various proposals were made to share the costs of the Plan. Generally the net pension liability in a cost sharing plan is allocated based on the same allocation as the costs are allocated. The pension liability for teachers' in Torrington, currently reported 100% as a State of Connecticut liability, is \$107,322,905. This figure represents Torrington's share of the \$14,245,051,000 liability the State reports for all teachers in the plan.

Motor Vehicle Tax Cap – Beginning in fiscal year 2017, the State of Connecticut capped the mill rate for motor vehicle taxes. The motor vehicle mill rate cap for fiscal year 2018 will be 39 mills. The rate cap in fiscal year 2019 and thereafter will be 46 mills. Towns with mill rates above these thresholds are currently scheduled to be reimbursed for lost revenue.

Minimum Budget Requirement – The State of Connecticut has established a Minimum Budget Requirement ("MBR") for education expenditures. The MBR prohibits a City from budgeting less for education than it did in the previous year unless, and with limits, the City can demonstrate (1) a decrease in school enrollment or (2) savings through increased efficiencies. If the City receives an increase or decrease in their Education Cost Sharing grant, the MBR will increase or decrease by the same amount.

18. GASB Pronouncements Issued, But Not yet Effective

The Governmental Accounting Standards Board (GASB) is the standard setting board for governmental entities. The following are statements which have been approved by GASB but are not yet effective:

- GASB Statement 81 – *Irrevocable Split-Interest Agreements* – This Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement and is effective for periods beginning after December 15, 2016. Management does not expect this to have any financial impact on the City.
- GASB Statement 83 – *Certain Asset Retirement Obligations* – This statement addresses accounting and financial reporting for certain asset retirement obligations ("ARO"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. The statement is effective for periods beginning after June 15, 2018. Management does not expect this statement to have a significant impact on the Town.
- GASB Statement 84 – *Fiduciary Activities* – This statement provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported and is effective for periods beginning after December 15, 2018. Management is currently assessing the impact of this standard on the Town.
- GASB Statement 85 – *Omnibus 2017* – This statement addresses practice issues that have been identified during implementation and application of certain GASB statements and is effective for periods beginning after June 15, 2017. Management does not expect this statement to have a significant impact on the Town.

18. GASB Pronouncements Issued, But Not yet Effective (Continued)

- GASB Statement 86 – *Certain Debt Extinguishment Issues* –The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. Management does not expect this statement to have a significant impact on the Town.
- GASB Statement 87 – *Leases* - This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. Management is currently assessing the impact of this standard on the Town.

City of Torrington, Connecticut

Required Supplementary Information
June 30, 2017

Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Additional				
	Original	Appropriations and Transfers	Final		
REVENUES					
General Government Revenues					
Property tax collections	\$ 86,793,475	\$ -	\$ 86,793,475	\$ 86,785,466	\$ (8,009)
Motor vehicle supplement	950,000	-	950,000	1,212,124	262,124
Pequot fund grant	287,599	-	287,599	287,599	-
Circuit breaker	320,000	-	320,000	293,662	(26,338)
Enterprise Zone	50,000	-	50,000	71,176	21,176
In lieu of taxes	385,000	-	385,000	418,587	33,587
Disabled persons	8,000	-	8,000	8,637	637
MRSA sales tax sharing	2,435,109	-	2,435,109	2,435,109	-
MRSA bonded distribution	605,345	-	605,345	605,345	-
Additional veterans' grant	35,000	-	35,000	32,440	(2,560)
Telephone access lines	105,000	-	105,000	105,866	866
Street lights	1,045	-	1,045	1,045	-
Build America Bonds Subsidy	174,568	-	174,568	89,354	(85,214)
Vogel Elementary School	833,131	-	833,131	833,130	(1)
Group insurance workers comp	490,000	-	490,000	412,067	(77,933)
Insurance refund	-	-	-	75,760	75,760
Investment interest	100,000	-	100,000	97,403	(2,597)
Miscellaneous income	100,000	-	100,000	72,734	(27,266)
Probate	22,964	-	22,964	26,742	3,778
Auction proceeds	-	-	-	538	538
Credit card fees	-	-	-	4	4
Operating transfer in	1,400,000	-	1,400,000	1,400,000	-
	<u>95,096,236</u>	<u>-</u>	<u>95,096,236</u>	<u>95,264,788</u>	<u>168,552</u>
Building Department Revenues					
Miscellaneous income	2,500	-	2,500	4,290	1,790
New buildings and alterations	200,000	-	200,000	325,994	125,994
Plumbing fees	25,000	-	25,000	44,734	19,734
Electrical permit fees	75,000	-	75,000	100,789	25,789
Roofing permit fees	27,000	-	27,000	24,398	(2,602)
Sign and billboard permits	2,000	-	2,000	1,777	(223)
Demolition and removal	2,500	-	2,500	2,228	(272)
Heating permit fees	58,000	-	58,000	62,365	4,365
Certificate of occupancy	15,000	-	15,000	16,784	1,784
Planning and zoning fees	30,000	-	30,000	26,240	(3,760)
State mandated fees	7,500	-	7,500	11,866	4,366
Fees - work without permit	-	-	-	150	150
	<u>444,500</u>	<u>-</u>	<u>444,500</u>	<u>621,615</u>	<u>177,115</u>

(continued)

Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
City Clerk Department Revenues					
Conveyance tax	\$ 210,000	\$ -	\$ 210,000	\$ 227,840	\$ 17,840
Marriage licenses and permits	4,500	-	4,500	4,290	(210)
Copying and certification fees	30,000	-	30,000	30,961	961
Hunting and fishing	10,000	-	10,000	9,106	(894)
Notary	1,000	-	1,000	835	(165)
Dog fees	20,000	-	20,000	19,628	(372)
Recording fees	190,000	-	190,000	184,025	(5,975)
Vital statistics	100,000	-	100,000	101,107	1,107
State mandated fees	327,000	-	327,000	295,099	(31,901)
Credit card fees	1,000	-	1,000	598	(402)
	<u>893,500</u>	<u>-</u>	<u>893,500</u>	<u>873,489</u>	<u>(20,011)</u>
Public Safety Department Revenues					
Parking authority	60,000	-	60,000	77,941	17,941
Miscellaneous income	17,500	-	17,500	88,482	70,982
Canine Fund - Hotchkiss Trust	2,500	-	2,500	2,500	-
Fire - outside duty	500	-	500	318	(182)
Fire workers comp/insurance payroll	100,000	-	100,000	111,438	11,438
Police tickets and permits	197,470	407	197,877	194,307	(3,570)
Police workers comp and insurance	160,000	-	160,000	221,609	61,609
Police - outside duty	500,000	419,222	919,222	1,035,035	115,813
Miscellaneous charges and testing	3,000	-	3,000	620	(2,380)
Credit card fees	-	-	-	143	143
	<u>1,040,970</u>	<u>419,629</u>	<u>1,460,599</u>	<u>1,732,393</u>	<u>271,794</u>
Public Works Department Revenue					
MIRA fees (formerly CRRA)	45,000	-	45,000	31,744	(13,256)
Workers comp and insurance	15,000	-	15,000	6,264	(8,736)
Engineering fees	250	-	250	198	(52)
Street dept. miscellaneous fees	20,000	-	20,000	16,618	(3,382)
Water diversion fees	-	-	-	366	366
Landfill tire income	15,000	-	15,000	11,969	(3,031)
Miscellaneous charges	4,000	-	4,000	11,044	7,044
Recycling income	50	-	50	32	(18)
Sidewalk repair fees	50,000	-	50,000	-	(50,000)
Credit card fees	-	-	-	12	12
	<u>149,300</u>	<u>-</u>	<u>149,300</u>	<u>78,247</u>	<u>(71,053)</u>
Recreation - swimming fees	15,000	-	15,000	10,875	(4,125)
City Real Estate Revenue	19,000	-	19,000	14,417	(4,583)
Board of Education					
Education cost sharing grant	26,237,717	-	26,237,717	26,175,839	(61,878)
Nonpublic health and welfare	31,320	-	31,320	29,744	(1,576)
Capital projects reimbursement	1,387,508	-	1,387,508	277,122	(1,110,386)
Workers comp and insurance	2,235,393	-	2,235,393	1,741,378	(494,015)
	<u>29,891,938</u>	<u>-</u>	<u>29,891,938</u>	<u>28,224,083</u>	<u>(1,667,855)</u>
Total Revenues	<u>127,550,444</u>	<u>419,629</u>	<u>127,970,073</u>	<u>126,819,907</u>	<u>(1,150,166)</u>

(continued)

Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2017

EXPENDITURES	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
General Government:					
Assessor	\$ 407,342	\$ -	\$ 407,342	\$ 405,315	\$ 2,027
Board of Assessment	5,600	-	5,600	4,100	1,500
Boards and agencies	351,985	(25,000)	326,985	314,562	12,423
Building	362,907	9,095	372,002	369,380	2,622
City real estate	466,855	-	466,855	400,275	66,580
City clerk	736,793	-	736,793	685,796	50,997
Comptroller	365,732	-	365,732	328,257	37,475
Corporate counsel	193,668	-	193,668	192,648	1,020
Mayor	231,766	-	231,766	229,563	2,203
Personnel	214,242	-	214,242	208,633	5,609
Planning and zoning	236,192	3,621	239,813	236,910	2,903
Purchasing	115,564	-	115,564	111,492	4,072
Registrars	168,603	-	168,603	140,788	27,815
Elderly services	331,798	413	332,211	314,595	17,616
Treasurer	66,331	-	66,331	66,133	198
Information services	790,583	-	790,583	709,861	80,722
Economic development	112,002	-	112,002	107,508	4,494
Probate	40,156	-	40,156	38,439	1,717
City wide services	2,103,146	(1,916,655)	186,491	184,126	2,365
	<u>7,301,265</u>	<u>(1,928,526)</u>	<u>5,372,739</u>	<u>5,048,381</u>	<u>324,358</u>
Public Safety					
Public safety miscellaneous	2,455,931	419,222	2,875,153	2,662,629	212,524
Emergency management	35,611	-	35,611	30,141	5,470
Fire	5,099,487	356,635	5,456,122	5,334,242	121,880
Fire - volunteers	100,758	745	101,503	100,998	505
Police	8,776,072	456,121	9,232,193	8,782,361	449,832
Animal control	260,053	11,448	271,501	268,471	3,030
Traffic management	344,875	12,672	357,547	357,468	79
	<u>17,072,787</u>	<u>1,256,843</u>	<u>18,329,630</u>	<u>17,536,310</u>	<u>793,320</u>
Public Works					
Administration	149,642	6,285	155,927	155,057	870
City hall	196,968	-	196,968	168,066	28,902
Engineering	671,225	16,252	687,477	667,460	20,017
Landfill	965,480	-	965,480	936,239	29,241
Sanitary sewer / street lights	235,230	-	235,230	230,523	4,707
Streets	4,787,132	913,816	5,700,948	5,657,350	43,598
Parks	1,074,765	151,887	1,226,652	1,160,414	66,238
	<u>8,080,442</u>	<u>1,088,240</u>	<u>9,168,682</u>	<u>8,975,109</u>	<u>193,573</u>
Health	2,887,969	-	2,887,969	2,835,655	52,314
Recreation	394,919	3,072	397,991	377,442	20,549
					(continued)

Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
Financial					
Bond redemption	\$ 2,530,000	\$ -	\$ 2,530,000	\$ 2,530,000	\$ -
Debt interest and expense	1,008,887	-	1,008,887	883,999	124,888
Insurance	1,642,748	-	1,642,748	1,605,942	36,806
Pension and benefits	11,381,427	63,709	11,445,136	11,445,135	1
Tax collector contract	564,300	-	564,300	502,899	61,401
	<u>17,127,362</u>	<u>63,709</u>	<u>17,191,071</u>	<u>16,967,975</u>	<u>223,096</u>
Board of Education	74,335,700	-	74,335,700	72,765,694	1,570,006
Contingency	350,000	(63,709)	286,291	140,000	146,291
Total expenditures	<u>127,550,444</u>	<u>419,629</u>	<u>127,970,073</u>	<u>124,646,566</u>	<u>3,323,507</u>
Excess (Deficiency) of Revenues					
Over Expenditures - Budgetary Basis	\$ -	\$ -	\$ -	2,173,341	\$ 2,173,341

Adjustments to Generally Accepted Accounting Principles (GAAP):

Payments on Behalf of the Town Not Recorded on a Budgetary Basis:	
Revenues from Teachers' Retirement	11,703,948
Expenditures for Teachers' Retirement	(11,703,948)
Internal transactions treated as expenditures in the budget	
Repayment of brownfield remediation loan to Other Special Revenue Fund	67,000
Internal transfer of revaluation monies	50,000
Revaluation interest income not treated as revenue in the budget	34
Change in Board of Education Accrued Payroll Not Recorded on a Budgetary Basis	139,398
Current Year Encumbrances recorded on Budget Basis Only	
Town	98,888
Education	1,071,876
Previous Year Encumbrances Recorded on the Modified Accrual Basis Only	
Town	(46,093)
Education	(165,292)
Other Financing Sources - Difference in Treatment of Debt Defeasance	
Proceeds from refunding bonds	12,840,000
Premium on Financing	1,054,392
Payment to refunded bond escrow agent	(5,773,866)
Interest on bonds paid out of escrow	(233,201)
Bond issuance costs	<u>(149,280)</u>

Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses - GAAP Basis (Exhibit 4)	<u>\$ 11,127,197</u>
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Notes to Required Supplementary Information: This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions: 1) The City does not recognize as income or expenditures payments made for the teacher's retirement by the State of Connecticut for the City's teachers; 2) Revenues and expenditures from capital leasing and for renewing or refunding long-term debt are included in the budget as the net revenue or expenditure expected; 3) Encumbrances are treated as expenditures against the budget in the year committed; 4) Certain education payroll is budgeted on a cash basis; 5) Certain internal transfers not recognized as expenditures for GAAP purposes are treated as expenditures in the budget; 6) The excess cost grant is netted in the budget in accordance with state statutes.

Required Supplementary Information
City of Torrington Employee Retirement Plan
Schedule of Changes in Net Pension Liability and Related Ratios
Since Inception of GASB 67/68

	Municipal Employees		
	2017	2016	2015
Total Pension Liability			
Service cost	\$ 903,306	\$ 832,714	\$ 847,373
Interest on total pension liability	3,447,081	3,319,339	3,388,757
Differences between expected and actual experience	(587,142)	-	(2,700,565)
Changes of assumptions	63,642	-	(2)
Benefit payments	(2,557,951)	(2,436,843)	(2,455,752)
Net change in total pension liability	1,268,936	1,715,210	(920,189)
Total pension liability, beginning	46,336,750	44,621,540	45,541,729
Total pension liability, ending	47,605,686	46,336,750	44,621,540
Fiduciary Net Position			
Employer contributions	1,360,145	1,521,271	2,130,792
Member contributions	334,994	353,195	362,688
Investment income net of investment expenses	4,225,538	(256,752)	728,798
Benefit payments	(2,557,951)	(2,436,843)	(2,455,752)
Administrative expenses	(25,163)	(25,797)	(36,205)
Other	(61,594)	9,258	-
Net change in plan fiduciary net position	3,275,969	(835,668)	730,321
Fiduciary net position, beginning	35,266,456	36,102,124	35,371,803
Fiduciary net position, ending	38,542,425	35,266,456	36,102,124
Net pension liability, ending	<u>\$ 9,063,261</u>	<u>\$11,070,294</u>	<u>\$ 8,519,416</u>
Fiduciary net position as a % of total pension liability	80.96%	76.11%	80.91%
Covered payroll	\$ 6,941,007	\$ 7,180,419	\$ 7,508,384
Net pension liability as a % of covered payroll	130.58%	154.17%	113.47%

(continued)

Required Supplementary Information (continued)
City of Torrington Employee Retirement Plan
Schedule of Changes in Net Pension Liability and Related Ratios
Since Inception of GASB 67/68

	Police and Fire		
	2017	2016	2015
Total Pension Liability			
Service cost	\$ 1,777,628	\$ 1,629,262	\$ 1,562,617
Interest on total pension liability	6,453,191	6,279,584	5,915,425
Changes of benefits terms	(127,841)	-	-
Difference between expected and actual experience	2,581,055	-	2,967,870
Changes of assumptions	3,158,910	-	-
Benefit payments	(5,689,529)	(5,692,476)	(5,622,992)
Net change in total pension liability	8,153,414	2,216,370	4,822,920
Total pension liability, beginning	87,109,682	84,893,312	80,070,392
Total pension liability, ending	95,263,096	87,109,682	84,893,312
Fiduciary Net Position			
Employer contributions	3,599,764	3,795,161	3,926,071
Member contributions	709,907	715,430	712,134
Investment income net of investment expenses	6,165,567	(485,726)	1,178,199
Benefit payments	(5,689,529)	(5,692,476)	(5,622,992)
Administrative expenses	(43,794)	(36,760)	(45,702)
Other	44,709	13,871	(1)
Net change in plan fiduciary net position	4,786,624	(1,690,500)	147,709
Fiduciary net position, beginning	51,921,815	53,612,315	53,464,606
Fiduciary net position, ending	56,708,439	51,921,815	53,612,315
Net pension liability, ending	<u>\$38,554,657</u>	<u>\$35,187,867</u>	<u>\$31,280,997</u>
Fiduciary net position as a % of total pension liability	59.53%	59.61%	63.15%
Covered payroll	\$ 9,031,565	\$ 8,797,081	\$10,060,356
Net pension liability as a % of covered payroll	426.89%	399.99%	310.93%

City of Torrington, Connecticut

RSI-2b

Required Supplementary Information
 City of Torrington Employee Retirement Plan
 Schedule of Employer Contributions
 Last 10 Fiscal Years

Municipal Employees:

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 1,185,738	\$1,349,133	\$ 1,756,607	\$1,775,712	\$ 1,374,634	\$1,374,634	\$1,125,528	\$1,125,528	\$1,051,488	\$1,051,488
Contributions in relation to the actuarially determined contribution	<u>1,360,145</u>	<u>1,521,271</u>	<u>2,130,792</u>	<u>1,562,782</u>	<u>1,447,879</u>	<u>1,444,183</u>	<u>1,271,233</u>	<u>1,237,993</u>	<u>1,197,536</u>	<u>1,185,979</u>
Contribution deficiency (excess)	<u>\$ (174,407)</u>	<u>\$ (172,138)</u>	<u>\$ (374,185)</u>	<u>\$ 212,930</u>	<u>\$ (73,245)</u>	<u>\$ (69,549)</u>	<u>\$ (145,705)</u>	<u>\$ (112,465)</u>	<u>\$ (146,048)</u>	<u>\$ (134,491)</u>
Covered employee payroll	\$ 6,941,007	\$ 7,180,419	\$ 7,508,384	\$ 7,675,621	\$ 8,481,377	\$ 8,481,377	\$ 8,178,483	\$ 8,178,483	\$ -	\$ -
Contributions as a percentage of covered employee payroll	19.60%	21.19%	28.38%	20.36%	17.07%	17.03%	15.54%	15.14%	0.00%	0.00%

Police and Fireman:

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 3,452,634	\$3,690,619	\$ 3,861,898	\$3,827,288	\$ 3,357,655	\$3,308,035	\$2,801,257	\$2,801,257	\$2,523,618	\$2,523,618
Contributions in relation to the actuarially determined contribution	<u>3,599,764</u>	<u>3,795,161</u>	<u>3,926,071</u>	<u>3,397,552</u>	<u>3,322,432</u>	<u>3,325,432</u>	<u>2,813,257</u>	<u>2,801,257</u>	<u>2,536,618</u>	<u>2,524,618</u>
Contribution deficiency (excess)	<u>\$ (147,130)</u>	<u>\$ (104,542)</u>	<u>\$ (64,173)</u>	<u>\$ 429,736</u>	<u>\$ 35,223</u>	<u>\$ (17,397)</u>	<u>\$ (12,000)</u>	<u>\$ -</u>	<u>\$ (13,000)</u>	<u>\$ (1,000)</u>
Covered employee payroll	\$ 9,031,565	\$ 8,797,081	\$ 10,060,356	\$ 9,348,008	\$ 10,061,083	\$ 9,912,397	\$ 9,579,705	\$ 9,579,705	\$ 8,178,483	\$ 8,178,483
Contributions as a percentage of covered employee payroll	39.86%	43.14%	39.03%	36.35%	33.02%	33.55%	29.37%	29.24%	31.02%	30.87%

Notes to the Schedule

Valuation Date The Plan Sponsor uses the July 1, 2014 Actuarial Valuation to calculate the ADEC for the fiscal year ending 2017.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Closed level dollar period of 26 years as of July 1, 2016
Asset valuation method	4-year smoothed market
Inflation	2.60%
Investment rate of return	7.25%
Salary increases	Varies by age
Retirement age	Varies by age
Mortality	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016

See Independent Auditors' Report

Required Supplementary Information
City of Torrington Employee Retirement Plans
Schedule of Money-Weighted Rate of Return
Last 10 years

Municipal Employees	
Fiscal Year	Net
Ending	Money-Weighted
June 30,	Rate of Return
2017	11.84%
2016	-0.72%
2015	2.06%
2014	16.13%
2013	NA
2012	NA
2011	NA
2010	NA
2009	NA
2008	NA

Police and Fire	
Fiscal Year	Net
Ending	Money-Weighted
June 30,	Rate of Return
2017	11.80%
2016	-0.92%
2015	2.22%
2014	16.42%
2013	NA
2012	NA
2011	NA
2010	NA
2009	NA
2008	NA

See Independent Auditors' Report

Required Supplementary Information
 Other Post Employment Benefit Plan
 Schedule of Changes in Net OPEB Liability and Related Ratios
 Since Inception of GASB 74/75

	2017
Total OPEB Liability	
Service cost	\$ 4,889,457
Interest	4,190,877
Differences between expected and actual experience	391,596
Benefit payments	<u>(4,379,819)</u>
Net change in total OPEB liability	5,092,111
Total OPEB liability - beginning as restated	<u>116,826,856</u>
Total OPEB liability - ending	<u>121,918,967</u>
Plan Fiduciary Net Position	
Employer contributions	4,306,115
Contributions - Teachers' Retirement System	123,704
Net investment income	1,417
Benefit payments	<u>(4,379,819)</u>
Net change in plan fiduciary net position	51,417
Fiduciary net position - beginning	<u>-</u>
Fiduciary net position - ending:	<u>51,417</u>
Net OPEB liability (asset), ending	<u><u>\$ 121,867,550</u></u>
Fiduciary net position as a % of total OPEB liability	0.04%
Covered payroll	\$ 53,620,900
Net OPEB liability (asset) as a % of covered payroll	227.28%

This schedule is intended to show 10 years of data. Additional years will be displayed as they become available.

Required Supplementary Information
 Other Post Employment Benefit Plan
 Schedule of Employer Contributions
 Since Inception of GASB 74/75

	<u>2017</u>
Actuarially determined employer contribution ("ADEC")	\$ 11,094,900 *
Contributions in relation to the ADEC	<u>4,306,115</u>
Contribution deficiency (excess)	<u>\$ 6,788,785</u>
Covered payroll	\$ 53,620,900
Contributions as a percentage of covered payroll	8.03%

* This is based on the new GASB 75 standards, the employer contributions were based on the prior standards.

Notes to the Schedule

Valuation Date	July 1, 2016
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	
Level percent or level dollar	Level percent of salary
Closed, open or layered	Open
Amortization period	30 years
Asset valuation method	Fair value
Inflation	2.60%
Payroll growth	4.75%
Investment rate of return	3.50%
Healthcare cost trends	7.75% in 2016 reducing by .5% each year to a final 5% per year for 2020 and later
Retirement age	25 years of service with varying retirement rates
Post-retirement mortality	RP-2014 projected to the valuation date with Scale BB for projections for the current year.

This schedule is intended to show 10 years of data. Additional years will be displayed as they become available.

Required Supplementary Information
Other Post Employment Benefit Trust Fund
Schedule of Net Money-Weighted Rate of Return
Since Inception of GASB 74/75

Fiscal Year Ending June 30	Net Money-Weighted Rate of Return
2017	2.83%

This schedule is intended to show 10 years of data. Additional years will be displayed as they become available.

Required Supplementary Information
Connecticut Teachers' Retirement System
Last 10 Fiscal Years or Since the Inception of GASB 67/68

Schedule of Changes in Net Pension Liability and Related Ratios

	2017	2016	2015
City's percentage of collective net pension liability	0.00%	0.00%	0.00%
City's proportionate share of the collective net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the collective net pension liability associated with the employer	\$ 107,322,905	\$ 80,724,853	\$ 74,613,949
Total proportionate share of the collective net pension liability	\$ 107,322,905	\$ 80,724,853	\$ 74,613,949
City's covered payroll (1)	N/A	N/A	N/A
City's proportionate share of the collective net pension liability as a % of covered payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a % of total pension liability	52.26%	59.50%	61.51%

Schedule of Employer Contributions

Contractually required City contribution	(2) \$ -	\$ -	\$ -
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(1) Not applicable since 0% proportional share of the net pension liability

(2) The City is not required to contribute to the plan. The State contributes on behalf of the City.

This schedule is intended to show 10 years of data. Additional years will be displayed as they become available.

Required Supplementary Information
 Connecticut Teachers' Retirement System (*continued*)
 Last 10 Fiscal Years or Since the Inception of GASB 67/68

Notes to Required Supplementary Information

Changes in benefit term	None
Changes in assumptions	<ol style="list-style-type: none"> 1. Reduce the inflation assumption from 3.00% to 2.75% 2. Reduce the real rate of return assumption from 5.50% to 5.25% which, when combined with the inflation assumption change, results in a decrease in the investment rate of return assumption from 8.50% to 8.00%. 3. Reduce the annual rate of wage increase assumption from 0.75% to 0.50%. 4. Slightly modify the merit portion of the salary scale. 5. Reduce the payroll growth assumption from 3.75% to 3.25%. 6. Update mortality tables to projected versions of the RPH-2014 mortality tables. 7. Increase normal retirement rates for females at most ages and prorate retirement rates for males at most ages. Decrease early retirement rates for both males and females. 8. Increase rates of withdrawal 9. Decrease rates of disability for males.
Actuarial cost method	Entry Age
Amortization method	Level percent of salary, closed
Remaining amortization period	21.4 years
Asset valuation method	4 year smoothed market
Inflation	2.75%
Salary increases	3.25% -6.50%, average, including inflation
Investment rate of return	8.00% net of pension plan investment expense, including inflation

City of Torrington, Connecticut

Combining Fund Financial Statements
June 30, 2017

Combining Balance Sheet
Other Governmental Funds
June 30, 2017

	Special Revenue Funds	Capital Projects Funds	Permanent Fund Captain Besse Trust	Total Other Governmental Funds
ASSETS				
Cash and equivalents	\$3,699,135	\$10,747,655	\$ 4,867	\$14,451,657
Other receivables				
Accounts	-	288,222	-	288,222
Loans	3,211,259	-	-	3,211,259
Intergovernmental	741,740	-	-	741,740
Advances to other funds	536,000	-	-	536,000
Inventory	16,532	-	-	16,532
Total Assets	<u>\$8,204,666</u>	<u>\$11,035,877</u>	<u>\$ 4,867</u>	<u>\$19,245,410</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 361,711	\$ 221,997	\$ -	\$ 583,708
Due to other funds	16,839	296,739	-	313,578
Unearned revenues	289,690	808,492	-	1,098,182
Total Liabilities	<u>668,240</u>	<u>1,327,228</u>	<u>-</u>	<u>1,995,468</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				
Other	-	70,751	-	70,751
Fund Balances				
Nonspendable	16,532	-	3,500	20,032
Restricted	7,519,894	-	1,367	7,521,261
Committed	-	9,934,637	-	9,934,637
Assigned	-	-	-	-
Unassigned	-	(296,739)	-	(296,739)
Total Fund Balances	<u>7,536,426</u>	<u>9,637,898</u>	<u>4,867</u>	<u>17,179,191</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$8,204,666</u>	<u>\$11,035,877</u>	<u>\$ 4,867</u>	<u>\$19,245,410</u>

See Independent Auditors' Report

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Other Governmental Funds
 For the Year Ended June 30, 2017

	Special Revenue Funds	Capital Projects Funds	Permanent Fund Captain Besse Trust	Total Other Governmental Funds
REVENUES				
Sewer line fees	\$ -	\$ 248,715	\$ -	\$ 248,715
Intergovernmental	8,921,749	3,383,591	-	12,305,340
Investment income	1,782	542	5	2,329
Program income	1,681,534	-	-	1,681,534
Other revenues	423,864	36,124	-	459,988
Total Revenues	<u>11,028,929</u>	<u>3,668,972</u>	<u>5</u>	<u>14,697,906</u>
EXPENDITURES				
Current Expenditures				
General government	626,164	-	-	626,164
Public safety	174,654	-	-	174,654
Public works	1,580,174	1,495,273	-	3,075,447
Public health and social services	1,687,262	-	-	1,687,262
Culture and recreation	260,259	-	-	260,259
Education	6,528,389	-	-	6,528,389
Debt Service				
Bond issuance costs	-	89,924	-	89,924
Capital Outlay	-	3,327,390	-	3,327,390
Total Expenditures	<u>10,856,902</u>	<u>4,912,587</u>	<u>-</u>	<u>15,769,489</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>172,027</u>	<u>(1,243,615)</u>	<u>5</u>	<u>(1,071,583)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	24,891	3,777,127	-	3,802,018
Transfers out	(128,290)	(24,366)	-	(152,656)
Proceeds from capital lease	-	311,381	-	311,381
Total Other Financing Sources (Uses)	<u>(103,399)</u>	<u>4,064,142</u>	<u>-</u>	<u>3,960,743</u>
Net Change in Fund Balance	68,628	2,820,527	5	2,889,160
Fund Balances - Beginning of Year	<u>7,467,798</u>	<u>6,817,371</u>	<u>4,862</u>	<u>14,290,031</u>
Fund Balances - End of Year	<u>\$7,536,426</u>	<u>\$9,637,898</u>	<u>\$ 4,867</u>	<u>\$17,179,191</u>

See Independent Auditors' Report

Combining Balance Sheet
Special Revenue Funds
June 30, 2017

	National School Lunch Program	Nutrition Program	Town Aid Roads	Small Cities Block Grants	Federal and State Educational Grants	Coe Memorial
ASSETS						
Cash and equivalents	\$ 259,961	\$ 262,167	\$ 310,070	\$ 200,536	\$ 772,443	\$ 418,487
Other receivables						
Loans	-	-	-	3,155,259	-	-
Intergovernmental	243,768	141,543	-	116	145,588	-
Advances to other funds	-	-	-	-	-	-
Inventory	16,532	-	-	-	-	-
Total Assets	<u>\$ 520,261</u>	<u>\$ 403,710</u>	<u>\$ 310,070</u>	<u>\$ 3,355,911</u>	<u>\$ 918,031</u>	<u>\$ 418,487</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 26,422	\$ 49,083	\$ 134,689	\$ 116	\$ 94,723	\$ 2,369
Due to other funds	-	-	-	-	-	-
Unearned revenues	-	-	-	-	265,514	-
Total Liabilities	<u>26,422</u>	<u>49,083</u>	<u>134,689</u>	<u>116</u>	<u>360,237</u>	<u>2,369</u>
Fund Balances						
Nonspendable	16,532	-	-	-	-	-
Restricted	477,307	354,627	175,381	3,355,795	557,794	416,118
Total Fund Balances	<u>493,839</u>	<u>354,627</u>	<u>175,381</u>	<u>3,355,795</u>	<u>557,794</u>	<u>416,118</u>
Total Liabilities and Fund Balances	<u>\$ 520,261</u>	<u>\$ 403,710</u>	<u>\$ 310,070</u>	<u>\$ 3,355,911</u>	<u>\$ 918,031</u>	<u>\$ 418,487</u>

(Continued)

Combining Balance Sheet
Special Revenue Funds
June 30, 2017

	Elderly and Social Services	Culture and Recreation	Public Works	Public Safety	Economic Development	Other Special Revenue Fund	Total Special Revenue Funds
ASSETS							
Cash and equivalents	\$ 164,568	\$ 519,898	\$ 336,433	\$ -	\$ 155,276	\$ 299,296	\$ 3,699,135
Other receivables							
Loans	-	56,000	-	-	-	-	3,211,259
Intergovernmental	17,924	23,359	36,103	133,339	-	-	741,740
Advances to other funds	-	-	-	-	536,000	-	536,000
Inventory	-	-	-	-	-	-	16,532
Total Assets	<u>\$ 182,492</u>	<u>\$ 599,257</u>	<u>\$ 372,536</u>	<u>\$ 133,339</u>	<u>\$ 691,276</u>	<u>\$ 299,296</u>	<u>\$ 8,204,666</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 1,058	\$ 51,874	\$ -	\$ -	\$ -	\$ 1,377	\$ 361,711
Due to other funds	-	-	-	16,839	-	-	16,839
Unearned revenues	966	5	-	238	20,000	2,967	289,690
Total Liabilities	<u>2,024</u>	<u>51,879</u>	<u>-</u>	<u>17,077</u>	<u>20,000</u>	<u>4,344</u>	<u>668,240</u>
Fund Balances							
Nonspendable	-	-	-	-	-	-	16,532
Restricted	180,468	547,378	372,536	116,262	671,276	294,952	7,519,894
Total Fund Balances	<u>180,468</u>	<u>547,378</u>	<u>372,536</u>	<u>116,262</u>	<u>671,276</u>	<u>294,952</u>	<u>7,536,426</u>
Total Liabilities and Fund Balances	<u>\$ 182,492</u>	<u>\$ 599,257</u>	<u>\$ 372,536</u>	<u>\$ 133,339</u>	<u>\$ 691,276</u>	<u>\$ 299,296</u>	<u>\$ 8,204,666</u>

See Independent Auditors' Report

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Funds
For the Year Ended June 30, 2017

	National School Lunch Program	Nutrition Program	Town Aid Roads	Small Cities Block Grants	Federal and State Educational Grants	Coe Memorial	Elderly and Social Services
REVENUES							
Intergovernmental	\$ 1,341,268	\$ 928,232	\$ 460,205	\$ 268,719	\$ 4,581,611	\$ -	\$ 465,652
Investment income	-	10	42	6	-	45	-
Program income	661,469	383,826	-	61,836	-	135,780	143,530
Other revenues	-	37,128	-	11,430	69,865	110,242	66,026
Total Revenues	<u>2,002,737</u>	<u>1,349,196</u>	<u>460,247</u>	<u>341,991</u>	<u>4,651,476</u>	<u>246,067</u>	<u>675,208</u>
EXPENDITURES							
Current Expenditures							
General government	-	-	-	392,718	-	-	168,832
Public safety	-	-	-	-	-	-	-
Public works	-	-	238,128	-	-	234,283	-
Public health and social services	-	1,214,773	-	-	-	-	471,783
Recreation	-	-	-	-	-	-	-
Education	2,002,890	-	-	-	4,481,745	-	-
Total Expenditures	<u>2,002,890</u>	<u>1,214,773</u>	<u>238,128</u>	<u>392,718</u>	<u>4,481,745</u>	<u>234,283</u>	<u>640,615</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(153)</u>	<u>134,423</u>	<u>222,119</u>	<u>(50,727)</u>	<u>169,731</u>	<u>11,784</u>	<u>34,593</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	-	1,801	2,000
Transfers out	-	-	(92,901)	-	-	-	(20,119)
Total Other Financing Sources (Uses)	-	-	(92,901)	-	-	1,801	(18,119)
Net Change in Fund Balance	(153)	134,423	129,218	(50,727)	169,731	13,585	16,474
Fund Balances - Beginning of Year	<u>493,992</u>	<u>220,204</u>	<u>46,163</u>	<u>3,406,522</u>	<u>388,063</u>	<u>402,533</u>	<u>163,994</u>
Fund Balances - End of Year	<u>\$ 493,839</u>	<u>\$ 354,627</u>	<u>\$ 175,381</u>	<u>\$ 3,355,795</u>	<u>\$ 557,794</u>	<u>\$ 416,118</u>	<u>\$ 180,468</u>

(Continued)

Combining Statement of Revenues, Expenditures
 Special Revenue Funds
 For the Year Ended June 30, 2017

	Culture and Recreation	Public Works	Public Safety	Economic Development	Other Special Revenue Fund	Total Special Revenue Funds
REVENUES						
Intergovernmental	\$ 25,167	\$ 698,088	\$ 147,807	\$ -	\$ 5,000	\$8,921,749
Investment income	1,662	2	12	-	3	1,782
Program income	208,943	14,538	-	-	71,612	1,681,534
Other revenues	62,022	8,450	44,238	-	14,463	423,864
Total Revenues	<u>297,794</u>	<u>721,078</u>	<u>192,057</u>	<u>-</u>	<u>91,078</u>	<u>11,028,929</u>
EXPENDITURES						
Current Expenditures						
General government	1,809	-	-	-	62,805	626,164
Public safety	-	-	174,654	-	-	174,654
Public works	-	1,107,763	-	-	-	1,580,174
Public health and social services	-	-	-	-	706	1,687,262
Recreation	260,259	-	-	-	-	260,259
Education	43,754	-	-	-	-	6,528,389
Total Expenditures	<u>305,822</u>	<u>1,107,763</u>	<u>174,654</u>	<u>-</u>	<u>63,511</u>	<u>10,856,902</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,028)</u>	<u>(386,685)</u>	<u>17,403</u>	<u>-</u>	<u>27,567</u>	<u>172,027</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	16,625	-	-	-	4,465	24,891
Transfers out	-	-	-	-	(15,270)	(128,290)
Total Other Financing Sources (Uses)	<u>16,625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,805)</u>	<u>(103,399)</u>
Net Change in Fund Balance	8,597	(386,685)	17,403	-	16,762	68,628
Fund Balances - Beginning of Year	<u>538,781</u>	<u>759,221</u>	<u>98,859</u>	<u>671,276</u>	<u>278,190</u>	<u>7,467,798</u>
Fund Balances - End of Year	<u>\$ 547,378</u>	<u>\$ 372,536</u>	<u>\$ 116,262</u>	<u>\$ 671,276</u>	<u>\$ 294,952</u>	<u>\$7,536,426</u>

See Independent Auditors' Report

Combining Balance Sheet
Capital Projects Funds
June 30, 2017

	Sanitary Sewer Capital Improvement Program	Vehicle Replacement Fund	Capital Reserves Fund	Torrington School	City Hall Renovation s	Other Capital Projects	Total Capital Projects Funds
ASSETS							
Cash and equivalents	\$ 2,770,144	\$ 1,557,959	\$ 2,470,582	\$ 631	\$ -	\$ 3,948,339	\$ 10,747,655
Other receivables							
Accounts	70,751	-	-	-	-	217,471	288,222
Total Assets	<u>\$ 2,840,895</u>	<u>\$ 1,557,959</u>	<u>\$ 2,470,582</u>	<u>\$ 631</u>	<u>\$ -</u>	<u>\$ 4,165,810</u>	<u>\$ 11,035,877</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 9,055	\$ -	\$ 122,113	\$ -	\$ -	\$ 90,829	\$ 221,997
Due to other funds	-	-	-	-	296,739	-	296,739
Unearned revenues	-	-	-	-	-	808,492	808,492
Total Liabilities	<u>9,055</u>	<u>-</u>	<u>122,113</u>	<u>-</u>	<u>296,739</u>	<u>899,321</u>	<u>1,327,228</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	<u>70,751</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,751</u>
Fund Balances (Deficits)							
Committed	2,761,089	1,557,959	2,348,469	631	-	3,266,489	9,934,637
Unassigned	-	-	-	-	(296,739)	-	(296,739)
Total Fund Balances (Deficits)	<u>2,761,089</u>	<u>1,557,959</u>	<u>2,348,469</u>	<u>631</u>	<u>(296,739)</u>	<u>3,266,489</u>	<u>9,637,898</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	<u>\$ 2,840,895</u>	<u>\$ 1,557,959</u>	<u>\$ 2,470,582</u>	<u>\$ 631</u>	<u>\$ -</u>	<u>\$ 4,165,810</u>	<u>\$ 11,035,877</u>

See Independent Auditors' Report

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)

Capital Projects Funds

For the Year Ended June 30, 2017

	Sanitary Sewer Capital Improvement Program	Vehicle Replacement Fund	Capital Reserves Fund	Torrington School	City Hall Renovations	Other Capital Projects	Total Capital Projects Funds
REVENUES							
Sewer line fees	\$ 248,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 248,715
Intergovernmental	1,845,789	-	-	-	-	1,537,802	3,383,591
Investment income	205	147	190	-	-	-	542
Other revenues	-	16,560	19,564	-	-	-	36,124
Total Revenues	<u>2,094,709</u>	<u>16,707</u>	<u>19,754</u>	<u>-</u>	<u>-</u>	<u>1,537,802</u>	<u>3,668,972</u>
EXPENDITURES							
Current Expenditures							
Public works	-	-	-	-	-	1,495,273	1,495,273
Debt Service							
Bond issuance costs	-	-	-	-	-	89,924	89,924
Capital Outlay	<u>1,885,113</u>	<u>448,787</u>	<u>882,373</u>	<u>-</u>	<u>111,117</u>	<u>-</u>	<u>3,327,390</u>
Total Expenditures	<u>1,885,113</u>	<u>448,787</u>	<u>882,373</u>	<u>-</u>	<u>111,117</u>	<u>1,585,197</u>	<u>4,912,587</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>209,596</u>	<u>(432,080)</u>	<u>(862,619)</u>	<u>-</u>	<u>(111,117)</u>	<u>(47,395)</u>	<u>(1,243,615)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	617,354	805,692	978,564	-	-	1,375,517	3,777,127
Transfers out	-	-	-	-	-	(24,366)	(24,366)
Proceeds from lease	-	-	311,381	-	-	-	311,381
Total Other Financing Sources (Uses)	<u>617,354</u>	<u>805,692</u>	<u>1,289,945</u>	<u>-</u>	<u>-</u>	<u>1,351,151</u>	<u>4,064,142</u>
Net Change in Fund Balance	826,950	373,612	427,326	-	(111,117)	1,303,756	2,820,527
Fund Balances (Deficits) - Beginning of Year	<u>1,934,139</u>	<u>1,184,347</u>	<u>1,921,143</u>	<u>631</u>	<u>(185,622)</u>	<u>1,962,733</u>	<u>6,817,371</u>
Fund Balances (Deficits) - End of Year	<u>\$ 2,761,089</u>	<u>\$ 1,557,959</u>	<u>\$ 2,348,469</u>	<u>\$ 631</u>	<u>\$ (296,739)</u>	<u>\$ 3,266,489</u>	<u>\$ 9,637,898</u>

See Independent Auditors' Report

Combining Statement of Net Position
Internal Service Funds
June 30, 2017

	Self Insurance Fund	Maintenance Fund	Total Internal Service Funds
ASSETS			
Current Assets			
Cash and equivalents	\$ 5,496,409	\$ -	\$ 5,496,409
Receivables			
Accounts	30,447	21,916	52,363
Prepaid expense	<u>423,917</u>	<u>-</u>	<u>423,917</u>
Total Assets	<u>\$ 5,950,773</u>	<u>\$ 21,916</u>	<u>\$ 5,972,689</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 1,522,202	\$ 24,841	\$ 1,547,043
Due to other funds	<u>-</u>	<u>287,900</u>	<u>287,900</u>
Total Liabilities	<u>1,522,202</u>	<u>312,741</u>	<u>1,834,943</u>
NET POSITION			
Unrestricted	<u>\$ 4,428,571</u>	<u>\$ (290,825)</u>	<u>\$ 4,137,746</u>

Combining Statement of Revenues, Expenses and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2017

	Self Insurance Fund	Maintenance Fund	Total Internal Service Funds
OPERATING REVENUES			
Charges for services	\$ 19,388,204	\$ 1,260,391	\$ 20,648,595
Other	481,671	-	481,671
Total Operating Revenues	<u>19,869,875</u>	<u>1,260,391</u>	<u>21,130,266</u>
OPERATING EXPENSES			
Payroll and employee benefits	-	783,882	783,882
Repairs and maintenance	-	247,986	247,986
Materials and supplies	-	30,801	30,801
Utilities	-	324,824	324,824
Other operating expense	-	3,734	3,734
Insurance and program services	<u>20,226,816</u>	<u>-</u>	<u>20,226,816</u>
Total Operating Expenses	<u>20,226,816</u>	<u>1,391,227</u>	<u>21,618,043</u>
Income from Operations	<u>(356,941)</u>	<u>(130,836)</u>	<u>(487,777)</u>
NON-OPERATING REVENUES			
Interest income	<u>1,890</u>	<u>-</u>	<u>1,890</u>
Income Before Transfers	(355,051)	(130,836)	(485,887)
Transfers in	-	161,789	161,789
Transfers out	<u>(1,400,000)</u>	<u>(5,692)</u>	<u>(1,405,692)</u>
Transfers, Net	<u>(1,400,000)</u>	<u>156,097</u>	<u>(1,243,903)</u>
Change in Net Position	(1,755,051)	25,261	(1,729,790)
Net Position - Beginning of Year	<u>6,183,622</u>	<u>(316,086)</u>	<u>5,867,536</u>
Net Position - End of Year	<u>\$ 4,428,571</u>	<u>\$ (290,825)</u>	<u>\$ 4,137,746</u>

See Independent Auditors' Report

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2017

	Self Insurance Fund	Maintenance Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and users	\$ 19,846,907	\$ 1,279,928	\$ 21,126,835
Cash payments to employees	-	(783,882)	(783,882)
Cash payments to suppliers	-	(608,163)	(608,163)
Cash payments for benefits and claims	<u>(20,105,015)</u>	<u>-</u>	<u>(20,105,015)</u>
Net Cash from Operating Activities	<u>(258,108)</u>	<u>(112,117)</u>	<u>(370,225)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Advances from other funds	(458,255)	(43,980)	(502,235)
Transfers in (out)	<u>(1,400,000)</u>	<u>156,097</u>	<u>(1,243,903)</u>
Net Cash from Non-Capital Financing Activities	<u>(1,858,255)</u>	<u>112,117</u>	<u>(1,746,138)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>1,890</u>	<u>-</u>	<u>1,890</u>
Net Decrease in Cash and Equivalents	(2,114,473)	-	(2,114,473)
Cash and Equivalents - Beginning of Year	<u>7,610,882</u>	<u>-</u>	<u>7,610,882</u>
Cash and Equivalents - End of Year	<u>\$ 5,496,409</u>	<u>\$ -</u>	<u>\$ 5,496,409</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES			
Income from operations	\$ (356,941)	\$ (130,836)	\$ (487,777)
Adjustments to reconcile income (loss) from operations to net cash from operating activities			
Changes in operating assets and liabilities			
Accounts receivable	(22,969)	19,537	(3,432)
Prepaid expenses	(85,334)	-	(85,334)
Accounts payable	<u>207,136</u>	<u>(818)</u>	<u>206,318</u>
Net Cash from Operating Activities	<u>\$ (258,108)</u>	<u>\$ (112,117)</u>	<u>\$ (370,225)</u>

See Independent Auditors' Report

Combining Statement of Fiduciary Net Position
Pension Trust Funds
June 30, 2017

	City Employees Pension	Police & Fire Pension	OPEB Trust Fund	Total
ASSETS				
Cash	\$ 69,985	\$ 118,307	\$ 51,417	\$ 239,709
Investments, at fair value				
Mutual funds - US equity index	26,256,854	38,041,770	-	64,298,624
Mutual funds - Bond index fund	12,223,911	18,559,888	-	30,783,799
Mortgage backed securities	228	-	-	228
Total Investments	38,480,993	56,601,658	-	95,082,651
Accrued interest and dividends	4,967	7,864	-	12,831
 Total Assets	 38,555,945	 56,727,829	 51,417	 95,335,191
LIABILITIES				
Claims payable	13,520	19,390	-	32,910
NET POSITION				
Restricted for pensions	38,542,425	56,708,439	-	95,250,864
Restricted for OPEB	-	-	51,417	51,417
Total Net Position	\$ 38,542,425	\$ 56,708,439	\$ 51,417	\$ 95,302,281

Combining Statement of Changes in Fiduciary Net Position
Pension Trust Funds
For the Year Ended June 30, 2017

	City Employees Pension	Police & Fire Pension	OPEB Trust Fund	Total
ADDITIONS				
Contributions				
Employer	\$ 1,360,145	\$ 3,599,764	\$ 4,429,819	\$ 9,389,728
Plan members	<u>334,994</u>	<u>709,907</u>	<u>-</u>	<u>1,044,901</u>
Total Contributions	<u>1,695,139</u>	<u>4,309,671</u>	<u>4,429,819</u>	<u>10,434,629</u>
Investment Income				
Net change in fair value of investments	4,263,785	6,218,094	-	10,481,879
Interest and dividends	<u>226</u>	<u>1,048</u>	<u>1,417</u>	<u>2,691</u>
Total Investment Income	<u>4,264,011</u>	<u>6,219,142</u>	<u>1,417</u>	<u>10,484,570</u>
Total Additions	5,959,150	10,528,813	4,431,236	20,919,199
DEDUCTIONS				
Pension\OPEB benefits	2,644,903	5,689,530	4,379,819	12,714,252
Administrative fees	<u>38,278</u>	<u>52,659</u>	<u>-</u>	<u>90,937</u>
Total Deductions	<u>2,683,181</u>	<u>5,742,189</u>	<u>4,379,819</u>	<u>12,805,189</u>
Change in Net Position	<u>3,275,969</u>	<u>4,786,624</u>	<u>51,417</u>	<u>8,114,010</u>
Net Position - Beginning of Year	<u>35,266,456</u>	<u>51,921,815</u>	<u>-</u>	<u>87,188,271</u>
Net Position - End of Year	<u>\$38,542,425</u>	<u>\$56,708,439</u>	<u>\$ 51,417</u>	<u>\$95,302,281</u>

See Independent Auditors' Report

Combining Statement of Changes in Assets and Liabilities
 Agency Funds
 For the Year Ended June 30, 2017

	Balance			Balance
	Beginning	Additions	Deductions	Ending
School Activity Fund				
Assets				
Cash	<u>\$446,865</u>	<u>\$ 738,198</u>	<u>\$(738,147)</u>	<u>\$ 446,916</u>
Liabilities				
Due to others	<u>\$446,865</u>	<u>\$ 738,198</u>	<u>\$(738,147)</u>	<u>\$ 446,916</u>
Performance Bonds				
Assets				
Cash	<u>\$233,016</u>	<u>\$ 40,668</u>	<u>\$ -</u>	<u>\$ 273,684</u>
Liabilities				
Due to others	<u>\$233,016</u>	<u>\$ 40,668</u>	<u>\$ -</u>	<u>\$ 273,684</u>
Other Agency Funds				
Assets				
Cash	<u>\$133,894</u>	<u>\$ 99,859</u>	<u>\$ (65,748)</u>	<u>\$ 168,005</u>
Liabilities				
Due to others	<u>\$133,894</u>	<u>\$ 99,859</u>	<u>\$ (65,748)</u>	<u>\$ 168,005</u>
Combined Total				
Assets				
Cash	<u>\$813,775</u>	<u>\$ 878,725</u>	<u>\$(803,895)</u>	<u>\$ 888,605</u>
Liabilities				
Due to others	<u>\$813,775</u>	<u>\$ 878,725</u>	<u>\$(803,895)</u>	<u>\$ 888,605</u>

See Independent Auditors' Report

City of Torrington, Connecticut

Supplementary Schedules
June 30, 2017

Report of the Property Tax Collector
For the Year Ended June 30, 2017

Total rate bill on Grand List on October 1, 2015	\$ 86,785,466
Add:	
Supplemental motor vehicle tax	<u>1,212,124</u>
Received from tax collector and reported as revenue	87,997,590
Deduct:	
Lawful corrections (abatements) - included in expenditures	<u>(252,245)</u>
Net revenues from taxation	<u>\$ 87,745,345</u>

City of Torrington, Connecticut

Internal Control and Compliance Reports
June 30, 2017

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

Independent Auditors' Report

**The City Council
City of Torrington, Connecticut**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Torrington, Connecticut ("City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 20, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

PKF O'Connor Davies, LLP

February 20, 2018

City of Torrington, Connecticut

State Single Audit
June 30, 2017

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

Independent Auditors' Report

**The City Council
City of Torrington, Connecticut**

Report on Compliance for Each Major State Program

We have audited the City of Torrington, Connecticut's ("City") compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of the City's major state programs for the year ended June 30, 2017. The City's major state programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major State Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

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

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated February 20, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by the State Single Audit Act, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of State Financial Assistance is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PKF O'Connor Davies, LLP

February 20, 2018

City of Torrington, Connecticut

Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2017

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Passed Through to Subrecipients	Expenditures
Connecticut State Library			
Historic Documents Preservation Grants	12060-CSL66094-35150	\$ -	\$ 5,000
Total Connecticut State Library		-	5,000
Department of Energy and Environmental Protection			
Community Conservation and Development Grant	13019-DEP43153-41239	-	3,338
Regional Trails Program	12052-DEP44321-43314	-	23,359
Regional Greenhouse Gas Initiative	12060-DEP44165-35402	-	1,808
Total Department of Energy and Environmental Protection		-	28,505
Department of Transportation			
Town Aid Road Grants Transportation Fund	12052-DOT57131-43455	-	423,807
Total Department of Transportation		-	423,807
Department of Emergency Services and Public Protection			
Drug Assets Forfeiture Funds	12060-DPS32155-35142	-	9,605
Total Department of Emergency Services and Public Protection		-	9,605
Department on Aging			
<i>Passed Through the Western Connecticut Area Agency on Aging, Inc.</i>			
Elderly Nutrition and Discretionary	11000-SDA62500-16260-10105	-	157,217
Federal Title III Match	11000-SDA62500-16260-10604	-	7,021
Total Department on Aging		-	164,238
Department of Economic and Community Development			
Brownfield Remediation and Development	12060-ECD46260-35533	-	110,142
Total Department of Economic and Community Development		-	110,142
Office of Policy and Management			
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OPM20600-17004	-	96,492
Payment in Lieu of Taxes (PILOT) on Private Colleges and General/Chronic Disease Hospitals	11000-OPM20600-17006	-	238,519
Property Tax Relief for Totally Disabled Persons	11000-OPM20600-17011	-	8,637
Payment in Lieu of Taxes (PILOT) on Exempt Property of Manufacturing Facilities in Distressed Municipalities	11000-OPM20600-17016	-	71,176
Property Tax Relief for Elderly & Totally Disabled Homeowners	11000-OPM20600-17018	-	293,662
Property Tax Relief for Veterans	11000-OPM20600-17024	-	32,440
Local Capital Improvement Program (LOCIP)	12050-OPM20600-40254	-	662,263
Municipal Grant-in-Aid	12052-OPM20600-43587	-	605,345
Body Worn Recording Equipment Reimbursement Program	12052-OPM20350-43676	-	122,724
Total Office of Policy and Management		-	2,131,257
Office of Early Childhood			
School Readiness in Competitive Grant Municipalities	11000-OEC64845-16274	-	297,893
Child Day Care	11000-OEC64840-12520	-	133,463
Even Start Family Literacy Program	11000-OEC64840-12569	-	138,384
School Readiness Quality Enhancement	11000-OEC64845-17097	-	18,747
Total Office of Early Childhood		-	588,487

(Continued)

The accompanying notes are an integral part of this schedule

City of Torrington, Connecticut

Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2017

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Passed Through to Subrecipients	Expenditures
Department of Education			
Primary Mental Health	11000-SDE64370-12198	\$ -	\$ 19,650
Youth Services Bureau Enhancement	11000-SDE64370-16201	-	7,550
Child Nutrition State Matching Grant	11000-SDE64370-16211	-	22,477
Healthy Foods Initiative	11000-SDE64370-16212	-	45,564
Adult Education	11000-SDE64370-17030	-	128,307
Health Services	11000-SDE64370-17034	-	29,744
Bilingual Education English Learner Pilot Program	11000-SDE64370-17042	-	26,460
Young Parents Program	11000-SDE64370-17044	-	37,990
School Breakfast	11000-SDE64370-17046	-	20,387
Youth Services Bureau	11000-SDE64370-17052	-	32,703
Total Department of Education		-	370,832
Total State Financial Assistance before Exempt Programs		-	3,831,873
EXEMPT PROGRAMS			
Department of Education			
Education Cost Sharing	11000-SDE64370-17041	-	24,384,968
Special Education - Excess Cost - Student Based	11000-SDE64370-17047	-	1,790,871
Total Department of Education		-	26,175,839
Department of Administrative Services			
School Construction Grants	13009-DAS27636-40896	-	116,724
School Construction Grants	13009-DAS27636-40901	-	716,435
Total Department of Administrative Services		-	833,159
Office of Policy and Management			
Mashantucket Pequot and Mohegan Fund Grant	12009-OPM20600-17005	-	287,599
Municipal Revenue Sharing	12002-OPM20600-17102	-	2,435,109
Total Office of Policy and Management		-	2,722,708
Total Exempt Programs		-	29,731,706
Total State Financial Assistance		\$ -	\$ 33,563,578

The accompanying notes are an integral part of this schedule

City of Torrington, Connecticut

Notes to Schedule of Expenditures of State Financial Assistance Year Ended June 30, 2017

1. Summary of Significant Accounting Policies

General

The accompanying Schedule of Expenditures of State Financial Assistance includes state grant activity of the City of Torrington, Connecticut ("City") under programs of the State of Connecticut for the fiscal year ended June 30, 2017. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. Because the Schedule of Expenditures of State Financial Assistance presents only a selected portion of the operations of the City, it is not intended to, and does not present the financial position, changes in fund balance, changes in net position, or cash flows of the City.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental organizations.

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

Basis of Accounting

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

2. Loan Programs

In accordance with Section 4-236-23(a)(4)(F) of the Regulations to the State Single Audit Act, the notes to the Schedule of Expenditures of State Financial Assistance shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2017:

Department of Energy and Environmental Protection:

Clean Water Funds 21014-OTT14230-4001:

	Issue Date	Interest Rate	Original Amount	Beginning Balance	Issued	Retired	Ending Balance
611C	3/1/2011	2%	\$ 887,474	\$837,197	\$ -	\$ (51,293)	\$785,904

City of Torrington, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' opinion issued unmodified

Internal control over financial reporting

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

State Financial Assistance

Internal control over major programs

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

Type of auditors' opinion issued on compliance for major programs unmodified

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

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

State Grantor and Program	State Core-CT Number	Expenditures
Department of Transportation		
Town Aid Road Grants Transportation Fund	12052-DOT57131-43455	\$ 423,807
Office of Policy and Management		
Local Capital Improvement Program (LOCIP)	12050-OPM20600-40254	662,263
Municipal Grant-in-Aid	12052-OPM20600-43587	605,345
Body Worn Recording Equipment Reimbursement Program	12052-OPM20350-43676	122,724
Office of Early Childhood		
School Readiness in Competitive Grant Municipalities	11000-OEC64845-16274	297,893
Dollar threshold used to distinguish between type A and type B programs:	<u>\$200,000</u>	

SECTION II – Financial Statement Findings

No matters were reported.

SECTION III – State Financial Assistance Findings and Questioned Costs

No matters were reported.

City of Torrington, Connecticut

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2017

Financial Statement Findings

2015-001 – Financial Reporting at the Board of Education

Condition: We noticed a number of long-term issues in the Board of Education accounting that effected the financial reporting.

Current Status: The finding has been corrected.

2016-001 – WPCA Treatment Facility Revenues

Condition: One individual is responsible for preparing and sending the invoices, collecting payments and keeping the records on the amounts owed by the haulers.

Current Status: The finding has been corrected.

City of Torrington, Connecticut

Uniform Guidance
June 30, 2017

**Report on Compliance for Each Major Federal Program; Report on Internal Control
Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required
by the Uniform Guidance**

Independent Auditors' Report

**To the City Council
City of Torrington, Connecticut**

Report on Compliance for Each Major Federal Program

We have audited the City of Torrington, Connecticut (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, , each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 20, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

PKF O'Connor Davies, LLP

February 20, 2018

City of Torrington, Connecticut

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
Child Nutrition Cluster				
Direct Programs:				
National School Lunch - USDA Commodities	10.555	Not Applicable	\$ -	\$ 50,269
Pass-Through programs from:				
Connecticut State Department of Education				
National School Lunch Program	10.555	12060-SDE64370-20560	-	1,032,661
School Breakfast Program	10.553	12060-SDE64370-20508	-	169,913
<i>Total Child Nutrition Cluster</i>			-	<u>1,252,843</u>
Total U.S. Department of Agriculture			-	<u>1,252,843</u>
U.S. Department of Housing and Urban Development				
Pass-Through programs from:				
Connecticut Department of Housing				
Community Development Block Grants/ State's Program and Non-Entitlement Grants	14.228	12060-DOH46930-20730	-	268,487
Total U.S. Department of Housing and Urban Development			-	<u>268,487</u>
U.S. Department of Homeland Security				
Pass-Through programs from:				
Connecticut Department of Emergency Services and Public Protection				
Homeland Security Grant Program	97.067	12060-DPS32160-21877	-	2,893
Total U.S. Department of Homeland Security			-	<u>2,893</u>
U.S. Department of Transportation:				
Pass-Through programs from:				
Connecticut Department of Transportation				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	12062-DOT57151-22108	-	818,374
Connecticut Department of Energy and Environmental Protection				
Highway Planning and Construction Cluster:				
Recreational Trails Program	20.219	12060-DEP44321-20296	-	1,651
Total U.S. Department of Transportation			-	<u>820,025</u>
U.S. Department of Education				
Pass-Through programs from:				
Connecticut State Department of Education				
Adult Education - Basic Grants to States	84.002	12060-SDE64370-20784	-	50,000
Special Education Cluster (IDEA)				
Special Education - Grants to States (IDEA, Part B)	84.027	12060-SDE64370-20977 Cu	-	926,883
Special Education - Grants to States (IDEA, Part B)	84.027	12060-SDE64370-20977 CO	-	91,939
Subtotal			-	<u>1,018,822</u>
Special Education - Preschool Grants (IDEA Preschool)	84.173	12060-SDE64370-20983 Cu	-	26,889
Special Education - Preschool Grants (IDEA Preschool)	84.173	12060-SDE64370-20983 CO	-	-
Subtotal			-	<u>26,889</u>
Total Special Education Cluster (IDEA)			-	<u>1,045,711</u>
Title I Grants to Local Educational Agencies	84.010	12060-SDE64370-20679 Cu	-	29,632
Title I Grants to Local Educational Agencies	84.010	12060-SDE64370-20679 CO	-	583,653
Subtotal			-	<u>613,285</u>
Career & Technical Education - Basic Grants to States (Perkins)	84.048	12060-SDE64370-20742 Cu	-	48,639

(Continued)

The accompanying notes are an integral part of this schedule

City of Torrington, Connecticut

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures to Subrecipients	Total Federal Expenditures
U.S. Department of Education				
Pass-Through programs from:				
Connecticut State Department of Education (Continued)				
Title III - English Language Acquisition State Grants	84.365	12060-SDE64370-20868 Cu	\$ -	\$ 48,842
Title III - English Language Acquisition State Grants	84.365	12060-SDE64370-20868 CO	-	23,723
Subtotal			-	72,565
Title II - Supporting Effective Instruction State Grant	84.367	12060-SDE64370-20858 Cu	-	93,383
Title II - Supporting Effective Instruction State Grant	84.367	12060-SDE64370-20858 CO	-	65,959
Subtotal			-	159,342
Connecticut Office of Early Childhood Preschool Development Grants	84.419	12060-OEC64845-22705	-	1,478,958
Total U.S. Department of Education			-	3,468,500
U.S. Department of Health and Human Services				
Pass-Through programs from:				
Western Connecticut Area Agency on Aging, Inc.				
Aging Cluster				
Special Programs for the Aging - Title III, Part C-Nutrition Services	93.045	Not Applicable	-	349,898
Nutrition Services Incentive Program	93.053	Not Applicable	-	102,270
Total Aging Cluster			-	452,168
Connecticut Office of Early Childhood Social Services Block Grant	93.667	12060-OEC64841-22668	-	124,436
Total U.S. Department of Health and Human Services			-	576,604
Total Federal Financial Assistance			\$ -	\$ 6,389,352

The accompanying notes are an integral part of this schedule

City of Torrington, Connecticut

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of City of Torrington, Connecticut (the "City") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in fund balance, changes in net assets, or cash flows of the City.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

City of Torrington, Connecticut

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

SECTION 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted ☐ yes ☒ no

Federal Awards

Internal control over major programs

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major federal programs

Unmodified

Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐ yes ☒ no

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

CFDA Number(s)	Name of Federal Program or Cluster
20.205	Highway Planning and Construction Cluster
84.419	Preschool Development Grants
84.027/84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as a low risk auditee?

☐ yes ☒ no

SECTION II – Financial Statement Findings

No matters were reported.

SECTION III – Federal Financial Assistance Findings and Questioned Costs

No matters were reported.

City of Torrington, Connecticut

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2017

Financial Statement Findings

2015-001 – Financial Reporting at the Board of Education

Condition: We noticed a number of long-term issues in the Board of Education accounting that effected the financial reporting.

Current Status: The finding has been corrected.

2016-001 – WPCA Treatment Facility Revenues

Condition: One individual is responsible for preparing and sending the invoices, collecting payments and keeping the records on the amounts owed by the haulers.

Current Status: The finding has been corrected.

Federal Financial Assistance Findings and Questioned Costs

2016-002 – Special Provisions – Paid Lunch Equity

Condition: The required paid lunch equity calculations were not performed by Board of Education personnel until requested to do so for the audit. As a result, fiscal year 2016 paid lunch prices were not increased \$0.07 as determined by the calculations. In addition, the understated full price lunch price was used in the calculation of the fiscal year 2017 paid lunch equity. As a result the fiscal year 2017 paid lunch equity was incorrectly calculated.

Current Status: The finding has been corrected.

2016-003 – Cash Management

Condition: During our testing we noted that estimated monthly expenditures submitted to SDE via the prepayment grant system were significantly greater than resulting actual expenditures during the first half of the year.

Current Status: The finding has been corrected.

2016-004 – Program Financial Reporting

Condition: We noted BOE personnel did not request a budget adjustment for individual line item expenditures that in the aggregate exceeded line item budget provisions by 10.5% on Form ED141.

Current Status: The finding has been corrected.