

Annual Financial Report
of the
City of Torrington, Connecticut
For the Year Ended June 30, 2018

City of Torrington, Connecticut
Annual Financial Report
For the Year Ended June 30, 2018

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Financial Section

Independent Auditors' Report

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, 2018, 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 of Torrington, Connecticut, as of June 30, 2018, 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.

**City Council
City of Torrington, Connecticut**

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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 on pages 3 through 11 and pages 69 through 83, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We 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 supplemental schedules and trend information are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental 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.

The trend information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2019 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
Wethersfield, Connecticut
March 7, 2019

**City of Torrington, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

As management of the City of Torrington, Connecticut ("City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial position and activities of the City for the fiscal year ended June 30, 2018.

Financial Highlights

- On a government-wide basis, the City's total net position decreased by \$(2,217,082) for the fiscal year, \$(3,810,852) of which was generated by governmental activities and \$1,593,770 from business-type activities. The main reasons for the decrease were positive operations of the general fund of \$740,445, positive operations of the internal service funds of \$2,517,874 which were offset by pension and OPEB expenses of \$5,553,494 and the differences in the basis of accounting between the modified accrual basis used for the governmental funds as compared to the government wide financial statement that use the accrual basis of accounting. The two most significant accounts impacted by the different basis of accounting are capital assets and long-term liabilities. Capital asset additions were less than depreciation expense and loss on disposal of assets by \$3,618,400, which was offset by net debt activity, primarily the payment to escrow agent and positive operations of the internal service funds, which reduced the amount.
- The City's combined net position totaled a deficit of \$46,009,892. Of this amount, \$2,919,078 is available (unrestricted) to finance ongoing programs for business-type activities, while the governmental activities resulted in a deficit unrestricted balance of \$(143,552,425).
- As of the close of the current fiscal year, the City's governmental funds reported a combined fund balance of \$29,995,636, a decrease of \$6,433,338 in comparison with the prior year. The majority of the decrease is due to the negative operations of the debt service fund of \$6,254,648 related to the bond refunding.
- At year end, the unassigned fund balance for the general fund was \$13,736,339 or 11.06% of total general fund expenditures and transfers out.
- The City's long-term debt decreased by \$9,575,714. The decrease is the result of the \$7,500,000 in refunding payments along with scheduled debt service payments of \$2,637,328 offset by clean water loan additions of \$561,614. At the end of the current fiscal year, the City had total bonded and loan debt outstanding of \$19,295,264, which is backed by the full faith and credit of the City.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, public health and social services, recreation, and education. The business-type activities of the City account for the WPCA enterprise operations.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

For governmental funds, information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund as it is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these other governmental funds is provided on Schedules 2 and 3 of this report.

Proprietary funds. The City maintains one enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides information for the WPCA Enterprise Fund operations. The WPCA Enterprise Fund is considered a major fund of the City.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning, budgetary comparison information and the City's pension and other post-employment benefit plans.

The City adopts an annual budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

The combining statements and supplemental schedules referred to earlier in connection with other governmental funds are presented immediately following the required supplementary information section.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$46,009,892 at the close of the fiscal year.

The largest portion of the City's net position reflects its net investment in capital assets (e.g., land improvements, building improvements, machinery and equipment, infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$140,633,347.

Summary Statement of Net Position
June 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 47,402,291	\$ 56,067,014	\$ 6,217,591	\$ 4,722,622	\$ 53,619,882	\$ 60,789,636
Capital assets (net)	96,690,807	100,309,207	12,900,059	12,332,034	109,590,866	112,641,241
Total assets	144,093,098	156,376,221	19,117,650	17,054,656	163,210,748	173,430,877
Deferred outflows of resources	4,382,976	7,252,565	44,091	-	4,427,067	7,252,565
Long-term liabilities outstanding	191,080,102	204,394,894	5,959,178	5,554,670	197,039,280	209,949,564
Other liabilities	10,825,896	13,334,033	76,366	84,883	10,902,262	13,418,916
Total liabilities	201,905,998	217,728,927	6,035,544	5,639,553	207,941,542	223,368,480
Deferred inflows of resources	5,588,841	1,107,772	117,324	-	5,706,165	1,107,772
Net investment in capital assets	79,301,882	76,576,840	10,089,795	11,546,130	89,391,677	88,122,970
Restricted	5,231,778	7,541,293	-	-	5,231,778	7,541,293
Unrestricted	(143,552,425)	(139,326,046)	2,919,078	(131,027)	(140,633,347)	(139,457,073)
Total net position	<u>\$ (59,018,765)</u>	<u>\$ (55,207,913)</u>	<u>\$ 13,008,873</u>	<u>\$ 11,415,103</u>	<u>\$ (46,009,892)</u>	<u>\$ (43,792,810)</u>

The City's total net position decreased by \$2,217,082 during the current fiscal year. The main reasons for the decrease is as follows:

Governmental activities. Already noted was the statement of activities' purpose in presenting information on how the City's net position changed during the most recent fiscal year. For the fiscal year, net position decreased \$3,810,852. The main reasons for the decrease were positive operations of the general fund of \$740,445, positive operations of the internal service funds of \$2,517,874 offset by pension and OPEB expenses of \$5,553,494, and the differences in the basis of accounting between the modified accrual basis used for the governmental funds as compared to the government wide financial statement that use the accrual basis of accounting. The two most significant accounts impacted by the different basis of accounting are capital asset and long-term liabilities. Capital asset additions were less than depreciation expense and loss on disposal of assets by \$3,618,400, which was offset by net debt activity, primarily the payment to escrow agent and positive operations of the internal service funds, which reduced the amount.

Business-type activities. Business-type activities reported an increase in net position of \$1,593,770 due to the positive operations of the WPCA enterprise fund during the current year. This was substantially due to an increase in charges for service and disposal fees and decreases in the fund's professional fees and repairs and maintenance as compared to the prior year.

The reader should remember that the basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include general taxes whose primary purpose is for the construction of those very assets or their related debt service.

Management's Discussion and Analysis (continued)

Statement of Changes in Net Position Years Ended June 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 4,421,542	\$ 4,641,872	\$ 5,203,077	\$ 4,531,237	\$ 9,624,619	\$ 9,173,109
Operating grants and contributions	51,047,556	49,829,975	-	-	51,047,556	49,829,975
Capital grants and contributions	1,815,457	3,341,918	152,669	-	1,968,126	3,341,918
General revenues:						
Property taxes	89,302,882	88,833,716	-	-	89,302,882	88,833,716
Grants and contributions not restricted to specific programs	1,724,923	3,628,114	-	-	1,724,923	3,628,114
Interest and investment earnings	109,962	101,614	10,673	532	120,635	102,146
Other	224,547	316,871	-	-	224,547	316,871
Total revenues	148,646,869	150,694,080	5,366,419	4,531,769	154,013,288	155,225,849
Expenses:						
General government	11,896,542	16,132,662	-	-	11,896,542	16,132,662
Public safety	25,808,586	26,216,768	-	-	25,808,586	26,216,768
Public works	10,706,267	12,003,835	-	-	10,706,267	12,003,835
Public health and social services	4,467,270	4,548,538	-	-	4,467,270	4,548,538
Recreation	685,397	642,213	-	-	685,397	642,213
Education	98,242,496	92,386,440	-	-	98,242,496	92,386,440
Debt interest and costs	651,163	1,296,773	-	-	651,163	1,296,773
Sewer	-	-	3,772,649	3,453,607	3,772,649	3,453,607
Total expenses	152,457,721	153,227,229	3,772,649	3,453,607	156,230,370	156,680,836
Transfers	-	(617,354)	-	617,354	-	-
Change in net position	(3,810,852)	(1,915,795)	1,593,770	460,808	(2,217,082)	(1,454,987)
Net position - July 1 (as restated)	(55,207,913)	(49,756,721)	11,415,103	9,511,568	(43,792,810)	(40,245,153)
Restatements:						
Heart and hypertension liability	-	(1,082,521)	-	-	-	(1,082,521)
Other (see Note 18)	-	(2,452,876)	-	1,442,727	-	(1,010,149)
Net position - June 30	<u>\$(59,018,765)</u>	<u>\$ (55,207,913)</u>	<u>\$13,008,873</u>	<u>\$ 11,415,103</u>	<u>\$ (46,009,892)</u>	<u>\$ (43,792,810)</u>

Governmental Activities - Revenues

The significant changes in revenues for governmental activities as compared to the prior year were as follows:

- Operating grants and contributions increased \$1,217,581 primarily due to an increase in the on-behalf amount for the City's allocable share of the pension expense for the State Teachers' pension and OPEB Plans of \$1,055,620 offset by minor cuts in other State grants.
- Capital grants and contributions decreased by \$1,526,461 as the sanitary sewer improvement project was completed in the prior year.
- Grants and contributions not restricted to specific programs decreased by \$1,903,191 primarily due to the state cutting the MRSA Sales Tax Sharing, which amounted to \$2,435,109 in the prior year.

Governmental Activities - Expenses

The significant changes in expenses for governmental activities from the prior year were as follows:

- Education expenses increased \$5,856,056 due to an increase in the on-behalf amount for the City's allocable share of the pension expense for the State Teachers' pension and OPEB plans of \$1,055,620 as well as increases of approximately \$5,679,000 for OPEB expense.
- General government expenses decreased by \$4,236,120 due to decreases in pension and OPEB expense of approximately \$3,551,000.
- Public works expenses decreased by \$1,297,568 substantially due to decreases in road maintenance projects performed during the year in the general fund and other governmental public works fund.

Business-Type Activities - Revenues

- Charges for services increased by \$671,840 due to rate increases.
- Capital grants and contributions increased by \$152,669 due to the receipt of clean water funds.

Business-Type Activities - Expenses

- WPCA expenses increased \$319,042 substantially due to increases in salaries and benefits.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental 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, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The combined fund balances of governmental funds is \$29,995,636. Of this amount, \$3,500 relates to endowments, \$469,000 to nonspendable advances and \$3,579,324 for small cities loans, \$1,648,954 is restricted, \$6,208,614 is committed and \$4,650,609 is assigned. The balance of \$13,435,635 is unassigned fund balance.

General Fund

The general fund is the operating fund of the City. The fund balance of the general fund increased by \$740,445 for the current fiscal year. The major factors for this increase were increased charges for services revenues over budget expectations of \$723,909. The most significant revenue excesses were for police outside services of \$299,626 and recycling fees of \$134,056.

Other governmental funds

The fund balance of capital projects funds decreased \$1,312,691 due to the timing of the funding and spending of projects.

The fund balance of the debt service fund decreased \$6,254,648 due to the \$7,738,045 payment to the escrow agent for refunded debt.

Proprietary funds. The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. Net position of the WPCA enterprise fund at the end of the year amounted to \$13,008,873, an increase of \$1,593,770. This was substantially due to an increase in sewer use and disposal fees of \$671,840 in addition to cost savings of \$319,042 from salary and benefits.

General Fund Budgetary Highlights

On a budgetary basis, revenues and other financing sources exceeded expenditures and other financing uses by \$1,334,353. Overall, revenues and transfers in came in \$730,512 greater than anticipated. In addition, \$2,241,841 less than budgeted was expended.

Significant budget transfers were as follows:

- Additional appropriations of \$742,656 were supported by tax revenues and police outside service charges.
- Streets were decreased by \$921,538 as fewer projects were started than originally anticipated.
- City wide services were reduced \$2,152,513 equipment maintenance and vehicle replacement was allocated to the appropriate functions.

The most significant budget variances were as follows:

Revenues

- Charges for services was \$723,909 in excess of the amount budgeted primarily due to amounts received for police outside services and related revenue of \$299,626. In addition, MIRA fees were \$134,056 over the budget amount.
- Intergovernmental revenue was \$32,031 greater than budgeted due to the receipt of the MRSA motor vehicle grant of \$603,276 offset by decreases in State funding for education cost sharing of \$668,108.

Expenditures

- Public works were less than budgeted by \$304,799 as expenditures were paid through the public works other governmental fund.
- Public safety expenditures were less than budgeted by \$646,174 primarily due to salary and related benefits savings and vacancies in the police and fire department of \$429,050.
- Employee benefits were less than budgeted by \$215,522 due to a decrease in pension and related benefit costs.

General Fund Budgetary Highlights (continued)

Expenditures (continued)

- Board of education expenses were less than budgeted by \$647,622 due to cafeteria staff salaries being moved out of the general fund as well as salary and related benefit savings of \$200,000 due to new hire costs savings and vacancies.

Capital Assets and Debt Administration

The City of Torrington's investment in capital assets in both governmental and business-type activities amounted to \$109,590,866, net of depreciation. This includes land, construction in progress, land improvements, buildings improvements, machinery and equipment and infrastructure (roads and bridges). Capital assets for governmental activities decreased by 3.6% and business-type capital assets increased by 4.6%.

The most significant capital asset additions were as follows:

Governmental activities:

- Construction in progress increased \$810,558 during the year. This was offset by a \$3,607,584 transfer of completed projects to depreciable capital assets. Additions included \$655,456 for various school renovations.
- Land improvements increased \$3,961,543. This was primarily due to the completion of the Torrington High School track field of \$2,959,647 from construction in progress.
- \$1,187,396 of equipment was purchased. \$292,758 consisted of vehicles, the remainder primarily consisted of computers and other technology equipment.

Business-type Activities:

- Construction in progress increased \$1,214,193 for plant upgrades and sewer rehabilitation projects.

Capital Assets - Net June 30, 2018 and 2017

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 3,797,034	\$ 3,797,034	\$ -	\$ -	\$ 3,797,034	\$ 3,797,034
Construction in progress	1,464,555	4,261,581	7,087,018	5,872,825	8,551,573	10,134,406
Land improvements	5,126,136	1,252,036	3,724,00	5,010	5,129,860	1,257,046
Building improvements	67,444,833	70,136,488	592,254	614,655	68,037,087	70,751,143
Machinery and equipment	5,236,369	6,123,589	1,149,710	1,459,427	6,386,079	7,583,016
Infrastructure	13,621,880	14,738,479	4,067,353	4,380,116	17,689,233	19,118,595
Total	<u>\$ 96,690,807</u>	<u>\$ 100,309,207</u>	<u>\$ 12,900,059</u>	<u>\$ 12,332,033</u>	<u>\$ 109,590,866</u>	<u>\$ 112,641,240</u>

Additional information on the City's capital assets can be found in Note 6.

Long-term Debt

During the year, the City's long-term debt decreased by \$9,575,714. The decrease is the result of the \$7,500,000 for refunded bonds along with scheduled debt service payments of \$2,637,328, offset by clean water loan additions of \$561,614. At the end of the current fiscal year, the City had total bonded and loan debt outstanding of \$19,295,264, which is backed by the full faith and credit of the City.

Outstanding Long-Term Debt

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General purpose bonds	\$ 7,863,000	\$16,950,000	\$ -	\$ -	\$ 7,863,000	\$16,950,000
School bonds	8,622,000	9,620,000	-	-	8,622,000	9,620,000
Clean water loans	-	-	2,810,264	2,300,978	2,810,264	2,300,978
Total	\$16,485,000	\$26,570,000	\$ 2,810,264	\$ 2,300,978	\$19,295,264	\$28,870,978

The City maintains an "AA-/stable" rating from Standard and Poor's for general obligation debt.

The overall statutory debt limit for the City is equal to seven times the prior year annual receipts from taxation or \$615,983,130, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Notes 8 and 9.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City is currently 4.9%, which is a decrease from fiscal year 2017. This is higher than both the State's average unemployment rate of 4.5% and the national average of 4.0%.
- Inflationary trends in the region compare favorably to national indices.
- Connecticut's economic and business growth remains flat. This lack of growth will have a negative impact on the amount of revenue the State receives from taxes. This will affect the amount of intergovernmental revenues the City will receive in fiscal year 2019 and thereafter.

The 2019 general fund budget is \$127,320,082, an increase of 1.3% over the prior year. Non-tax revenue remained relatively consistent.

Requests for Information

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.

Basic Financial Statements

City of Torrington, Connecticut

Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 31,928,111	\$ 6,128,621	\$ 38,056,732
Restricted cash	279,793	-	279,793
Investments	8,458,269	-	8,458,269
Receivables (net)			
Accounts	1,679,032	88,970	1,768,002
Loans	3,579,324	-	3,579,324
Intergovernmental	982,063	-	982,063
Prepaid expenses	479,167	-	479,167
Other	16,532	-	16,532
Capital assets			
Nondepreciable	5,261,589	7,087,018	12,348,607
Depreciable, net of accumulated depreciation	91,429,218	5,813,041	97,242,259
Total Assets	<u>144,093,098</u>	<u>19,117,650</u>	<u>163,210,748</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding bonds	329,601	-	329,601
Pension related	4,053,375	44,091	4,097,466
Total Deferred Outflows of Resources	<u>4,382,976</u>	<u>44,091</u>	<u>4,427,067</u>
LIABILITIES			
Accounts payable	4,255,405	76,366	4,331,771
Claims payable	1,050,640	-	1,050,640
Accrued payroll and related	5,073,036	-	5,073,036
Accrued interest payable	74,861	-	74,861
Performance bonds	279,793	-	279,793
Unearned revenues	92,161	-	92,161
Noncurrent liabilities			
Due within one year	4,302,425	214,890	4,517,315
Due in more than one year	186,777,677	5,744,288	192,521,965
Total Liabilities	<u>201,905,998</u>	<u>6,035,544</u>	<u>207,941,542</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related	246,470	31,650	278,120
OPEB related	5,342,371	85,674	5,428,045
Total Deferred Inflows of Resources	<u>5,588,841</u>	<u>117,324</u>	<u>5,706,165</u>
NET POSITION			
Net investment in capital assets	79,301,882	10,089,795	89,391,677
Restricted for			
Endowments			
Nonexpendable	3,500	-	3,500
Expendable	1,372	-	1,372
Public safety	110,245	-	110,245
Housing rehabilitation programs	3,757,700	-	3,757,700
Clean energy programs	52,500	-	52,500
Education	1,306,461	-	1,306,461
Unrestricted	(143,552,425)	2,919,078	(140,633,347)
Total Net Position	<u>\$ (59,018,765)</u>	<u>\$ 13,008,873</u>	<u>\$ (46,009,892)</u>

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

City of Torrington, Connecticut

Statement of Activities
For the Year Ended June 30, 2018

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	\$ 11,896,542	\$ 1,524,452	\$ 1,147,737	\$ 53,433	\$ (9,170,920)	\$ -	\$ (9,170,920)
Public safety	25,808,586	1,299,014	434,906	6,334	(24,068,332)	-	(24,068,332)
Public works	10,706,267	196,132	1,007,414	1,242,339	(8,260,382)	-	(8,260,382)
Public health and social services	4,467,270	444,989	1,319,272	-	(2,703,009)	-	(2,703,009)
Recreation	685,397	210,791	52,412	-	(422,194)	-	(422,194)
Education	98,242,496	746,164	47,085,815	513,351	(49,897,166)	-	(49,897,166)
Debt interest and costs	651,163	-	-	-	(651,163)	-	(651,163)
Total governmental activities	152,457,721	4,421,542	51,047,556	1,815,457	(95,173,166)	-	(95,173,166)
Business-type activities							
Sewer	3,772,649	5,203,077	-	152,669	-	1,583,097	1,583,097
Total	<u>\$ 156,230,370</u>	<u>\$ 9,624,619</u>	<u>\$51,047,556</u>	<u>\$ 1,968,126</u>	<u>(95,173,166)</u>	<u>1,583,097</u>	<u>(93,590,069)</u>
General Revenues							
Property taxes					89,302,882	-	89,302,882
Grants and contributions not restricted to specific programs					1,724,923	-	1,724,923
Interest and investment earnings					109,962	10,673	120,635
Other					224,547	-	224,547
Total general revenues					91,362,314	10,673	91,372,987
Change in net position					(3,810,852)	1,593,770	(2,217,082)
Net position - July 1, 2017 (as restated)					(55,207,913)	11,415,103	(43,792,810)
Net position - June 30, 2018					<u>\$ (59,018,765)</u>	<u>\$ 13,008,873</u>	<u>\$ (46,009,892)</u>

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

City of Torrington, Connecticut

Balance Sheet
Governmental Funds
June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 13,675,221	\$ 10,386,353	\$ 24,061,574
Restricted cash	279,793	-	279,793
Investments	8,458,269	-	8,458,269
Receivables (net)			
Accounts	215,265	254,261	469,526
Loans	-	3,579,324	3,579,324
Intergovernmental	280,337	701,726	982,063
Advances to other funds	-	469,000	469,000
Due from other funds	1,844,767	1,483,397	3,328,164
Other	-	16,532	16,532
Total assets	<u>\$ 24,753,652</u>	<u>\$ 16,890,593</u>	<u>\$ 41,644,245</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 3,428,221	\$ 501,060	\$ 3,929,281
Accrued payroll and related	4,928,687	144,349	5,073,036
Due to other funds	1,483,397	321,941	1,805,338
Performance bonds	279,793	-	279,793
Advances from other funds	469,000	-	469,000
Unearned revenues	-	92,161	92,161
Total liabilities	<u>10,589,098</u>	<u>1,059,511</u>	<u>11,648,609</u>
Fund balances			
Nonspendable	-	4,051,824	4,051,824
Restricted	-	1,648,954	1,648,954
Committed	-	6,208,614	6,208,614
Assigned	428,215	4,222,394	4,650,609
Unassigned	13,736,339	(300,704)	13,435,635
Total fund balances	<u>14,164,554</u>	<u>15,831,082</u>	<u>29,995,636</u>
Total liabilities and fund balances	<u>\$ 24,753,652</u>	<u>\$ 16,890,593</u>	<u>\$ 41,644,245</u>

(Continued)

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

City of Torrington, Connecticut

Reconciliation of Fund Balances to Net Position of Governmental Activities
June 30, 2018

Amounts reported for Governmental Activities in the Statement of Net

Position (Exhibit A) are Different from the Governmental Fund Balance Sheet due to:

Fund Balances (Exhibit C)	\$ 29,995,636
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	96,690,807
Other long-term assets and deferred outflows of resources are not available to pay for current expenditures and, therefore, are deferred in the funds	
Deferred outflow on advance refunding	329,601
Deferred outflows pension related	4,053,375
Internal service funds are used by management to charge the cost of medical insurance and maintenance 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.	6,655,620
Long-term liabilities and deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.	
General obligation bonds payable	(16,485,000)
Premiums	(924,657)
Capital leases	(308,869)
Compensated absences	(3,666,137)
Post closure landfill costs	(236,000)
Special termination benefits	(3,390,824)
Heart and hypertension	(1,377,168)
Net pension liability	(45,899,880)
Net OPEB liability	(118,791,567)
Accrued interest payable	(74,861)
Deferred inflows - OPEB related	(5,342,371)
Deferred inflows - pension related	<u>(246,470)</u>
Net Position of Governmental Activities (Exhibit A)	<u>\$ (59,018,765)</u>
	(Concluded)

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

City of Torrington, Connecticut

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 88,862,864	\$ -	\$ 88,862,864
Intergovernmental	42,061,088	11,113,464	53,174,552
Charges for services	6,256,732	2,129,227	8,385,959
Contributions	-	185,260	185,260
Investment income	101,737	5,700	107,437
Miscellaneous	-	214,508	214,508
Total revenues	<u>137,282,421</u>	<u>13,648,159</u>	<u>150,930,580</u>
EXPENDITURES			
Current			
General government	4,482,806	288,514	4,771,320
Public safety	16,915,178	60,201	16,975,379
Public works	6,779,698	810,917	7,590,615
Public health and social services	2,851,791	1,760,351	4,612,142
Employee benefit and insurance	15,350,812	-	15,350,812
Recreation	333,673	245,166	578,839
Education	87,175,501	7,385,589	94,561,090
Debt service			
Principal	2,585,000	-	2,585,000
Interest	804,032	-	804,032
Capital outlay	<u>1,745</u>	<u>2,994,899</u>	<u>2,996,644</u>
Total expenditures	<u>137,280,236</u>	<u>13,545,637</u>	<u>150,825,873</u>
Excess (deficiency) of revenues over expenditures	<u>2,185</u>	<u>102,522</u>	<u>104,707</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,200,000	491,740	1,691,740
Transfers out	(461,740)	(30,000)	(491,740)
Payment to refunded bond escrow agent	-	(7,738,045)	(7,738,045)
Net other financing sources (uses)	<u>738,260</u>	<u>(7,276,305)</u>	<u>(6,538,045)</u>
Net change in fund balance	740,445	(7,173,783)	(6,433,338)
Fund balances - July 1, 2017 (as restated)	<u>13,424,109</u>	<u>23,004,865</u>	<u>36,428,974</u>
Fund balances - June 30, 2018	<u>\$ 14,164,554</u>	<u>\$ 15,831,082</u>	<u>\$ 29,995,636</u>

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

City of Torrington, Connecticut

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, 2018

Amounts reported for governmental activities in the Statement of Activities (Exhibit B)
are different due to:

Net Change in Fund Balances - Total Governmental Funds (Exhibit D)	\$ (6,433,338)
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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	2,408,299
Depreciation expense	(5,799,134)
Loss on disposal of assets	(227,565)
Total	<u>(3,618,400)</u>

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 accrual basis change in other revenues	<u>(2,286,379)</u>
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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.

Principal payments - bonds	2,585,000
Principal payments - leases	117,785
Payments to refunding bond escrow agent	7,500,000
Total	<u>10,202,785</u>

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

Amortization of deferred charge	576
Accrued interest	45,257
Premium	345,081
Compensated absences	231,181
Landfill post-closure	40,000
Early retirement incentive	992,652
Heart and hypertension	(294,647)
Pension related	(1,363,605)
OPEB related	(4,189,889)
Total	<u>(4,193,394)</u>

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.

<u>2,517,874</u>

Change in Net Position of Governmental Activities (Exhibit B)	<u>\$ (3,810,852)</u>
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The notes to financial statements are an integral part of this statement.

City of Torrington, Connecticut

Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-type Activities WPCA Enterprise Fund	Governmental Activities Internal Service Funds
ASSETS		
Current assets		
Cash	\$ 6,128,621	\$ 7,866,537
Accounts receivable	88,970	42,637
Prepaid expenses	-	479,167
Total current assets	<u>6,217,591</u>	<u>8,388,341</u>
Capital assets		
Construction in progress	7,087,018	-
Land improvements	686,400	-
Buildings and improvements	1,104,750	-
Machinery and equipment	11,800,269	-
Infrastructure	<u>7,579,715</u>	<u>-</u>
Total capital assets	28,258,152	-
Accumulated depreciation	<u>(15,358,093)</u>	<u>-</u>
Total capital assets, net of accumulated depreciation	<u>12,900,059</u>	<u>-</u>
Total assets	<u>19,117,650</u>	<u>8,388,341</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	<u>44,091</u>	<u>-</u>
LIABILITIES		
Current liabilities		
Accounts payable	76,366	326,124
Claims payable	-	1,050,640
Due to other funds	-	355,957
Current maturities of notes payable	200,116	-
Compensated absences	<u>14,774</u>	<u>-</u>
Total current liabilities	<u>291,256</u>	<u>1,732,721</u>
Noncurrent liabilities		
Notes payable	2,610,148	-
Compensated absences	228,965	-
Net pension liability	1,000,157	-
Net OPEB liability	<u>1,905,018</u>	<u>-</u>
Total noncurrent liabilities	<u>5,744,288</u>	<u>-</u>
Total liabilities	<u>6,035,544</u>	<u>1,732,721</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related	31,650	-
OPEB related	<u>85,674</u>	<u>-</u>
Total deferred inflows of resources	<u>117,324</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	10,089,795	-
Unrestricted	<u>2,919,078</u>	<u>6,655,620</u>
Total net position	<u>\$ 13,008,873</u>	<u>\$ 6,655,620</u>

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

City of Torrington, Connecticut

Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Funds
 For the Year Ended June 30, 2018

	Business-type Activities WPCA Enterprise Fund	Governmental Activities Internal Service Funds
OPERATING REVENUES		
Charges for services	\$ -	\$ 23,731,549
Sewer user fees	4,406,675	-
Disposal fees	670,131	-
Sewer line fees	126,165	-
Rebates	-	517,257
Other	106	-
Total operating revenues	<u>5,203,077</u>	<u>24,248,806</u>
OPERATING EXPENSES		
Salaries and employee benefits	1,719,221	852,793
Professional services	475,247	-
Repairs and maintenance	74,779	313,228
Materials and supplies	149,876	30,554
Utilities	369,094	353,397
Other	90,814	3,817
Claims and insurance	74,756	18,979,811
Depreciation	691,545	-
Total operating expenses	<u>3,645,332</u>	<u>20,533,600</u>
Income from operations	<u>1,557,745</u>	<u>3,715,206</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment income	10,673	2,668
Interest expense	(127,317)	-
Intergovernmental revenue	152,669	-
Total non-operating revenues (expenses)	<u>36,025</u>	<u>2,668</u>
Income before transfers	1,593,770	3,717,874
Transfers out	<u>-</u>	<u>(1,200,000)</u>
Change in net position	1,593,770	2,517,874
Total net position - July 1, 2017 (as restated)	11,415,103	4,137,746
Total net position - June 30, 2018	<u>\$ 13,008,873</u>	<u>\$ 6,655,620</u>

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

City of Torrington, Connecticut

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Business-type Activities WPCA Enterprise Fund	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 5,213,244	\$ 24,258,532
Cash received (paid) on interfund balances	-	68,057
Cash payments to employees and for benefits	(1,750,765)	(852,793)
Cash payments to suppliers	(1,424,264)	(708,455)
Cash payments for benefits and claims	(74,756)	(19,197,881)
Net cash from operating activities	<u>1,963,459</u>	<u>3,567,460</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Notes issued	561,614	-
Principal paid on debt (Bond and BANS)	(3,347,328)	-
Acquisition and construction of capital assets	(1,259,571)	-
Interest paid on debt	(127,317)	-
Intergovernmental revenue	152,669	-
Net cash from capital and related financing activities	<u>(4,019,933)</u>	<u>-</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in (out)	<u>-</u>	<u>(1,200,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>10,673</u>	<u>2,668</u>
Net increase (decrease) in cash	(2,045,801)	2,370,128
Cash - July 1, 2017	<u>8,174,422</u>	<u>5,496,409</u>
Cash - June 30, 2018	<u><u>\$ 6,128,621</u></u>	<u><u>\$ 7,866,537</u></u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Income from operations	\$ 1,557,745	\$ 3,715,206
Adjustments to reconcile income from operations to net cash from operating activities		
Depreciation	691,545	-
Changes in operating assets and liabilities		
Accounts receivable	10,167	9,726
Prepaid expenses	-	(55,250)
Accounts payable	(264,454)	70,983
Due to other funds	-	68,057
Claims payable	-	(241,262)
Pension related	(85,064)	-
OPEB related	67,191	-
Compensated absences	(13,671)	-
Net cash from operating activities	<u><u>\$ 1,963,459</u></u>	<u><u>\$ 3,567,460</u></u>

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

City of Torrington, Connecticut

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Pension and OPEB Trust Funds	Custodial Funds
ASSETS		
Cash	\$ -	\$ 260,249
Investments		
Mutual funds		
Money market	28,230	-
Equity	64,715,867	-
Diversified bonds	37,064,961	-
Certificates of deposit	-	158,226
Total Investments	101,809,058	158,226
Accrued interest and dividends	17,555	-
Total assets	101,826,613	418,475
LIABILITIES		
Accounts payable	32,890	-
Due to other funds	1,166,869	-
Total liabilities	1,199,759	-
NET POSITION		
Restricted for		
Pension	100,520,952	-
OPEB	105,902	-
Individuals and organizations	-	418,475
Total net position	\$ 100,626,854	\$ 418,475

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

City of Torrington, Connecticut

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018

	Pension and OPEB Trust Funds	Custodial Funds
ADDITIONS		
Contributions		
Employer	\$ 9,112,068	\$ -
TRB Subsidy	117,239	-
Employee	1,000,749	-
Other	-	-
	<u>10,230,056</u>	<u>-</u>
Total contributions		
Charges for services	-	675,982
Investment Income (loss)		
Net change in fair value of investments	7,448,299	-
Interest and dividends	24,183	-
	<u>7,472,482</u>	<u>-</u>
Total investment income (loss)		
Total additions	<u>17,702,538</u>	<u>675,982</u>
DEDUCTIONS		
Benefits	12,293,549	-
Administration	84,416	-
Activities	-	704,424
	<u>12,377,965</u>	<u>704,424</u>
Total deductions		
Change in net position	<u>5,324,573</u>	<u>(28,442)</u>
Net position - July 1, 2017 (as restated)	<u>95,302,281</u>	<u>446,917</u>
Net position - June 30, 2018	<u>\$ 100,626,854</u>	<u>\$ 418,475</u>

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

City of Torrington, Connecticut**Notes to Financial Statements
For the Year Ended June 30, 2018****History and Organization**

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.

1. Summary of Significant Accounting Policies

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.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position in Exhibit A and the Statement of Activities in Exhibit B) report information on all non-fiduciary activities of the City 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.

City of Torrington, Connecticut**Notes to Financial Statements
For the Year Ended June 30, 2018****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.

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.

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. 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)**D. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

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. For reimbursement grants, the City considers revenues to be available if they are collected within one year of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures, 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.

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

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 funds:

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").

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 custodial 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. Custodial funds account for monies held as a custodian for outside groups and agencies.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)**D. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position and additions to/deductions from fiduciary net position of the City's pension plans, the Connecticut State Teachers' Retirement System ("TRS") and the Connecticut Retiree Health Insurance Plan ("RHIP") have been determined on the same basis as they are reported by the City's pension plans, TRS, and RHIP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balances**Cash, Investments and Risk Disclosure**

Cash – For cash flow purposes, cash consists of demand deposit accounts, cash on hand and time deposit accounts with original maturities of less than three months.

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.

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 reports its investments at amortized cost (which approximates fair value). The pool is rated AAAM by Standard & Poor.

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.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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

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.

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.

Property 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 levies by the end of the year. The outside vendor receives the right to the interest on the delinquent property taxes and sewer fees.

Loans Receivable – Loans receivable, net of allowance are for Small Cities loans. These loans are lienied by the City.

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.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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.

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 as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances

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.

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 improvements	25-50	1,000
Infrastructure	10-65	1,000
Machinery and equipment	5-20	1,000

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

City of Torrington, Connecticut**Notes to Financial Statements
For the Year Ended June 30, 2018****1. Summary of Significant Accounting Policies (Continued)**

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.

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 and OPEB 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) or over five years for the net difference between projected and actual earnings.

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.

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.

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

Compensated Absences - 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.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

Early Retirement Incentive - 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.

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.

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 and proprietary financial statements.

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.

Fund Balance - 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.

City of Torrington, Connecticut**Notes to Financial Statements
For the Year Ended June 30, 2018****1. Summary of Significant Accounting Policies (Continued)**

- 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.

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. 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 statement and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

City of Torrington, Connecticut**Notes to Financial Statements
For the Year Ended June 30, 2018****1. Summary of Significant Accounting Policies (Continued)****G. Reclassification**

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

2. Stewardship, Compliance and Accountability**A. Budgetary Accounting**

A formal, legally approved, annual budget is adopted for the General Fund.

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 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 \$742,656 of additional appropriations, which were funded by additional revenue appropriations.

B. Fund Deficits

The City Hall Renovations Fund and Maintenance Fund had deficit fund balances at yearend of \$300,704 and \$351,603, respectively.

The City anticipates eliminating the funds deficits through the use of fund transfers and future charges for services.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

2. Stewardship, Compliance and Accountability (Continued)

C. Donor-Restricted Endowments

The City has received certain endowments for the maintenance of playgrounds and Americanization of the City of Torrington. The amounts are reflected in net position as restricted for endowments. Investment income is approved for disbursement by the City Council or the applicable Trustee and is included in restricted fund balance.

The City allocates investment income of donor-restricted endowments in accordance with donor restrictions and Connecticut law, which has adopted the provisions of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Under UPMIFA, investment income earned on donor-restricted endowment funds is considered to be unrestricted in the absence of explicit donor restrictions. Further, in the absence of explicit donor restrictions regarding investment appreciation, such appreciation is treated the same as the related investment income. Investment losses that reduce the value of endowment investments below the original principal amount serve to reduce restricted net position or unrestricted net position, depending upon the applicable donor's stipulations regarding the treatment of investment income and appreciation.

3. Cash and Investments

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 does not have a deposit policy for custodial credit risk. At year end, \$47,420,916 of the City's bank balance of \$49,170,916 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 35,386,470
Uninsured and collateral held by the pledging bank's trust department, not in the City's name	<u>12,034,446</u>
Total amount subject to custodial credit risk	<u><u>\$ 47,420,916</u></u>

Financial instruments that potentially subject the City to significant concentrations of credit risk consist primarily of cash. From time to time, the City's cash account balances exceed the Federal Deposit Insurance Corporation limit. The City reduces its credit risk by maintaining its cash deposits with major financial institutions and monitoring their credit ratings.

The City's investments (including restricted investments) consisted of the following:

		Investment Maturities (In Years)			
Type of Investment	Fair Value	N/A	Less Than 1	1-5 Years	5-10 Years
<u>Mutual Funds:</u>					
Equity	\$ 64,715,867	\$ 64,715,867	\$ -	\$ -	\$ -
Money market	28,230	-	28,230	-	-
Diversified bonds	37,064,961	-	5,028,205	5,161,590	26,875,166
Certificates of Deposit	8,616,495	-	8,616,495	-	-
Total	\$ 110,425,553	\$ 64,715,867	\$ 13,672,930	\$ 5,161,590	\$ 26,875,166

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

3. Cash and Investments (Continued)

Fair Value of Investments

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1: Quoted prices for identical investments in active markets;

Level 2: Observable inputs other than quoted market prices; and

Level 3: Unobservable inputs.

	Amount	Quoted Market Prices in Active Markets Level 1
Investments by Fair Value Level		
<u>Mutual Funds:</u>		
Equity	\$ 64,715,867	\$ 64,715,867
Money market	28,230	28,230
Diversified bonds	<u>37,064,961</u>	<u>37,064,961</u>
Total Investments by Fair Value Level	101,809,058	<u>\$ 101,809,058</u>
<u>Other Investments</u>		
Certificates of deposit	<u>8,616,495</u>	
Total Investments	<u>\$ 110,425,553</u>	

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

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

The City's investments subject to credit risk had average ratings as follows by Standard and Poor's.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

3. Cash and Investments (Continued)

	Money Market Mutual Funds	Bond Mutual Funds
AAA	\$ -	\$ 1,203,746
AA	-	7,720,474
B	-	5,161,590
BB	-	5,028,205
BBB	-	17,950,946
Unrated	28,230	-
Total	<u>\$28,230</u>	<u>\$37,064,961</u>

Custodial credit risk – The City does not have a formal policy with respect to custodial credit risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

4. Receivables

An allowance of \$109,000 has been recorded for Small Cities loans.

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. These were summarized as follows:

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

5. Interfund Transactions (Continued)

	<u>Corresponding Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund			
Debt Service Fund	N/A	\$ -	\$ 1,483,397
Public Safety	N/A	21,237	-
City Hall Renovations Fund	N/A	300,704	-
OPEB Trust Fund	N/A	52	-
City Employees Pension Fund	N/A	310,439	-
Police & Fire Pension Fund	N/A	856,378	-
Maintenance Fund	N/A	355,957	-
Total General Fund		<u>1,844,767</u>	<u>1,483,397</u>
Other Governmental Funds			
Special Revenue Funds			
Public Safety	General Fund	-	21,237
Capital Projects Funds			
City Hall Renovations Fund	General Fund	-	300,704
Debt Service Fund	General Fund	1,483,397	-
Total Other Governmental Funds		<u>1,483,397</u>	<u>321,941</u>
Internal Service Funds			
Maintenance Fund	General Fund	-	355,957
Fiduciary Funds			
OPEB Trust Fund	General Fund	-	52
City Employees Pension Fund	General Fund	-	310,439
Police & Fire Pension Fund	General Fund	-	856,378
Total Fiduciary Funds		<u>-</u>	<u>1,166,869</u>
Grand Total		<u>\$ 3,328,164</u>	<u>\$ 3,328,164</u>

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

5. Interfund Transactions (Continued)

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

	Corresponding Fund	Transfers In	Transfers Out
General Fund			
Self Insurance Fund	N/A	\$ 1,200,000	\$ -
Capital Reserves Fund	N/A	-	164,562
Other Capital Projects Fund	N/A		263,508
Special Revenue Funds	N/A	-	33,670
Total General Fund		1,200,000	461,740
Special Revenue Funds			
Public Works Fund	General Fund	30,000	-
Public Works Fund	Capital Reserve Fund	20,000	-
Elderly and Social Services Fund	General Fund	2,000	-
Coe Memorial Fund	General Fund	1,670	-
Nutrition Program Fund	Other Special Revenue Fund	10,000	-
Other Special Revenue Fund	Nutrition Program Fund	-	10,000
Capital Projects Funds			
Other Capital Projects Fund	General Fund	263,508	-
Capital Reserves Fund	General Fund	164,562	-
Capital Reserves Fund	Public Works Fund	-	20,000
Total Other Governmental Funds		491,740	30,000
Proprietary Funds			
Internal Service Funds			
Self insurance Fund	General Fund	-	1,200,000
Total Proprietary Funds		-	1,200,000
Grand Total		\$ 1,691,740	\$ 1,691,740

The Economic Development Fund advanced the General Fund \$670,000 to remediate a City property. The City will repay \$67,000 per year for 10 years to the Economic Development Fund. The balance at year end was \$469,000.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018**6. Capital Assets**

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

	Balance July 1, 2017 (as restated)	Increase	Decrease	Balance June 30, 2018
Capital assets, not being depreciated				
Land	\$ 3,797,034	\$ -	\$ -	\$ 3,797,034
Construction in progress	4,261,581	810,558	3,607,584	1,464,555
Total capital assets, not being depreciated	8,058,615	810,558	3,607,584	5,261,589
Capital assets, being depreciated				
Land improvements	6,082,638	3,961,543	-	10,044,181
Buildings and improvements	102,916,827	56,386	585,167	102,388,046
Machinery and equipment	31,008,507	1,187,396	140,498	32,055,405
Infrastructure	72,928,874	-	-	72,928,874
Total capital assets, being depreciated	212,936,846	5,205,325	725,665	217,416,506
Less accumulated depreciation				
Land improvements	4,830,602	87,443	-	4,918,045
Buildings and improvements	32,780,339	2,520,476	357,602	34,943,213
Machinery and equipment	24,884,918	2,074,616	140,498	26,819,036
Infrastructure	58,190,395	1,116,599	-	59,306,994
Total accumulated depreciation	120,686,254	5,799,134	498,100	125,987,288
Total capital assets, being depreciated, net	92,250,592	(593,809)	227,565	91,429,218
Governmental activities capital assets, net	\$ 100,309,207	\$ 216,749	\$ 3,835,149	\$ 96,690,807

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

General Government	\$ 507,721
Public Safety	1,043,675
Public Works	1,593,474
Health	53,023
Recreation	6,154
Education	2,595,087
Total depreciation expense	\$ 5,799,134

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018**6. Capital Assets (Continued)**

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

	Balance June 30, 2017 <i>(as restated)</i>	Increase	Decrease	Balance June 30, 2018
Capital assets, not being depreciated				
Construction in progress	\$ 5,872,825	\$ 1,214,193	\$ -	\$ 7,087,018
Capital Assets, being depreciated				
Land improvements	686,400	-	-	686,400
Buildings and improvements	1,104,750	-	-	1,104,750
Machinery and equipment	11,848,971	45,378	94,080	11,800,269
Infrastructure	7,579,715	-	-	7,579,715
Total capital assets, being depreciated	21,219,836	45,378	94,080	21,171,134
Less accumulated depreciation for				
Land improvements	681,390	1,286	-	682,676
Buildings and improvements	490,095	22,401	-	512,496
Machinery and equipment	10,389,544	355,095	94,080	10,650,559
Infrastructure	3,199,599	312,763	-	3,512,362
Total accumulated depreciation	14,760,628	691,545	94,080	15,358,093
Total capital assets, being depreciated, net	6,459,208	(646,167)	-	5,813,041
Business-type activities capital assets, net	\$ 12,332,033	\$ (600,789)	\$ -	\$ 12,900,059

Depreciation expense of \$691,545 was charged to the sewer function.

7. Short-Term Obligations – Bond Anticipation Notes

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
WPCA Facility Upgrade	\$ 3,295,000	\$ -	\$ 3,295,000	\$ -

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

8. Long-Term Liabilities – Governmental Funds

Changes in long-term liabilities

The following is a summary of changes in long-term obligations during the fiscal year:

Description	Original amount	Date of issue	Date of maturity	Interest rate	Balance July 1, 2017 (as restated)	Additions	Deductions	Balance June 30, 2018	Current portion
General obligation bonds:									
2015 Refunding GOB	\$ 4,760,000	9/17/2015	9/15/2026	3 - 4%	\$ 4,760,000	\$ -	\$ 405,000	\$ 4,355,000	\$ 425,000
2010 Series A GOB	2,150,000	12/1/2010	12/1/2030	3 - 4.5%	220,000	-	110,000	110,000	110,000
2010 Series B GOB	11,855,000	12/1/2010	12/1/2018	2.65 - 6.10%	8,750,000	-	8,125,000 *	625,000	625,000
2016 Issue Refunding GOB	12,840,000	7/7/2016	12/1/2030	2 - 5%	12,840,000	-	1,445,000	11,395,000	1,395,000
Total bonds	\$ 31,605,000				26,570,000	-	10,085,000	16,485,000	2,555,000
Premium on bonds					1,269,738	-	345,081	924,657	-
Capital leases					426,654	-	117,785	308,869	118,631
Compensated absences					3,897,318	-	231,181	3,666,137	284,859
Post closure landfill costs					276,000	-	40,000	236,000	40,000
Early retirement incentive					4,383,476	304,616	1,297,268	3,390,824	1,034,935
Heart and hypertension					1,082,521	578,936	284,289	1,377,168	269,000
Net pension liability					46,586,510	12,538,895	13,225,525	45,899,880	-
Net OPEB liability					119,944,049	9,311,564	10,464,046	118,791,567	-
Total long-term obligations					\$ 204,436,266	\$ 22,734,011	\$ 36,090,175	\$ 191,080,102	\$ 4,302,425

* - Amount includes \$7,500,000 of general obligation bonds that were refunded.

All long-term liabilities are generally liquidated by the General Fund or the Debt Service Fund.

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

Year End	Principal	Interest	Year End	Principal	Interest
2019	\$ 2,555,000	\$ 771,793	2026	\$ 1,270,000	\$ 278,793
2020	2,520,000	652,199	2027	1,280,000	218,593
2021	1,175,000	565,961	2028	725,000	164,955
2022	1,195,000	513,149	2029	710,000	118,690
2023	1,210,000	456,549	2030	690,000	71,731
2024	1,230,000	396,299	2031	675,000	24,038
2025	1,250,000	337,068		<u>\$ 16,485,000</u>	<u>\$ 4,569,818</u>

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

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

The City has 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	-	-	52,000,000
	<u>\$ 94,532,597</u>	<u>\$ 23,335,000</u>	<u>\$ 17,162,725</u>	<u>\$ 54,034,872</u>

Defeasance of Debt

The City defeased certain general obligation 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 year end, \$8,820,000 of bonds outstanding are considered defeased.

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 \$518,414 and accumulated depreciation of \$154,598. These leases qualify as capital leases for accounting purposes. The City's capital lease obligations at year-end are as follows:

	Year Ending June 30,	
	2019	\$ 125,977
	2020	66,545
	2021	66,545
	2022	66,545
		<u>325,612</u>
Less the amount representing interest		(16,743)
Present value of future minimum lease payments		<u>\$ 308,869</u>

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 liabilities. The actual costs may vary based on actual events, inflation, changes in technology and applicable laws and regulations.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018**8. Long-Term Liabilities – Governmental Funds (Continued)****Statutory Debt Limitations**

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

Category	Debt Limitation	Net Indebtedness	Balance
General Purpose	\$ 197,994,578	\$ 7,863,000	\$ 190,131,578
Schools	395,989,155	8,622,000	387,367,155
Sewers	329,990,963	-	329,990,963
Urban Renewal	285,992,168	-	285,992,168
Pension Deficit	263,992,770	-	263,992,770

The total overall statutory debt limit for the City is equal to seven times annual receipts from taxation, \$615,983,130.

9. Long-Term Liabilities – Enterprise Funds

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

Description	Original amount	Date of issue	Date of maturity	Interest rate	Balance July 1, 2017 (as restated)	Additions	Deductions	Balance June 30, 2018	Current portion
Notes and loans:									
Clean Water Loans 611 C	\$ 1,123,491	3/1/11	9/1/30	2%	\$ 785,903	\$ -	\$ 52,328	\$ 733,575	\$ 53,384
Clean Water Loans 695 DC	2,076,689	6/18/18	12/31/37	2%	1,515,075	561,614	-	2,076,689	146,732
Total notes and loans	\$ 3,200,180				2,300,978	561,614	52,328	2,810,264	200,116
Compensated absences					257,409	-	13,670	243,739	14,774
Net pension liability					1,031,408	471,956	503,207	1,000,157	-
Net OPEB liability					1,923,501	190,032	208,515	1,905,018	-
Total enterprise funds					\$ 5,513,296	\$ 1,223,602	\$ 777,720	\$ 5,959,178	\$ 214,890

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

Year End	Principal	Interest	Year End	Principal	Interest
2019	\$ 200,116	\$ 56,001	2029	\$ 169,445	\$ 23,018
2020	141,553	85,497	2030	172,865	19,598
2021	144,410	48,053	2031	125,337	15,165
2022	147,325	45,138	2032	110,693	14,202
2023	150,302	42,165	2033	112,927	11,968
2024	153,333	39,130	2034	115,206	9,689
2025	156,428	36,036	2035	117,532	7,363
2026	159,584	32,879	2036	119,904	4,991
2027	162,806	29,657	2037	122,324	2,571
2028	166,092	24,557	2038	62,082	363
Totals				\$ 2,810,264	\$ 548,041

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018**10. 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:

Fund Balance Component	General Fund	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable</u>			
Endowments	\$ -	\$ 3,500	\$ 3,500
Housing rehabilitation loans	-	3,526,824	3,526,824
Clean energy loans	-	52,500	52,500
Advance to other funds	-	469,000	469,000
Total Nonspendable	-	4,051,824	4,051,824
<u>Restricted</u>			
Housing rehabilitation programs		230,876	230,876
Public safety	-	110,245	110,245
Public works	-	1,372	1,372
Education	-	1,306,461	1,306,461
Total restricted	-	1,648,954	1,648,954
<u>Committed</u>			
Approved projects	-	6,208,614	6,208,614
Total committed	-	6,208,614	6,208,614
<u>Assigned</u>			
General government	51,763	568,868	620,631
Public works	-	921,228	921,228
Public health and social services	-	190,722	190,722
Recreation	-	1,058,179	1,058,179
Education	376,452	1,483,397	1,859,849
Total assigned	428,215	4,222,394	4,650,609
<u>Unassigned</u>			
	13,736,339	(300,704)	13,435,635
Total	\$ 14,164,554	\$ 15,831,082	\$ 29,995,636

City of Torrington, Connecticut

Notes to Financial Statements For the Year Ended June 30, 2018

11. Risk Management

The City is exposed to various risks of loss including torts; public official liabilities; police liability; heart and hypertension claims; theft 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, to account for and finance the retained risk of loss for the City's medical benefits.

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	Claims Payable July 1	Current Year Claims	Claim Payments	Claims Payable June 30
2017	\$ 1,315,066	\$ 20,180,460	\$ (20,226,816)	\$ 1,268,710
2018	1,268,710	18,979,811	19,197,881	1,050,640

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 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.

The City is a self-insured provider of claims under C.G.S. 7-433c, the Heart and Hypertension Act. The following is a summary of changes in heart and hypertension claims liability:

	Claims Payable July 1 (as restated)	Current Year Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
Heart and Hypertension				
2016-2017	\$ 984,625	\$ 352,130	\$ 254,234	\$ 1,082,521
2017-2018	1,082,521	578,936	284,289	1,377,168

City of Torrington, Connecticut**Notes to Financial Statements
For the Year Ended June 30, 2018****12. Commitments and Litigations**

Amounts received or receivable from the grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. The outcome of these lawsuits is not presently determinable. In the opinion of the City attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

13. Pension Plan – City of Torrington**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' Board 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 Municipal 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.

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.

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.

City of Torrington, Connecticut**Notes to Financial Statements
For the Year Ended June 30, 2018****13. Pension Plan – City of Torrington (Continued)**

- Effective September 2000, police members may buy back City service, for benefit accrual purposes only, during the year following September 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 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 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 2008 through May 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 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.

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.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

13. Pension Plan – City of Torrington (Continued)

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.

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>

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.

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:

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

13. Pension Plan – City of Torrington (Continued)

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

Concentrations

There were no investments in any one organization that represents 5% or more of the pension plan's net position.

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 7.95% for the Municipal Employees' Plan and 7.53% 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.

Net Pension Liability

The components of the net pension liabilities at year-end were as follows:

	Municipal	Police & Fire
Total pension liability	\$ 49,161,237	\$ 98,259,752
Plan fiduciary net position	40,372,588	60,148,364
Net pension liability	<u>\$ 8,788,649</u>	<u>\$ 38,111,388</u>
Plan fiduciary net position as a percent of total pension liability	82.12%	61.21%

The City's net pension liability was measured at June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The changes in the net pension liability during the year were as follows:

13. Pension Plan – City of Torrington (Continued)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Police and Fire Plan	(a)	(b)	(a) - (b)
Balance at July 1, 2017	\$ 95,263,096	\$ 56,708,439	\$ 38,554,657
Service cost	1,884,618	-	1,884,618
Interest	6,835,726	-	6,835,726
Contributions - employer	-	4,128,371	(4,128,371)
Contributions - member	-	689,105	(689,105)
Net investment income (loss)	-	4,395,741	(4,395,741)
Benefit payments, including refunds of member contributions	(5,723,688)	(5,723,688)	-
Administration expenses	-	(49,604)	49,604
Net change	2,996,656	3,439,925	(443,269)
Balance at June 30, 2018	\$ 98,259,752	\$ 60,148,364	\$ 38,111,388

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

13. Pension Plan – City of Torrington (Continued)

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, 2018:

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	Fair value
Inflation	2.60%
Discount Rate	7.25%
Salary increases	2.6% (due to inflation) plus merit component based on age
Mortality	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-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	Current Discount Rate	1% Increase
Net Pension Liability	6.25%	7.25%	8.25%
Municipal	<u>\$ 14,159,065</u>	<u>\$ 8,788,649</u>	<u>\$ 4,209,631</u>
Police & Fire	<u>\$ 49,398,078</u>	<u>\$38,111,388</u>	<u>\$28,671,101</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. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Expense – For the fiscal year, the City recognized \$468,561 for the Municipal Employee Plan and \$6,154,382 for the Police and Fire Plan. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

13. Pension Plan – City of Torrington (Continued)

<u>Municipal Employee Plan</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 278,120
Changes in assumptions	30,146	-
Net difference between projected and actual earnings on pension plan investments	<u>357,287</u>	<u>-</u>
Total amount of deferred outflows and inflows	<u>\$ 387,433</u>	<u>\$ 278,120</u>
Net amount of deferred outflows and inflows		<u>\$ 109,313</u>
 <u>Police and Fire Plan</u>	 <u>Deferred Outflows of Resources</u>	 <u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,351,981	\$ -
Changes in assumptions	1,654,668	-
Net difference between projected and actual earnings on pension plan investments	<u>703,384</u>	<u>-</u>
Total amount of deferred outflows and inflows	<u>\$ 3,710,033</u>	<u>\$ -</u>
Net amount of deferred outflows and inflows		<u>\$ 3,710,033</u>

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

13. Pension Plan – City of Torrington (Continued)

Actual investment earnings below (or above) projected earnings are amortized over 5 years for both plans. Changes of assumptions and experience losses (gains) are amortized over the average remaining service period of actives and inactive, which was 3.8 years for the Municipal Employees' Plan and 4.2 years for the Police and Fire Employees' Plan. Amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Municipal	Police and Fire
2019	\$ 454,098	\$ 2,291,783
2020	96,220	1,732,771
2021	(382,118)	(252,909)
2022	(58,887)	(61,612)
Total	<u>\$ 109,313</u>	<u>\$ 3,710,033</u>

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. During the year, the City recognized pension expense of \$184,679 and employee contributions totaled \$184,679.

14. Pension Plan – Connecticut Teachers' Retirement System

Plan Description

Teachers, principals, superintendents, or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System (TRS) - a cost sharing multiple-employer defined benefit pension plan administered by the Teachers' Retirement Board (TRB). Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the TRB. TRS issues a publicly available financial report that can be obtained at www.ct.gov.

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

Plan Benefits – The plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Normal Retirement: Retirement benefits for the employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary).

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service.

City of Torrington, Connecticut

Notes to Financial Statements For the Year Ended June 30, 2018

14. Pension Plan – Connecticut Teachers' Retirement System (Continued)

Benefit amounts are reduced by 6% per year for the first 5 years preceding normal retirement age and 4% per year for the next 5 years preceding the normal retirement age. Effective July 1, 1999, the reduction for individuals with 30 or more years of service is 3% per year by which retirement precedes normal retirement date.

Disability Retirement: Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for non-service related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary. In addition, disability benefits under this plan (without regard to cost-of-living adjustments) plus any initial award of social security benefits and workers' compensation cannot exceed 75% of average annual salary.

Contributions

State of Connecticut

Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are amended and certified by the State Teachers' Retirement Board and appropriated by the General Assembly. The contributions are actuarially determined as an amount that, when combined with employee contributions and investment earnings, 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.

Employer (School Districts)

School district employers are not required to make contributions to the plan.

Employees

Effective July 1, 1992, each teacher is required to contribute 6% of pensionable salary.

Effective January 1, 2018, each teacher is required to contribute 7% of pensionable salary.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The City reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows due to the statutory requirement that the State pay 100% of the required contribution. The amounts recognized by the City as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the City were as follows:

City's Proportionate Share of the Net Pension Liability	\$ -
State of Connecticut's Proportionate Share of the Net Pension	
Liability associated with the City	101,727,133
Total	<u><u>\$ 101,727,133</u></u>

City of Torrington, Connecticut

Notes to Financial Statements For the Year Ended June 30, 2018

14. Pension Plan – Connecticut Teachers' Retirement System (Continued)

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The City has no proportionate share of the net pension liability.

For the fiscal year ended, the City recognized pension expense and revenue of \$11,766,858 for on-behalf amounts for the benefits provided by the State.

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25-6.50%, including inflation
Investment rate of return	8.00%, net of investment related expense, including inflation

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvements scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 – June 30, 2015. As a result of the 2015 actuarial experience study, the rates of withdrawal, disability, retirement, mortality and assumed rates of salary increase were adjusted in the June 30, 2016 actuarial valuation to more closely reflect actual experience.

Future cost-of-living increases - For teachers who retired prior to September 1, 1992, pension benefit adjustments are made in accordance with increases in the Consumer Price Index, with a minimum of 3% and a maximum of 5% per annum. For teachers who were members of the

Teachers' Retirement System before July 1, 2007, and retire on or after September 1, 1992, pension benefit adjustments are made that are consistent with those provided for social security benefits on January 1 of the year granted, with a maximum of 6% per annum. If the return on assets in the previous year was less than 8.5%, the maximum increase is 1.5%.

For teachers who were members of the Teachers' Retirement System after July 1, 2007, pension benefit adjustments are made that are consistent with those provided for social security benefits on January 1 of the year granted, with a maximum of 5% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3%, and if the return on the assets in the previous year was less than 8.5%, the maximum increase is 1.0%.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis 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. The target asset allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

14. Pension Plan – Connecticut 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%
Real Estate	7.00%	5.10%
Private Equity	11.00%	7.60%
Alternative Investments	8.00%	4.10%
Core Fixed Income	7.00%	1.30%
High Yield Bonds	5.00%	3.90%
Emerging Market Bond	5.00%	3.70%
Inflation Linked Bond Fund	3.00%	1.00%
Cash	6.00%	0.40%

Discount Rate – The discount rate used to measure the total pension liability was 8.00%. 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 employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The City's proportionate share of the net pension liability is \$0 and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

Plan Fiduciary Net Position – Detailed information about the Connecticut State Teachers' Retirement Plan fiduciary net position is available in the separately issued State of Connecticut Comprehensive Annual Financial Report as of and for the year ended June 30, 2017.

15. Other Post-Employment Benefits (“OPEB”)

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 plan.

Plan Benefits and Contributions Rates

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 of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

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

- 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 medical plans and a dental plan to age 65. At age 65, if eligible, they are enrolled in an 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 medical plans and an Anthem dental plan to age 65. At age 65, if eligible, they are enrolled in a 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 medical plans and an Anthem dental plan to age 65 at a contribution rate of 13.5%. At age 65, if eligible, they are enrolled in an Medicare supplemental plan. They also receive life insurance benefits of \$5,000 to \$15,000 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.
- 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	887
	<u>1,275</u>

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

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

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.

Concentrations – There were no investments in any one organization that represents 5% or more of the OPEB plan's net position.

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:

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 7.16%.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

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

Net OPEB Liability

The components of the net OPEB liability of the City were as follows:

Total OPEB liability	\$ 120,802,487
Less: Plan fiduciary net position	<u>105,902</u>
Net OPEB liability	<u>\$ 120,696,585</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0.09%</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, 2018:

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	3.87%
Healthcare cost trends	7.75% in 2016 reducing by .5% each year to a final 4.75% per year for 2022 and later
Retirement age	25 years of service with varying retirement rates
Post-retirement mortality	RP-2000 projected to the valuation date with Scale BB for projections for the current year.

The discount rate was based on the Bond Buyer Go 20-Bond Municipal Index as of the measurement date.

Assumption changes were as follows:

- The discount rate increased from 3.50% to 3.87%.

Changes in the OPEB Liability

The City's OPEB liability was measured at June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018**15. Other Post-Employment Benefits ("OPEB") (Continued)**

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

Employee's Plan	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at July 1, 2017	\$ 121,918,967	\$ 51,417	\$ 121,867,550
Service cost	5,121,706	-	5,121,706
Interest	4,379,890	-	4,379,890
Differences between expected and actual experience	(347,698)	-	(347,698)
Changes in assumptions	(6,435,473)	-	(6,435,473)
Contributions - employer	-	3,767,666	(3,767,666)
Contributions - TRB Subsidy	-	117,239	(117,239)
Net investment income (loss)	-	4,533	(4,533)
Benefit payments, including refunds of member contributions	(3,834,905)	(3,834,905)	-
Administration	-	(48)	48
Net change	(1,116,480)	54,485	(1,170,965)
Balance at June 30, 2018	\$ 120,802,487	\$ 105,902	\$ 120,696,585

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 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
Net OPEB Liability	\$ 139,409,745	\$ 120,696,585	\$ 105,679,286

The following presents the net 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 6.75% decreasing to 3.75%	Current 7.75% decreasing to 4.75%	1% Increase 8.75% decreasing to 5.75%
Net OPEB Liability	\$ 103,156,308	\$ 120,696,585	\$ 142,962,890

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

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

The City recognized OPEB expense of \$8,024,678. The City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description of Outflows and Inflows	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 278,158
Changes in assumptions	-	5,148,378
Net difference between projected and actual earnings on pension plan investments	-	1,509
Total amount of deferred outflows and inflows	<u>\$ -</u>	<u>\$ 5,428,045</u>
Net amount of deferred outflows and inflows		<u>\$ (5,428,045)</u>

Actual investment earnings below (or above) projected earnings are amortized over 5 years for both plans. Experience losses (gains) are amortized over the average remaining service period of actives and inactive, which was 5 years.

Amounts reported as deferred outflows (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	
2019	\$ (1,357,012)
2020	(1,357,012)
2021	(1,357,012)
2022	<u>(1,357,009)</u>
Total	<u>\$ (5,428,045)</u>

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

16. OPEB Plan – Connecticut State Teachers’ Retirement Plan

Plan Description

Teachers, principals, superintendents, supervisors and professional employees at State schools of higher education if they choose to be covered that are currently receiving a retirement or disability benefit are eligible to participate in the Connecticut State Teachers’ Retirement System Retiree Health Insurance Plan (“TRS-RHIP”) - a cost sharing multiple-employer defined benefit other post-employment benefit plan administered by the Teachers’ Retirement Board (TRB). Chapter 167a Section 10-183 (t) of the State Statutes grants authority to establish and amend the benefit terms to the TRB. TRS-RHIP issues a publicly available financial report that can be obtained at www.ct.gov/trb.

Benefit Provisions

The Plan provides for retiree health insurance benefits. Eligibility is as follows:

- **Normal Retirement:** Eligibility - Age 60 with 20 years of Credited Service in Connecticut, or 35 years of Credited Service including at least 25 years of service in Connecticut.
- **Early Retirement:** Eligibility - 25 years of Credited Service including 20 years of Connecticut service, or age 55 with 20 years of Credited Service including 15 years of Connecticut service.
- **Proratable Retirement:** Eligibility - Age 60 with 10 years of Credited Service.
- **Disability Retirement:** Eligibility - 5 years of Credited Service in Connecticut if not incurred in the performance of duty and no service requirement if incurred in the performance of duty.
- **Termination of Employment:** Eligibility - 10 or more years of Credited Service.

Retiree Health Care Coverage

Any member that is currently receiving a retirement or disability benefit is eligible to participate in the Plan. There are two types of the health care benefits offered through the system. Subsidized Local School District Coverage provides a subsidy paid to members still receiving coverage through their former employer and the CTRB Sponsored Medicare Supplemental Plans provide coverage for those participating in Medicare, but not receiving Subsidized Local School District Coverage.

Any member that is not currently participating in Medicare Parts A & B is eligible to continue health care coverage with their former employer. A subsidy of up to \$110 per month for a retired member plus an additional \$110 per month for a spouse enrolled in a local school district plan is provided to the school district to first offset the retiree’s share of the cost of coverage, any remaining portion is used to offset the district’s cost. The subsidy amount is set by statute, and has not increased since July of 1996.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

16. OPEB Plan – Connecticut State Teachers' Retirement Plan (Continued)

A subsidy amount of \$220 per month may be paid for a retired member, spouse or the surviving spouse of a member who has attained the normal retirement age to participate in Medicare, is not eligible for Part A of Medicare without cost, and contributes at least \$220 per month towards coverage under a local school district plan.

Any member that is currently participating in Medicare Parts A & B is eligible to either continue health care coverage with their former employer, if offered, or enroll in the plan sponsored by the System. If they elect to remain in the plan with their former employer, the same subsidies as above will be paid to offset the cost of coverage.

If a member participating in Medicare Parts A & B so elects, they may enroll in one of the CTRB Sponsored Medicare Supplemental Plans. Active members, retirees, and the State pay equally toward the cost of the basic coverage (medical and prescription drug benefits). There are three choices for coverage under the CTRB Sponsored Medicare Supplemental Plans. The choices and 2017 calendar year premiums charged for each choice are shown in the table below

• Medicare Supplement with Prescriptions	\$ 92
• Medicare Supplement with Prescriptions and Dental	136
• Medicare Supplement with Prescriptions, Dental, Vision & Hearing	141

Those participants electing vision, hearing, and/or dental are required by the System's funding policy to pay the full cost of coverage for these benefits, and no liability is assumed by the Plan for these benefits.

Survivor Health Care Coverage

Survivors of former employees or retirees remain eligible to participate in the Plan and continue to be eligible to receive either the \$110 monthly subsidy or participate in the TRB -Sponsored Medicare Supplemental Plans, as long as they do not remarry

Contributions

State of Connecticut

Per Connecticut General Statutes Section 10-183t, contribution requirements of active employees and the State of Connecticut are amended and certified by the State Teachers' Retirement Board and appropriated by the General Assembly. The State contributions are not currently actuarially funded. The State appropriates from the General Fund one third of the annual costs of the Plan. Administrative costs of the Plan are financed by the State. Based upon Chapter 167a, Subsection D of Section 10-183t of the Connecticut statutes, it is assumed the State will pay for any long-term shortfall arising from insufficient active member contributions.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

16. OPEB Plan – Connecticut State Teachers' Retirement Plan (Continued)

Employer (School Districts)

School district employers are not required to make contributions to the plan.

Employees

Each member is required to contribute 1.25% of their annual salary. Contributions in excess of \$500,000 will be credited to the Retiree Health Insurance Plan.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The City reports no amounts for its proportionate share of the net OPEB liability, and related deferred outflows and inflows due to the statutory requirement that the State pay 100% of the required contribution. The amounts recognized by the City as its proportionate share of the net OPEB liability, the related state support, and the total portion of the net OPEB liability that was associated with the City were as follows:

City's proportionate share of the net OPEB liability	\$ -
State's proportionate share of the net OPEB liability associated with the City	<u>26,183,415</u>
Total	<u>\$ 26,183,415</u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The City has no proportionate share of the net OPEB liability.

The City recognized OPEB expense and revenue of \$1,213,472 for on-behalf amounts for the benefits provided by the State.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Health care costs trend rate	7.25% decreasing to 5.00% by 2022
Salary increases	3.25-6.50%, including inflation
Investment rate of return	3.56%, net of OPEB plan investment expense, including inflation
Year fund net position will be depleted	2018

City of Torrington, Connecticut**Notes to Financial Statements
For the Year Ended June 30, 2018****16. OPEB Plan – Connecticut State Teachers' Retirement Plan (Continued)**

Mortality rates were based on the RP-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 and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80. For disabled retirees, the RPH-2014 Disabled Mortality table projected to 2017 using the BB improvement scale was used.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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.

All the plan assets are assumed to be invested in cash equivalents due to the need for liquidity. The expected rate of return is 2.75%.

Changes from Prior Valuation

As a result of the experience study for the five-year period ending June 30, 2015:

- The payroll growth rate assumption was decreased from 3.75% to 3.25% to reflect the decrease in the rate of inflation and the decrease in the rate of real wage increase.
- The demographic assumptions of salary growth, payroll growth, the rates of withdrawal, the rates of retirement, the rates of mortality, and the rates of disability incidence were adjusted based upon the experience study's findings and their adoption by the Board.
- The discount rate has been increased from 3.01% to 3.56% based upon the increase in the municipal bond index.

Additionally, the assumed initial per capita health care costs, the assumed rates of healthcare inflation used to project the per capita costs, and the participation assumptions have been revised.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

16. OPEB Plan – Connecticut State Teachers' Retirement Plan (Continued)**Affordable Care Act (ACA)**

The impact of the Affordable Care Act (ACA) was addressed in this valuation. Review of the information currently available did not identify any specific provisions of the ACA that are anticipated to significantly impact results. While the impact of certain provisions such as the excise tax on high-value health insurance plans beginning in 2020 (if applicable), mandated benefits and participation changes due to the individual mandate should be recognized in the determination of liabilities, overall future plan costs and the resulting liabilities are driven by amounts employers and retirees can afford (i.e., trend). The trend assumption forecasts the anticipated increase to initial per capita costs, taking into account health care cost inflation, increases in benefit utilization, plan changes, government-mandated benefits, and technological advances. Given the uncertainty regarding the ACA's implementation (e.g., the impact of excise tax on high-value health insurance plans, changes in participation resulting from the implementation of state-based health insurance exchanges), continued monitoring of the ACA's impact on the Plan's liability will be required.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.56%. 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 employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Sensitivity of the OPEB Liability to Changes in the Discount Rate and the Health Care Cost Trend Rate

The City's proportionate share of the net OPEB liability is \$0 and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

Plan Fiduciary Net Position

Detailed information about the Connecticut State Teachers' OPEB Plan fiduciary net position is available in the separately issued State of Connecticut Comprehensive Annual Financial Report as of and for the year ended June 30, 2017.

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

17. Pension and OPEB Statements

Combining Statement of Fiduciary Net Position
Pension Trust Funds
June 30, 2018

	Municipal Employees Pension	Police & Fire Pension	OPEB Trust Fund	Total
ASSETS				
Investments				
Mutual funds				
Equity	\$ 25,845,142	\$ 38,803,273	\$ 67,452	\$ 64,715,867
Money market	6,732	19,537	1,961	28,230
Diversified bonds	<u>14,837,286</u>	<u>22,191,118</u>	<u>36,557</u>	<u>37,064,961</u>
Total investments	40,689,160	61,013,928	105,970	101,809,058
Accrued interest and dividends	<u>7,022</u>	<u>10,533</u>	<u>-</u>	<u>17,555</u>
Total assets	<u>40,696,182</u>	<u>61,024,461</u>	<u>105,970</u>	<u>101,826,613</u>
LIABILITIES				
Accounts payable	13,155	19,719	16	32,890
Due to other funds	<u>310,439</u>	<u>856,378</u>	<u>52</u>	<u>1,166,869</u>
Total liabilities	<u>323,594</u>	<u>876,097</u>	<u>68</u>	<u>1,199,759</u>
NET POSITION				
Restricted for pensions	40,372,588	60,148,364	-	100,520,952
Restricted for OPEB	<u>-</u>	<u>-</u>	<u>105,902</u>	<u>105,902</u>
Total net position	<u>\$ 40,372,588</u>	<u>\$ 60,148,364</u>	<u>\$ 105,902</u>	<u>\$ 100,626,854</u>

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

17. Pension and OPEB Statements (Continued)

Combining Statement of Changes in Fiduciary Net Position
Pension Trust Funds
For the Year Ended June 30, 2018

	Municipal Employees' Pension	Police & Fire Pension	OPEB Trust Fund	Total
ADDITIONS				
Contributions				
Employer	\$ 1,216,031	\$ 4,128,371	\$ 3,767,666	\$ 9,112,068
TRB subsidy	-	-	117,239	117,239
Employee	<u>311,644</u>	<u>689,105</u>	<u>-</u>	<u>1,000,749</u>
Total contributions	<u>1,527,675</u>	<u>4,817,476</u>	<u>3,884,905</u>	<u>10,230,056</u>
Investment income				
Net change in fair value of investments	3,051,706	4,393,630	2,963	7,448,299
Interest and dividends	<u>20,502</u>	<u>2,111</u>	<u>1,570</u>	<u>24,183</u>
Total investment income	<u>3,072,208</u>	<u>4,395,741</u>	<u>4,533</u>	<u>7,472,482</u>
Total additions	4,599,883	9,213,217	3,889,438	17,702,538
DEDUCTIONS				
Benefits	2,734,956	5,723,688	3,834,905	12,293,549
Administration	<u>34,764</u>	<u>49,604</u>	<u>48</u>	<u>84,416</u>
Total Deductions	<u>2,769,720</u>	<u>5,773,292</u>	<u>3,834,953</u>	<u>12,377,965</u>
Change in net position	<u>1,830,163</u>	<u>3,439,925</u>	<u>54,485</u>	<u>5,324,573</u>
Net position - July 1, 2017	<u>38,542,425</u>	<u>56,708,439</u>	<u>51,417</u>	<u>95,302,281</u>
Net position - June 30, 2018	<u>\$40,372,588</u>	<u>\$60,148,364</u>	<u>\$ 105,902</u>	<u>\$ 100,626,854</u>

City of Torrington, Connecticut

Notes to Financial Statements
For the Year Ended June 30, 2018

18. Prior Period Adjustment

	Governmental Activities	Business-Type Activities	General Fund	WPCA Infrastructure Upgrade Fund	WPCA Enterprise Fund	Other Governmental Funds	Custodial Funds
Net position as previously reported at June 30, 2017	\$ (51,672,516)	\$ 9,972,376	\$ 21,505,946	\$ (2,750,583)	\$ 9,972,376	\$ 17,179,191	\$ -
To reclassify refunding bond escrow to the Debt Service Fund	-	-	(7,738,045)	-	-	7,738,045	-
To record heart and hypertension liability	(1,082,521)	-	-	-	-	-	-
To restate the small cities loan receivable allowance estimate	403,265	-	-	-	-	403,265	-
To record clean water loan interim funding	-	(1,515,075)	-	-	(1,515,075)	-	-
To allocate the net pension liability to WPCA fund	1,072,780	(1,072,780)	-	-	(1,072,780)	-	-
To allocate the net OPEB to the WPCA fund	1,923,501	(1,923,501)	-	-	(1,923,501)	-	-
To reclassify funds as a result of the implementation of GASB Statement 84							
Nonmajor Capital Project to WPCA Enterprise	(2,831,840)	2,831,840	-	-	2,831,840	(2,761,089)	-
Governmental Fund to WPCA Enterprise	2,750,583	(2,750,583)	-	2,750,583	(2,750,583)	-	-
Governmental Capital Assets to WPCA Enterprise	(5,872,826)	5,872,826	-	-	5,872,826	-	-
General Fund to Nonmajor Capital Project	-	-	(343,792)	-	-	343,792	-
Agency to Custodial	-	-	-	-	-	-	446,917
Agency to Special Revenue	101,661	-	-	-	-	101,661	-
Net position as restated at July 1, 2017	<u>\$ (55,207,913)</u>	<u>\$ 11,415,103</u>	<u>\$ 13,424,109</u>	<u>\$ -</u>	<u>\$ 11,415,103</u>	<u>\$ 23,004,865</u>	<u>\$ 446,917</u>

Required Supplementary Information

City of Torrington, Connecticut

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, 2018

	Budgeted Amounts			Actual	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
REVENUES					
Property Tax Revenues					
Property tax collections	\$ 86,126,908	\$ 1,485,264	\$ 87,612,172	\$ 87,623,942	\$ 11,770
Motor vehicle supplement	1,048,498	229,359	1,277,857	1,238,922	(38,935)
	<u>87,175,406</u>	<u>1,714,623</u>	<u>88,890,029</u>	<u>88,862,864</u>	<u>(27,165)</u>
Intergovernmental Revenues					
General Government					
Pequot fund grant	289,269	(1,670)	287,599	287,599	-
Stabilization grant	1,281,380	(950,776)	330,604	330,604	-
In lieu of taxes	507,638	(113,501)	394,137	314,137	(80,000)
Disabled persons	8,000	-	8,000	8,457	457
MRSA Motor Vehicle	-	-	-	603,276	603,276
MRSA bonded distribution	605,345	-	605,345	605,345	-
Additional veterans' grant	35,000	-	35,000	37,020	2,020
Vogel Elementary School	796,973	-	796,973	796,971	(2)
	<u>3,523,605</u>	<u>(1,065,947)</u>	<u>2,457,658</u>	<u>2,983,409</u>	<u>525,751</u>
Board of Education					
Special education grant	1,808,277	-	1,808,277	2,032,907	224,630
Education cost sharing grant	24,656,637	(321,489)	24,335,148	23,667,040	(668,108)
Nonpublic health and welfare	29,744	-	29,744	33,484	3,740
Capital projects reimbursement	417,900	-	417,900	363,918	(53,982)
	<u>26,912,558</u>	<u>(321,489)</u>	<u>26,591,069</u>	<u>26,097,349</u>	<u>(493,720)</u>
Total Intergovernmental Revenue	<u>30,436,163</u>	<u>(1,387,436)</u>	<u>29,048,727</u>	<u>29,080,758</u>	<u>32,031</u>
Charges for Services					
General Government					
Telephone access lines	105,000	-	105,000	80,406	(24,594)
Street lights	1,045	-	1,045	1,045	-
Group insurance workers comp	450,000	-	450,000	424,941	(25,059)
Insurance refund	75,760	-	75,760	108,153	32,393
Probate	22,806	-	22,806	20,972	(1,834)
New buildings and alterations	200,000	-	200,000	101,709	(98,291)
Plumbing fees	25,000	-	25,000	16,433	(8,567)
Electrical permit fees	75,000	-	75,000	46,852	(28,148)
Roofing permit fees	27,000	-	27,000	35,175	8,175
Sign and billboard permits	2,000	-	2,000	1,819	(181)
Demolition and removal	2,500	-	2,500	1,347	(1,153)
Heating permit fees	58,000	-	58,000	46,741	(11,259)
Certificate of occupancy	15,000	-	15,000	10,935	(4,065)
Planning and zoning fees	30,000	-	30,000	26,994	(3,006)
State mandated fees	6,000	-	6,000	4,875	(1,125)
Miscellaneous - building department	2,500	-	2,500	85,291	82,791
Credit card fees	1,000	-	1,000	656	(344)
Conveyance tax	250,000	-	250,000	227,658	(22,342)
Marriage licenses and permits	3,000	-	3,000	3,810	810
Copying and certification fees	33,000	-	33,000	30,514	(2,486)
Working Certificates	-	-	-	10,046	10,046
Hunting and fishing	10,000	-	10,000	-	(10,000)
Notary	1,000	-	1,000	950	(50)
Dog fees	14,000	-	14,000	20,496	6,496

(Continued)

City of Torrington, Connecticut

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, 2018

	Budgeted Amounts				
	Original	Additional Appropriations and Transfers	Final	Actual	Variance with Final Budget
Recording fees	\$ 200,000	\$ -	\$ 200,000	\$ 174,302	\$ (25,698)
Vital statistics	95,000	-	95,000	95,176	176
MIRA fees (formerly CRRA)	30,000	-	30,000	164,056	134,056
City Real Estate Revenue	17,000	-	17,000	17,872	872
Miscellaneous	100,000	-	100,000	308,000	208,000
State mandated fees	305,000	-	305,000	295,431	(9,569)
	<u>2,156,611</u>	<u>-</u>	<u>2,156,611</u>	<u>2,362,655</u>	<u>206,044</u>
Public Safety					
Parking authority	80,000	-	80,000	88,915	8,915
Canine Fund - Hotchkiss Trust	2,500	-	2,500	2,500	-
Fire - outside duty	500	-	500	318	(182)
Fire workers comp/insurance payroll	87,000	-	87,000	108,478	21,478
Police tickets and permits	214,662	-	214,662	172,633	(42,029)
Police workers comp and insurance	116,000	-	116,000	232,081	116,081
Police - outside duty	500,000	415,469	915,469	1,215,095	299,626
Miscellaneous charges and testing	2,000	-	2,000	-	(2,000)
Miscellaneous	20,000	-	20,000	31,041	11,041
Credit card fees	-	-	-	324	324
	<u>1,022,662</u>	<u>415,469</u>	<u>1,438,131</u>	<u>1,851,385</u>	<u>413,254</u>
Public Works					
Workers comp and insurance	5,000	-	5,000	8,916	3,916
Engineering fees	250	-	250	103	(147)
Street dept. miscellaneous fees	17,000	-	17,000	10,368	(6,632)
Water diversion fees	-	-	-	-	-
Landfill tire fees	15,625	-	15,625	15,031	(594)
Miscellaneous charges	4,000	-	4,000	4,618	618
Recycling income	50	-	50	64	14
Recreation - swimming fees	15,000	-	15,000	10,806	(4,194)
Sidewalk repair fees	50,000	-	50,000	-	(50,000)
Credit card fees	-	-	-	18	18
	<u>106,925</u>	<u>-</u>	<u>106,925</u>	<u>49,924</u>	<u>(57,001)</u>
Board of Education					
Workers comp and insurance	1,831,156	-	1,831,156	1,992,768	161,612
Total Charges for Services	<u>5,117,354</u>	<u>415,469</u>	<u>5,532,823</u>	<u>6,256,732</u>	<u>723,909</u>
Investment Income					
Investment interest	100,000	-	100,000	101,737	1,737
Total Revenues	<u>122,828,923</u>	<u>742,656</u>	<u>123,571,579</u>	<u>124,302,091</u>	<u>730,512</u>

(Continued)

City of Torrington, Connecticut

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, 2018

	Budgeted Amounts				
		Additional			
	Original	Appropriations and Transfers	Final	Actual	Variance with Final Budget
EXPENDITURES					
General Government					
Assessor	\$ 407,342	\$ (43,377)	\$ 363,965	\$ 340,232	\$ 23,733
Board of Assessment	5,600	(300)	5,300	4,427	873
Boards and agencies	326,071	(2,000)	324,071	313,208	10,863
Building	365,256	7,915	373,171	365,398	7,773
City real estate	496,855	(295,000)	201,855	133,973	67,882
City clerk	727,087	(3,336)	723,751	675,813	47,938
Comptroller	365,732	2,442	368,174	322,615	45,559
Corporate counsel	193,668	(32,709)	160,959	151,500	9,459
Mayor	231,766	2,361	234,127	232,174	1,953
Personnel	214,832	9,908	224,740	224,739	1
Planning and zoning	236,192	2,892	239,084	239,037	47
Purchasing	115,706	920	116,626	110,618	6,008
Registrars	167,731	1,476	169,207	114,563	54,644
Elderly services	331,703	670	332,373	313,177	19,196
Treasurer	66,331	-	66,331	65,457	874
Information services	790,568	(122,860)	667,708	654,094	13,614
Economic development	112,001	45,643	157,644	148,237	9,407
Probate	39,764	-	39,764	38,083	1,681
City wide services	2,317,745	(2,152,513)	165,232	160,555	4,677
	7,511,950	(2,577,868)	4,934,082	4,607,900	326,182
Public Safety					
Public safety miscellaneous	2,463,512	271,992	2,735,504	2,555,620	179,884
Emergency management	35,611	-	35,611	30,631	4,980
Fire	5,104,487	37,552	5,142,039	4,981,658	160,381
Fire - volunteers	95,758	6,069	101,827	74,711	27,116
Police	8,776,072	147,502	8,923,574	8,654,905	268,669
Animal control	260,123	15,162	275,285	275,285	-
Traffic management	344,685	(27,000)	317,685	312,541	5,144
	17,080,248	451,277	17,531,525	16,885,351	646,174
Public Works					
Administration	149,753	6,173	155,926	155,244	682
City hall	196,170	1,518	197,688	166,738	30,950
Engineering	668,324	23,334	691,658	613,781	77,877
Landfill	1,045,800	(10,383)	1,035,417	1,015,544	19,873
Sanitary sewer / street lights	200,750	(19,617)	181,133	181,132	1
Streets	4,882,132	(921,538)	3,960,594	3,821,034	139,560
Parks	1,069,765	(201,435)	868,330	832,474	35,856
	8,212,694	(1,121,948)	7,090,746	6,785,947	304,799
Health	2,892,493	-	2,892,493	2,851,791	40,702
Recreation	394,919	(906)	394,013	333,673	60,340
Tax Collector Contract	604,400	-	604,400	553,669	50,731
Employee Benefit Insurance					
Insurance	1,705,377	-	1,705,377	1,667,507	37,870
Pension and benefits	13,312,027	(55,470)	13,256,557	13,129,636	126,921
	15,017,404	(55,470)	14,961,934	14,797,143	164,791

(Continued)

City of Torrington, Connecticut

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, 2018

	Budgeted Amounts			Actual	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
Board of Education	<u>\$ 74,149,114</u>	<u>\$ -</u>	<u>\$ 74,149,114</u>	<u>\$ 73,501,492</u>	<u>\$ 647,622</u>
Debt Service					
Bond redemption	2,585,000	-	2,585,000	2,585,000	-
Debt interest and expense	<u>803,032</u>	<u>1,500</u>	<u>804,532</u>	<u>804,032</u>	<u>500</u>
	<u>3,388,032</u>	<u>1,500</u>	<u>3,389,532</u>	<u>3,389,032</u>	<u>500</u>
Contingency	<u>350,000</u>	<u>(350,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Additional reductions to be determined	<u>(3,934,331)</u>	<u>3,934,331</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>125,666,923</u>	<u>280,916</u>	<u>125,947,839</u>	<u>123,705,998</u>	<u>2,241,841</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,838,000)</u>	<u>461,740</u>	<u>(2,376,260)</u>	<u>596,093</u>	<u>2,972,353</u>
OTHER FINANCING SOURCES (USES)					
Appropriation of fund balance	1,638,000	-	1,638,000	-	1,638,000
Transfers in					
Self insurance fund	1,200,000	-	1,200,000	1,200,000	-
Transfers out					
Capital reserve	-	(164,562)	(164,562)	(164,562)	-
Other capital projects	-	(263,508)	(263,508)	(263,508)	-
Other special revenue	<u>-</u>	<u>(33,670)</u>	<u>(33,670)</u>	<u>(33,670)</u>	<u>-</u>
Net Other Financing Sources (Uses)	<u>2,838,000</u>	<u>(461,740)</u>	<u>2,376,260</u>	<u>738,260</u>	<u>1,638,000</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,334,353</u>	<u>\$ 1,334,353</u>

(Continued)

City of Torrington, Connecticut

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, 2018

<u>Reconciliation to Exhibit D</u>	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis - RSI-1	\$ 124,302,091	\$ 123,705,998
Repayment of brownfield remediation loan to Other Special Revenue Fund	-	(67,000)
Adjustment for accrued payroll	-	(81,641)
Prior year encumbrances liquidated in the current year	-	1,170,764
Current year encumbrances charged to budgetary expenditures	-	(428,215)
State Teachers' Pension on behalf amount	11,766,858	11,766,858
State Teachers' OPEB on behalf amount	<u>1,213,472</u>	<u>1,213,472</u>
GAAP basis - Exhibit D	<u>\$ 137,282,421</u>	<u>\$ 137,280,236</u>

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 revenue or expenditures payments made for the teacher's retirement and OPEB by the State of Connecticut for the City's teachers; 2) Encumbrances are treated as expenditures against the budget in the year committed; 3) Certain payroll is budgeted on a cash basis.

(Concluded)

City of Torrington, Connecticut

City of Torrington Employee Retirement Plan
Schedule of Changes in Net Pension Liability and Related Ratios

Required Supplementary Information
Last Four Years (1)

	Municipal Employees			
	2018	2017	2016	2015
Total Pension Liability				
Service cost	\$ 874,813	\$ 903,306	\$ 832,714	\$ 847,373
Interest on total pension liability	3,415,694	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	(2,734,956)	(2,557,951)	(2,436,843)	(2,455,752)
Net change in total pension liability	1,555,551	1,268,936	1,715,210	(920,189)
Total pension liability, beginning	47,605,686	46,336,750	44,621,540	45,541,729
Total pension liability, ending	49,161,237	47,605,686	46,336,750	44,621,540
Fiduciary Net Position				
Employer contributions	1,216,031	1,360,145	1,521,271	2,130,792
Member contributions	311,644	334,994	353,195	362,688
Investment income net of investment expenses	3,072,208	4,225,538	(256,752)	728,798
Benefit payments	(2,734,956)	(2,557,951)	(2,436,843)	(2,455,752)
Administrative expenses	(34,764)	(25,163)	(25,797)	(36,205)
Other	-	(61,594)	9,258	-
Net change in plan fiduciary net position	1,830,163	3,275,969	(835,668)	730,321
Fiduciary net position, beginning	38,542,425	35,266,456	36,102,124	35,371,803
Fiduciary net position, ending	40,372,588	38,542,425	35,266,456	36,102,124
Net pension liability, ending	<u>\$ 8,788,649</u>	<u>\$ 9,063,261</u>	<u>\$ 11,070,294</u>	<u>\$ 8,519,416</u>
Fiduciary net position as a percentage of total pension liability	<u>82.12%</u>	<u>80.96%</u>	<u>76.11%</u>	<u>80.91%</u>
Covered payroll	<u>\$ 7,149,237</u>	<u>\$ 6,941,007</u>	<u>\$ 7,180,419</u>	<u>\$ 7,508,384</u>
Net pension liability as a percentage of covered payroll	<u>122.93%</u>	<u>130.58%</u>	<u>154.17%</u>	<u>113.47%</u>

(Continued)

(1) These schedules are intended to present information for 10 years. Additional years will be presented as the information becomes available.

City of Torrington, Connecticut

City of Torrington Employee Retirement Plan
Schedule of Changes in Net Pension Liability and Related RatiosRequired Supplementary Information
Last Four Years (1)

Police and Fire

	2018	2017	2016	2015
Total Pension Liability				
Service cost	\$ 1,884,618	\$ 1,777,628	\$ 1,629,262	\$ 1,562,617
Interest on total pension liability	6,835,726	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	(5,723,688)	(5,689,529)	(5,692,476)	(5,622,992)
Net change in total pension liability	2,996,656	8,153,414	2,216,370	4,822,920
Total pension liability, beginning	95,263,096	87,109,682	84,893,312	80,070,392
Total pension liability, ending	98,259,752	95,263,096	87,109,682	84,893,312
Fiduciary Net Position				
Employer contributions	4,128,371	3,599,764	3,795,161	3,926,071
Member contributions	689,105	709,907	715,430	712,134
Investment income net of investment expenses	4,395,741	6,165,567	(485,726)	1,178,199
Benefit payments	(5,723,688)	(5,689,529)	(5,692,476)	(5,622,992)
Administrative expenses	(49,604)	(43,794)	(36,760)	(45,702)
Other	-	44,709	13,871	(1)
Net change in plan fiduciary net position	3,439,925	4,786,624	(1,690,500)	147,709
Fiduciary net position, beginning	56,708,439	51,921,815	53,612,315	53,464,606
Fiduciary net position, ending	60,148,364	56,708,439	51,921,815	53,612,315
Net pension liability, ending	\$38,111,388	\$38,554,657	\$35,187,867	\$31,280,997
Fiduciary net position as a percentage of total pension liability	61.21%	59.53%	59.61%	63.15%
Covered payroll	\$ 9,302,512	\$ 9,031,565	\$ 8,797,081	\$10,060,356
Net pension liability as a percentage of covered payroll	409.69%	426.89%	399.99%	310.93%

(Concluded)

(1) These schedules are intended to present information for 10 years. Additional years will be presented as the information becomes available.

City of Torrington, Connecticut

City of Torrington Employee Retirement Plan

Required Supplementary Information
Last Ten Years

Schedule of Employer Contributions

Municipal Employees

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$1,195,733	\$ 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
Contributions in relation to the actuarially determined contribution	1,216,031	1,360,145	1,521,271	2,130,792	1,562,782	1,447,879	1,444,183	1,271,233	1,237,993	1,197,536
Contribution deficiency (excess)	\$ (20,298)	\$ (174,407)	\$ (172,138)	\$ (374,185)	\$ 212,930	\$ (73,245)	\$ (69,549)	\$ (145,705)	\$ (112,465)	\$ (146,048)
Covered payroll	\$7,149,237	\$ 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 payroll	17.01%	19.60%	21.19%	28.38%	20.36%	17.07%	17.03%	15.54%	15.14%	0.00%
Annual money weighted rate of return net of investment expense	7.95%	11.84%	-0.72%	2.06%	16.13%	N/A	N/A	N/A	N/A	N/A

Notes to the Schedule

Valuation Date	July 1, 2016
Change in benefit terms	None
Change in assumptions	1. The investment rate of return was lowered from 7.5% to 7.25% 2. Salary increase projections were increased from between 0.0% and 4.0% to between 2.6% and 6.6% 3. The inflation rate was lowered from 3.0% to 2.6% 4. The mortality rate was changed from 1994 Uninsured Pensioners Table, projected to the valuation date using Scale AA to RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016

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	2.6% (due to inflation) plus merit component based on age
Retirement age	Varies by bargaining unit
Mortality	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016

NA - Not Available

(Continued)

City of Torrington, Connecticut

City of Torrington Employee Retirement Plan

Required Supplementary Information
Last Ten Years

Schedule of Employer Contributions

Police and Fireman

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$4,124,871	\$ 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
Contributions in relation to the actuarially determined contribution	4,128,371	3,599,764	3,795,161	3,926,071	3,397,552	3,322,432	3,325,432	2,813,257	2,801,257	2,536,618
Contribution deficiency (excess)	\$ (3,500)	\$ (147,130)	\$ (104,542)	\$ (64,173)	\$ 429,736	\$ 35,223	\$ (17,397)	\$ (12,000)	\$ -	\$ (13,000)
Covered payroll	\$9,302,512	\$ 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
Contributions as a percentage of covered payroll	44.38%	39.86%	43.14%	39.03%	36.35%	33.02%	33.55%	29.37%	29.24%	31.02%
Annual money weighted rate of return net of investment expense	7.53%	11.80%	-0.92%	2.22%	16.42%	N/A	N/A	N/A	N/A	N/A

Notes to the Schedule

Valuation Date

July 1, 2016

Change in benefit terms

Effective July 1, 2017, pensionable overtime is capped at 52% of base pay.

Change in assumptions

1. The investment rate of return was lowered from 7.5% to 7.25%
2. Salary increase projections were increased from between 0.5% and 6.0% to between 3.1% and 9.1%
3. The inflation rate was lowered from 3.0% to 2.6%
4. The mortality rate was changed from 1994 Uninsured Pensioners Table using Scale, projected to valuation date AA to RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016

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 bargaining unit
Retirement age	Varies by bargaining unit
Mortality	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016

N/A - Not Available

(Concluded)

City of Torrington, Connecticut

Connecticut Teachers' Retirement System

Required Supplementary Information
Last Four Years (3)**Schedule of Changes in Net Pension Liability and Related Ratios**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's percentage of collective net pension liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
City's proportionate share of the collective net pension liability	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the collective net pension liability associated with the employer	<u>101,727,133</u>	<u>107,322,905</u>	<u>80,724,853</u>	<u>74,613,949</u>
Total proportionate share of the collective net pension liability	<u>\$ 101,727,133</u>	<u>\$ 107,322,905</u>	<u>\$ 80,724,853</u>	<u>\$ 74,613,949</u>
City's covered payroll	(1) <u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
City's proportionate share of the collective net pension liability as a percentage of covered payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>55.93%</u>	<u>52.26%</u>	<u>59.50%</u>	<u>61.51%</u>

Schedule of Employer Contributions

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required City contribution	(2) \$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Contributions as a percentage of covered payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

(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.

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

City of Torrington, Connecticut

Connecticut Teachers' Retirement System

Required Supplementary Information
Last Four Years (1)**Notes to Required Supplementary Information**

Changes in benefit term	None
Changes in assumptions	2016 <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

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

City of Torrington, Connecticut

City of Torrington Employee OPEB Plan
Schedule of Changes in Net OPEB Liability and Related RatiosRequired Supplementary Information
Last Two Years (1)

	2018	2017
Total OPEB Liability		
Service cost	\$ 5,121,706	\$ 4,889,457
Interest	4,379,890	4,190,877
Differences between expected and actual experience	(347,698)	391,596
Changes of assumptions	(6,435,473)	-
Benefit payments	(3,834,905)	(4,379,819)
Net change in total OPEB liability	(1,116,480)	5,092,111
Total OPEB liability - July 1,	121,918,967	116,826,856
Total OPEB liability - June 30,	120,802,487	121,918,967
Plan Fiduciary Net Position		
Employer contributions	3,767,666	4,306,115
Member contributions		-
Contributions - TRB subsidy	117,239	123,704
Net investment income	4,533	1,417
Benefit payments	(3,834,905)	(4,379,819)
Administration	(48)	-
Net change in plan fiduciary net position	54,485	51,417
Fiduciary net position - July 1,	51,417	-
Fiduciary net position - June 30,	105,902	51,417
Net OPEB liability, ending	<u>\$ 120,696,585</u>	<u>\$ 121,867,550</u>
Fiduciary net position as a percentage of total OPEB liability	<u>0.09%</u>	<u>0.04%</u>
Covered payroll	<u>\$ 56,167,900</u>	<u>\$ 53,620,900</u>
Net OPEB liability as a percentage of covered payroll	<u>214.89%</u>	<u>227.28%</u>

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

City of Torrington, Connecticut

City of Torrington Employee OPEB Plan

Required Supplementary Information
Last Two Years (1)

Schedule of Employer Contributions		
	2018	2017
Actuarially determined contribution	\$ 11,455,900	\$ 11,094,900
Contributions in relation to the actuarially determined contribution	3,767,666	4,306,115
Contribution deficiency (excess)	\$ 7,688,234	\$ 6,788,785
Covered payroll	\$ 56,167,900	\$ 53,620,900
Contributions as a percentage of covered payroll	6.71%	8.03%
Annual money weighted rate of return, net of investment expense	7.16%	2.83%

Notes to the Schedule

Valuation Date

July 1, 2016

Changes in benefit terms

None

Changes in assumptions

1. The payroll growth rate was lowered from 5.0% to 4.75%
2. The assumed initial rate of healthcare inflation was changed from 8.0% in 2014, reduced by 0.5% per year to an ultimate rate of 5.0% for 2020 and later to 7.75% in 2016 reducing by .5% each year to a final 5% per year for 2022 and later.
3. The dental inflation rate was reduced from 5% to 4%
4. The mortality tables were updated to be projected to valuation date with Scale BB as opposed to Scale AA

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Entry Age Normal Actuarial Cost Method

Amortization method

Level percent of salary

Level percent or level dollar

Open

Closed, open or layered

30 years

Amortization period

Fair value

Asset valuation method

Inflation

2.75%

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 2022 and later

Retirement age

25 years of service with varying retirement rates

Post-retirement mortality

RP-2000 projected to the valuation date with Scale BB for projections for the current year.

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

City of Torrington, Connecticut

State Teachers' Retirement Board Retiree Health Insurance Plan

Required Supplementary Information
June 30, 2018 (3)

Schedule of Proportionate Share of the Net OPEB Liability

City's proportionate share of the net OPEB liability		0.00%
City's proportionate share of the collective net OPEB liability	\$	-
State of Connecticut's proportionate share of the net OPEB liability associated with City		26,183,415
Total	\$	26,183,415
City's covered payroll	(2)	N/A
City's proportionate share of the net OPEB liability as a percentage of its covered payroll		0.00%
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%

Schedule of Contributions

Contractually required contribution	(1)	\$	-
Contributions in relation to the contractually required contribution			-
Contribution deficiency (excess)		\$	-
City's covered payroll	(2)		N/A
Contributions as a percentage of covered payroll			0.00%

(1) Local employers are not required to contribute to the plan

(2) Not applicable since 0% proportional share of the net OPEB liability

(3) These schedules are intended to present information for 10 years.
Additional years will be presented as they become available.

City of Torrington, Connecticut

State Teachers' Retirement Board Retiree Health Insurance Plan

Required Supplementary Information
Notes to Required Supplementary Information
June 30, 2018 (1)

Changes of benefit terms	None
Changes of assumptions	2016:
	The discount rate has been lowered from 4.50% to 4.25% to reflect the decrease in the rate of inflation
	The payroll growth rate assumption was decreased from 3.75% to 3.25% to reflect the decrease in the rate of inflation and the decrease in the rate of real wage increase
	The demographic assumptions of salary growth, payroll growth, the rates of withdrawal, the rates of retirement, the rates of mortality, and the rates of disability incidence were adjusted based upon the experience study's findings and their adoption by the Board
	The assumed initial per capita health care costs, the assumed rates of healthcare inflation used to project the per capita costs, and the participation assumptions have been revised
Actuarial Cost Method	Entry age
Amortization Method	Level percentage, open
Asset Valuation Method	Fair Value
Inflation	2.75%
Healthcare Inflation Rate	Initial 7.25% decreasing to 5.00% (ultimate) by 2022
Salary Increases	3.25% to 6.50%, including inflation
Investment Rate of Return	4.25%
Mortality Rate	RP-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 and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80. For disabled retirees, the RPH-2014 Disabled Mortality table projected to 2017 using the BB improvement scale

(1) These schedules are intended to present information for 10 years.
Additional years will be presented as they become available.

Supplemental Schedules

General Fund

City of Torrington, ConnecticutReport of the Tax Collector
For the Year Ended June 30, 2018

Total rate bill on Grand List on October 1, 2016	\$ 87,883,848
Add:	
Supplemental motor vehicle tax	<u>1,238,923</u>
Received from tax collector and reported as revenue	89,122,771
Deduct:	
Lawful corrections (abatements)	<u>(259,907)</u>
Net revenues from taxation	<u>\$ 88,862,864</u>

**Other
Governmental
Funds**

City of Torrington, Connecticut

Combining Balance Sheet
Other Governmental Funds
June 30, 2018

	Special Revenue Funds							
	National School Lunch Program	Nutrition Program	Town Aid Roads	Small Cities Block Grants	Federal and State Educational Grants	Coe Memorial Park	Elderly and Social Services	Culture and Recreation
ASSETS								
Cash	\$ 300,881	\$ 316,991	\$ 400,464	\$ 230,876	\$ 269,028	\$ 542,478	\$ 184,480	\$ 513,430
Receivables (net)								
Accounts	-	-	-	116	14,300	-	7,731	22,645
Loans	-	-	-	3,526,824	-	-	-	52,500
Intergovernmental	288,158	124,837	-	-	288,731	-	-	-
Advances to other funds	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-
Other	16,532	-	-	-	-	-	-	-
Total assets	<u>\$ 605,571</u>	<u>\$ 441,828</u>	<u>\$ 400,464</u>	<u>\$ 3,757,816</u>	<u>\$ 572,059</u>	<u>\$ 542,478</u>	<u>\$ 192,211</u>	<u>\$ 588,575</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 2	\$ 24,158	\$ 10,908	\$ 116	\$ 85,423	\$ 779	\$ 522	\$ 19,590
Accrued payroll and related	-	-	-	-	144,349	-	-	-
Due to other funds	-	-	-	-	-	-	-	-
Unearned revenues	25,259	-	-	-	33,806	-	967	5
Total liabilities	<u>25,261</u>	<u>24,158</u>	<u>10,908</u>	<u>116</u>	<u>263,578</u>	<u>779</u>	<u>1,489</u>	<u>19,595</u>
Fund balances								
Nonspendable	-	-	-	3,526,824	-	-	-	52,500
Restricted	580,310	417,670	-	230,876	308,481	-	-	-
Committed	-	-	-	-	-	-	-	-
Assigned	-	-	389,556	-	-	541,699	190,722	516,480
Unassigned	-	-	-	-	-	-	-	-
Total fund balances	<u>580,310</u>	<u>417,670</u>	<u>389,556</u>	<u>3,757,700</u>	<u>308,481</u>	<u>541,699</u>	<u>190,722</u>	<u>568,980</u>
Total liabilities and fund balances	<u>\$ 605,571</u>	<u>\$ 441,828</u>	<u>\$ 400,464</u>	<u>\$ 3,757,816</u>	<u>\$ 572,059</u>	<u>\$ 542,478</u>	<u>\$ 192,211</u>	<u>\$ 588,575</u>

(Continued)

City of Torrington, Connecticut

Combining Balance Sheet
Other Governmental Funds
June 30, 2018

	Special Revenue Funds					Debt Service Fund
	Public Works	Public Safety	Economic Development	Other Special Revenue Fund	Total Special Revenue Funds	
ASSETS						
Cash	\$ 531,672	\$ -	\$ 222,276	\$ 378,265	\$ 3,890,841	\$ -
Receivables (net)						
Accounts	-	131,719	-	-	176,511	-
Loans	-	-	-	-	3,579,324	-
Intergovernmental	-	-	-	-	701,726	-
Advances to other funds	-	-	469,000	-	469,000	-
Due from other funds	-	-	-	-	-	1,483,397
Other	-	-	-	-	16,532	-
Total assets	<u>\$ 531,672</u>	<u>\$ 131,719</u>	<u>\$ 691,276</u>	<u>\$ 378,265</u>	<u>\$ 8,833,934</u>	<u>\$ 1,483,397</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ 8,706	\$ 150,204	\$ -
Accrued payroll and related	-	-	-	-	144,349	-
Due to other funds	-	21,237	-	-	21,237	-
Unearned revenues	-	237	20,000	2,967	83,241	-
Total liabilities	<u>-</u>	<u>21,474</u>	<u>20,000</u>	<u>11,673</u>	<u>399,031</u>	<u>-</u>
Fund balances						
Nonspendable	-	-	469,000	-	4,048,324	-
Restricted	-	110,245	-	-	1,647,582	-
Committed	-	-	-	-	-	-
Assigned	531,672	-	202,276	366,592	2,738,997	1,483,397
Unassigned	-	-	-	-	-	-
Total fund balances	<u>531,672</u>	<u>110,245</u>	<u>671,276</u>	<u>366,592</u>	<u>8,434,903</u>	<u>1,483,397</u>
Total liabilities and fund balances	<u>\$ 531,672</u>	<u>\$ 131,719</u>	<u>\$ 691,276</u>	<u>\$ 378,265</u>	<u>\$ 8,833,934</u>	<u>\$ 1,483,397</u>

(Continued)

City of Torrington, Connecticut

Combining Balance Sheet
Other Governmental Funds
June 30, 2018

June 30, 2019

	Capital Project Funds							Permanent Fund	
	Vehicle Replacement Fund	Capital Reserves Fund	Torrington School Fund	City Hall Renovations Fund	Revaluation Fund	Other Capital Projects Funds	Total Capital Projects Funds	Captain Besse Trust	Total Other Governmental Funds
ASSETS									
Cash	\$ 1,224,192	\$ 2,217,515	\$ 631	\$ -	\$ 344,197	\$ 2,704,105	\$ 6,490,640	\$ 4,872	\$ 10,386,353
Receivables (net)									
Accounts	-	-	-	-	-	77,750	77,750	-	254,261
Loans	-	-	-	-	-	-	-	-	3,579,324
Intergovernmental	-	-	-	-	-	-	-	-	701,726
Advances to other funds	-	-	-	-	-	-	-	-	469,000
Due from other funds	-	-	-	-	-	-	-	-	1,483,397
Other	-	-	-	-	-	-	-	-	16,532
Total assets	<u>\$ 1,224,192</u>	<u>\$ 2,217,515</u>	<u>\$ 631</u>	<u>\$ -</u>	<u>\$ 344,197</u>	<u>\$ 2,781,855</u>	<u>\$ 6,568,390</u>	<u>\$ 4,872</u>	<u>\$ 16,890,593</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	\$ -	\$ 93,842	\$ -	\$ -	\$ -	\$ 257,014	\$ 350,856	\$ -	\$ 501,060
Accrued payroll and related	-	-	-	-	-	-	-	-	144,349
Due to other funds	-	-	-	300,704	-	-	300,704	-	321,941
Unearned revenues	-	-	-	-	-	8,920	8,920	-	92,161
Total liabilities	<u>-</u>	<u>93,842</u>	<u>-</u>	<u>300,704</u>	<u>-</u>	<u>265,934</u>	<u>660,480</u>	<u>-</u>	<u>1,059,511</u>
Fund balances									
Nonspendable	-	-	-	-	-	-	-	3,500	4,051,824
Restricted	-	-	-	-	-	-	-	1,372	1,648,954
Committed	1,224,192	2,123,673	631	-	344,197	2,515,921	6,208,614	-	6,208,614
Assigned	-	-	-	-	-	-	-	-	4,222,394
Unassigned	-	-	-	(300,704)	-	-	(300,704)	-	(300,704)
Total fund balances	<u>1,224,192</u>	<u>2,123,673</u>	<u>631</u>	<u>(300,704)</u>	<u>344,197</u>	<u>2,515,921</u>	<u>5,907,910</u>	<u>4,872</u>	<u>15,831,082</u>
Total liabilities and fund balances	<u>\$ 1,224,192</u>	<u>\$ 2,217,515</u>	<u>\$ 631</u>	<u>\$ -</u>	<u>\$ 344,197</u>	<u>\$ 2,781,855</u>	<u>\$ 6,568,390</u>	<u>\$ 4,872</u>	<u>\$ 16,890,593</u>

(Concluded)

(Concluded)

City of Torrington, Connecticut

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds							
	National School Lunch Program	Nutrition Program	Town Aid Roads	Small Cities Block Grants	Federal and State Educational Grants	Coe Memorial Park	Elderly and Social Services	Culture and Recreation
REVENUES								
Intergovernmental	\$1,405,254	\$ 724,487	\$ 458,388	\$ 75,103	\$4,974,032	\$ -	\$ 306,572	\$ 33,256
Charges for services	676,701	558,049	-	-	69,463	160,550	125,047	199,985
Contributions	-	-	-	-	53,433	111,976	-	19,156
Investment income	-	272	143	14	-	550	-	124
Miscellaneous	-	50,106	-	-	-	-	79,053	50,234
Total revenues	<u>2,081,955</u>	<u>1,332,914</u>	<u>458,531</u>	<u>75,117</u>	<u>5,096,928</u>	<u>273,076</u>	<u>510,672</u>	<u>302,755</u>
EXPENDITURES								
Current								
General government	-	-	-	76,477	-	-	22,348	27,980
Public works	-	-	244,356	-	-	149,165	-	-
Public health and social services	-	1,279,871	-	-	-	-	480,070	-
Recreation	-	-	-	-	-	-	-	209,309
Education	<u>1,995,484</u>	-	-	-	<u>5,346,241</u>	-	-	<u>43,864</u>
Total expenditures	<u>1,995,484</u>	<u>1,279,871</u>	<u>244,356</u>	<u>76,477</u>	<u>5,346,241</u>	<u>149,165</u>	<u>502,418</u>	<u>281,153</u>
Excess (deficiency) of revenues over expenditures	<u>86,471</u>	<u>53,043</u>	<u>214,175</u>	<u>(1,360)</u>	<u>(249,313)</u>	<u>123,911</u>	<u>8,254</u>	<u>21,602</u>
OTHER FINANCING SOURCES (USES)								
Transfers in	-	10,000	-	-	-	1,670	2,000	-
Transfers out	-	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,670</u>	<u>2,000</u>	<u>-</u>
Net change in fund balance	86,471	63,043	214,175	(1,360)	(249,313)	125,581	10,254	21,602
Fund balances - July 1, 2017 (as restated)	<u>493,839</u>	<u>354,627</u>	<u>175,381</u>	<u>3,759,060</u>	<u>557,794</u>	<u>416,118</u>	<u>180,468</u>	<u>547,378</u>
Fund balances - June 30, 2018	<u>\$ 580,310</u>	<u>\$ 417,670</u>	<u>\$ 389,556</u>	<u>\$3,757,700</u>	<u>\$ 308,481</u>	<u>\$ 541,699</u>	<u>\$ 190,722</u>	<u>\$ 568,980</u>

(Continued)

City of Torrington, Connecticut

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds					Debt Service Fund
	Public Works	Public Safety	Economic Development	Other Special Revenue Fund	Total Special Revenue Funds	
REVENUES						
Intergovernmental	\$ 352,888	\$ 18,324	\$ -	\$ 39,424	\$ 8,387,728	\$ 1,483,397
Charges for services	165,930	31,581	-	141,921	2,129,227	-
Contributions	-	-	-	695	185,260	-
Investment income	39	134	-	60	1,336	-
Miscellaneous	<u>7,675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,068</u>	<u>-</u>
Total revenues	<u>526,532</u>	<u>50,039</u>	<u>-</u>	<u>182,100</u>	<u>10,890,619</u>	<u>1,483,397</u>
EXPENDITURES						
Current						
General government	-	-	-	161,709	288,514	-
Public safety	-	56,056	-	4,145	60,201	-
Public works	417,396	-	-	-	810,917	-
Public health and social services	-	-	-	410	1,760,351	-
Recreation	-	-	-	35,857	245,166	-
Education	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,385,589</u>	<u>-</u>
Total expenditures	<u>417,396</u>	<u>56,056</u>	<u>-</u>	<u>202,121</u>	<u>10,550,738</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>109,136</u>	<u>(6,017)</u>	<u>-</u>	<u>(20,021)</u>	<u>339,881</u>	<u>1,483,397</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	50,000	-	-	-	63,670	-
Transfers out	-	-	-	(10,000)	(10,000)	-
Payment to refunded bond escrow agent	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,738,045)</u>
Net other financing sources (uses)	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>	<u>53,670</u>	<u>(7,738,045)</u>
Net change in fund balance	159,136	(6,017)	-	(30,021)	393,551	(6,254,648)
Fund balances - July 1, 2017 (as restated)	<u>372,536</u>	<u>116,262</u>	<u>671,276</u>	<u>396,613</u>	<u>8,041,352</u>	<u>7,738,045</u>
Fund balances - June 30, 2018	<u>\$ 531,672</u>	<u>\$ 110,245</u>	<u>\$ 671,276</u>	<u>\$ 366,592</u>	<u>\$ 8,434,903</u>	<u>\$ 1,483,397</u>

(Continued)

City of Torrington, Connecticut

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
For the Year Ended June 30, 2018

	Capital Project Funds						Permanent Fund		
	Vehicle Replacement Fund	Capital Reserves Fund	Torrington School Fund	City Hall Renovations Fund	Revaluation Fund	Other Capital Projects Funds	Total Capital Projects Funds	Captain Besse Trust	Total Other Governmental Funds
REVENUES									
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,242,339	\$ 1,242,339	\$ -	\$ 11,113,464
Charges for services	-	-	-	-	-	-	-	-	2,129,227
Contributions	-	-	-	-	-	-	-	-	185,260
Investment income	1,655	2,295	-	-	405	4	4,359	5	5,700
Miscellaneous	6,334	19,655	-	-	-	1,451	27,440	-	214,508
Total revenues	7,989	21,950	-	-	405	1,243,794	1,274,138	5	13,648,159
EXPENDITURES									
Current									
General government	-	-	-	-	-	-	-	-	288,514
Public safety	-	-	-	-	-	-	-	-	60,201
Public works	-	-	-	-	-	-	-	-	810,917
Public health and social services	-	-	-	-	-	-	-	-	1,760,351
Recreation	-	-	-	-	-	-	-	-	245,166
Education	-	-	-	-	-	-	-	-	7,385,589
Capital outlay	341,756	391,308	-	3,965	-	2,257,870	2,994,899	-	2,994,899
Total expenditures	341,756	391,308	-	3,965	-	2,257,870	2,994,899	-	13,545,637
Excess (deficiency) of revenues over expenditures	(333,767)	(369,358)	-	(3,965)	405	(1,014,076)	(1,720,761)	5	102,522
OTHER FINANCING SOURCES (USES)									
Transfers in	-	164,562	-	-	-	263,508	428,070	-	491,740
Transfers out	-	(20,000)	-	-	-	-	(20,000)	-	(30,000)
Payment to refunded bond escrow agent	-	-	-	-	-	-	-	-	(7,738,045)
Net other financing sources (uses)	-	144,562	-	-	-	263,508	408,070	-	(7,276,305)
Net change in fund balance	(333,767)	(224,796)	-	(3,965)	405	(750,568)	(1,312,691)	5	(7,173,783)
Fund balances - July 1, 2017 (as restated)	1,557,959	2,348,469	631	(296,739)	343,792	3,266,489	7,220,601	4,867	23,004,865
Fund balances - June 30, 2018	\$ 1,224,192	\$ 2,123,673	\$ 631	\$ (300,704)	\$ 344,197	\$ 2,515,921	\$ 5,907,910	\$ 4,872	\$ 15,831,082
									(Concluded)

(Concluded)

Internal Service Funds

City of Torrington, Connecticut

Combining Statement of Net Position
Internal Service Funds
June 30, 2018

	Self Insurance Fund	Maintenance Fund	Total Internal Service Funds
ASSETS			
Current Assets			
Cash	\$ 7,866,537	\$ -	\$ 7,866,537
Accounts receivable	20,901	21,736	42,637
Prepaid expense	479,167	-	479,167
Total assets	<u>\$ 8,366,605</u>	<u>\$ 21,736</u>	<u>\$ 8,388,341</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 308,742	\$ 17,382	\$ 326,124
Claims payable	1,050,640	-	1,050,640
Due to other funds	-	355,957	355,957
Total liabilities	<u>1,359,382</u>	<u>373,339</u>	<u>1,732,721</u>
NET POSITION			
Unrestricted	<u>\$ 7,007,223</u>	<u>\$ (351,603)</u>	<u>\$ 6,655,620</u>

City of Torrington, Connecticut

Combining Statement of Revenues, Expenses and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2018

	Self Insurance Fund	Maintenance Fund	Total Internal Service Funds
OPERATING REVENUES			
Charges for services	\$ 22,238,538	\$ 1,493,011	\$ 23,731,549
Rebates	<u>517,257</u>	<u>-</u>	<u>517,257</u>
Total operating revenues	<u>22,755,795</u>	<u>1,493,011</u>	<u>24,248,806</u>
OPERATING EXPENSES			
Claims and insurance	18,979,811	-	18,979,811
Salaries and employee benefits	-	852,793	852,793
Repairs and maintenance	-	313,228	313,228
Materials and supplies	-	30,554	30,554
Utilities	-	353,397	353,397
Other	<u>-</u>	<u>3,817</u>	<u>3,817</u>
Total operating expenses	<u>18,979,811</u>	<u>1,553,789</u>	<u>20,533,600</u>
Income (loss) from operations	<u>3,775,984</u>	<u>(60,778)</u>	<u>3,715,206</u>
NONOPERATING REVENUES			
Investment income	<u>2,668</u>	<u>-</u>	<u>2,668</u>
Income before transfers	3,778,652	(60,778)	3,717,874
Transfers out	<u>(1,200,000)</u>	<u>-</u>	<u>(1,200,000)</u>
Change in net position	2,578,652	(60,778)	2,517,874
Total net position - July 1, 2017	<u>4,428,571</u>	<u>(290,825)</u>	<u>4,137,746</u>
Total net position - June 30, 2018	<u>\$ 7,007,223</u>	<u>\$ (351,603)</u>	<u>\$ 6,655,620</u>

City of Torrington, Connecticut

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2018

	Self Insurance Fund	Maintenance Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and users	\$ 22,765,341	\$ 1,493,191	\$ 24,258,532
Cash received (paid) on interfund balances	-	68,057	68,057
Cash payments to employees and for benefits	-	(852,793)	(852,793)
Cash payments to suppliers	-	(708,455)	(708,455)
Cash payments for benefits and claims	(19,197,881)	-	(19,197,881)
Net cash from operating activities	<u>3,567,460</u>	<u>-</u>	<u>3,567,460</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in (out)	<u>(1,200,000)</u>	<u>-</u>	<u>(1,200,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	<u>2,668</u>	<u>-</u>	<u>2,668</u>
Net increase (decrease) in cash	2,370,128	-	2,370,128
Cash - July 1, 2017	<u>5,496,409</u>	<u>-</u>	<u>5,496,409</u>
Cash - June 30, 2018	<u>\$ 7,866,537</u>	<u>\$ -</u>	<u>\$ 7,866,537</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES			
Income (loss) from operations	\$ 3,775,984	\$ (60,778)	\$ 3,715,206
Changes in operating assets and liabilities			
Accounts receivable	9,546	180	9,726
Prepaid expenses	(55,250)	-	(55,250)
Claims payable	(241,262)	-	(241,262)
Due to other funds	-	68,057	68,057
Accounts payable	<u>78,442</u>	<u>(7,459)</u>	<u>70,983</u>
Net cash from operating activities	<u>\$ 3,567,460</u>	<u>\$ -</u>	<u>\$ 3,567,460</u>

Trend Information

City of Torrington, Connecticut

Schedule of Debt Limitation
Connecticut General Statutes, Section 7-374 (b)
As of and For the Year Ended June 30, 2018
(Unaudited)

Tax base:

Total prior year tax collections (including interest and lien fees)	\$ 87,997,590
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	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	197,994,578	395,989,155	329,990,963	285,992,168	263,992,770
Indebtedness (1):					
Bonds payable	7,863,000	8,622,000	-	-	-
Debt limitation in excess of outstanding debt	\$ 190,131,578	\$ 387,367,155	\$ 329,990,963	\$ 285,992,168	\$ 263,992,770

Notes:

(1) The total of the above net indebtedness amounts to:	\$ 16,485,000
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In no event shall total indebtedness exceed seven times the base for debt limitation computation:	\$ 615,983,130
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There is no overlapping debt for the City

**Federal Single Audit
and
State Single Audit

of the

City of Torrington, Connecticut

For the Year Ended June 30, 2018**

City of Torrington, Connecticut

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

**City Council
City of Torrington, Connecticut**

We have audited, in accordance with the 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, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 7, 2019.

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

Purpose of this Report

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

PKF O'Connor Davies, LLP

Wethersfield, Connecticut
March 7, 2019

Federal Single Audit

**Independent Auditors' 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**

**City Council
City of Torrington, Connecticut**

Report on Compliance for Each Major Federal Program

We have audited the City of Torrington, Connecticut's ("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, 2018. The City's major federal 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 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, Cost 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, 2018.

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

We have audited the financial statements of the governmental activities, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 7, 2019, 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 expenditures 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

Wethersfield, Connecticut
March 7, 2019

City of Torrington, Connecticut

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Expenditures
<u>U.S. Department of Agriculture:</u>				
Passed Through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	12060-SDE64370-20508	\$ -	\$ 209,633
National School Lunch Program - Cash		12060-SDE64370-20560	-	1,063,821
National School Lunch Program - Commodities		N/A	-	64,477
Total National School Lunch	10.555		-	1,128,298
Total Child Nutrition Cluster			-	1,337,931
Fresh Fruit and Vegetable Program	10.582	12060-SDE64370-22051	-	24,133
Total U.S. Department of Agriculture			-	1,362,064
<u>U.S. Department of Housing and Urban Development:</u>				
Passed Through State Department of Housing:				
Community Development Block Grants	14.228	12060-DOH46920-20730	-	75,103
<u>U.S. Department of Justice:</u>				
Passed Through State Office of Policy and Management:				
Juvenile Justice and Delinquency Prevention	16.540	12060-OPM20350-21676	-	18,324
<u>U.S. Department of Transportation:</u>				
Passed Through State Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	12062-DOT57343-22108	-	148,097
Transit Services Programs Cluster:				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	12062-DOT57931-21361	-	34,424
Total U.S. Department of Transportation			-	182,521
<u>U.S. Department of Education:</u>				
Passed Through State Department of Education:				
Adult Education - Basic Grants to States		12060-SDE64370-20784-2017	-	25,620
Adult Education - Basic Grants to States		12060-SDE64370-20784-2018	-	24,380
Total Adult Education - Basic Grants to States	84.002		-	50,000
Title I - Grants to Local Educational Agencies		12060-SDE64370-20679-2017	-	160,329
Title I - Grants to Local Educational Agencies		12060-SDE64370-20679-2018	-	584,757
Total Title I - Grants to Local Educational Agencies	84.010			745,086
Title II - Supporting Effective Instruction State Grant		12060-SDE64370-20858-2017	-	50,253
Title II - Supporting Effective Instruction State Grant		12060-SDE64370-20858-2018	-	128,860
Total Title II - Supporting Effective Instruction State Grant	84.367			179,113
Special Education Cluster (IDEA):				
Special Education Grants to States		12060-SDE64370-20977-2017	-	51,455
Special Education Grants to States		12060-SDE64370-20977-2018	-	938,100
Total Special Education Grants to States	84.027		-	989,555
Special Education Preschool Grants		12060-SDE64370-20983-2017	-	1,272
Special Education Preschool Grants		12060-SDE64370-20983-2018	-	9,306
Total Special Education Preschool Grants	84.173		-	10,578
Total Special Education Cluster (IDEA)			-	1,000,133
Career and Technical Education - Basic Grants to States	84.048	12060-SDE64370-20742	-	50,571

(Continued)

N/A – Not applicable or not available.

See Notes to Schedule of Expenditures of Federal Awards.

City of Torrington, Connecticut

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Expenditures
Title III - English Language Acquisition		12060-SDE64370-20868-2017	\$ -	\$ 7,298
Title III - English Language Acquisition		12060-SDE64370-20868-2018	-	51,720
Total Title III - English Language Acquisition	84.365		-	59,018
Passed Through Office of Early Childhood Preschool Development Grants	84.419	12060-OEC64845-22705	-	1,495,523
Title IV - Student Support	84.424	12060-SDE64370-22854	-	11,766
Total U.S. Department of Education			-	3,591,210
<u>U.S. Department of Health and Human Services:</u>				
Passed Through Western Connecticut Area Agency on Aging, Inc. Aging Cluster:				
Special Programs for the Aging - Title III, Part C-Nutrition Services	93.045	N/A	-	376,272
Nutrition Services Incentive Program	93.053	N/A	-	97,570
Total Aging Cluster			-	473,842
Direct Program Social Services Block Grant		N/A	-	9,605
Passed Through State Office of Early Childhood: Social Services Block Grant		12060-OEC64841-22668	-	29,014
Total Social Services Block Grant	93.667			38,619
Total U.S. Department of Health and Human Services			-	512,461
Total Federal Awards			\$ -	5,741,683
				(Concluded)

N/A – Not applicable or not available.

See Notes to Schedule of Expenditures of Federal Awards.

City of Torrington, Connecticut

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018**

1. Basis of presentation

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal award activity of the City of Torrington, Connecticut ("City") under programs of the federal government. 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 position, or cash flows of the City.

2. Summary of significant accounting policies

A. 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.

B. The City has elected not to use the 10% *de minimis* indirect cost rate as allowed under the Uniform Guidance.

3. Noncash federal awards

The City received and expended \$64,477 of USDA donated commodities under the National School Lunch Program.

4. Prior year findings and questioned costs

There were no prior year audit findings or questioned costs.

City of Torrington, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified opinion

Internal control over financial reporting:

Material weakness(es) identified?

___yes xno

Significant deficiency(ies) identified?

___yes xnone reported

Noncompliance material to financial statements noted?

___yes xno

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

___yes xno

Significant deficiency(ies) identified?

___yes xnone reported

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

Unmodified opinion

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

___yes xno

Identification of major programs:

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	IDEA Special Education Cluster (IDEA)
84.419	Preschool Development Grants

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

\$ 750,000

Auditee qualified as low-risk auditee?

___yes xno

II. Findings - Financial Statement Audit

None.

III. Findings and Questioned Costs – Major Federal Award Programs Audit

None.

**State
Single
Audit**



**Independent Auditors' 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**

**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, 2018. 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, 2018.

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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated March 7, 2019, 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 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 expenditures of state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

PKF O'Connor Davies, LLP

Wethersfield, Connecticut
March 7, 2019

City of Torrington, Connecticut

**Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2018**

State Grantor/Pass Through Grantor/Program Title	State Grant Program Core-CT Number	Passed Through to Subrecipients	Total Expenditures
<u>Connecticut State Library</u>			
Historic Documents Preservation Grants	12060-CSL66094-35150	\$ -	\$ 5,000
<u>Department of Administrative Services</u>			
Urban Act Grant	13019-DAS27662-43697	-	800,000
<u>Department of Energy and Environmental Protection</u>			
Clean Water Fund - Grant	21014-DEP43720-40001	-	140,403
Clean Water Fund - Loan	21015-DEP43720-42318	-	561,614
Responsible Growth and Transit-Oriented Development (TOD) and Pre-Development Activities Grant Program	12052-DEP43153-43130	-	60,463
Regional Trails Program	12052-DEP44321-43314	-	33,256
<u>Office of the State Treasurer</u>			
Nitrogen Credit Exchange Program	21016-OTT14230-42407	-	12,266
<u>Department of Transportation</u>			
Town Aid Road Grants Transportation Fund	12052-DOT57131-43455	-	458,386
<u>Department of Economic and Community Development</u>			
Brownfield Remediation and Development	12060-ECD46260-35533	-	381,875
<u>Department of Social Services</u>			
Medicaid	11000-DSS60000-16020	-	187,885
<u>Department of Aging</u>			
Passed Through the Western Connecticut Area Agency on Aging			
Elderly Nutrition and Discretionary	11000-SDA62500-16260	-	170,657
Federal Title II Match	11000-SDA62500-16260	-	70,391
<u>Office of Policy and Management</u>			
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	-	217,645
Property Tax Relief for Totally Disabled Persons	11000-OPM20600-17011	-	8,457
Property Tax Relief for Veterans	11000-OPM20600-17024	-	37,020
Local Capital Improvement Program (LOCIP)	12050-OPM20600-40254	-	204,791
Municipal Grant-in-Aid	12052-OPM20600-43587	-	605,345
<u>Office of Early Childhood</u>			
Child Care Quality Enhancement	11000-OEC64845-16158	-	14,866
School Readiness in Competitive Grant Municipalities	11000-OEC64845-16274	-	297,893
School Readiness in Priority School Districts	11000-OEC64841-16274	-	228,886
Even Start Family Literacy Program	11000-OEC64840-12569	-	98,485
School Readiness Quality Enhancement	11000-OEC64845-17097	-	3,881
<u>Department of Education</u>			
Primary Mental Health	11000-SDE64370-12198	-	20,000
School Based Diversion Initiative	11000-SDE64370-12587	-	50,000
Child Nutrition State Matching Grant	11000-SDE64370-16211	-	22,929
Adult Education	11000-SDE64370-17030	-	131,815
Health Services	11000-SDE64370-17034	-	33,484
Education Cost Sharing - Alliance District	11000-SDE64370-17041	-	549,522
Bilingual Education English Learner Pilot Program	11000-SDE64370-17042	-	25,199
Young Parents Program	11000-SDE64370-17044	-	13,277
School Breakfast	11000-SDE64370-17046	-	20,258
Youth Services Bureau Enhancement	11000-SDE64370-16201	-	7,005
Youth Services Bureau	11000-SDE64370-17052	-	31,668
Total State Financial Assistance before Exempt Programs		-	5,601,114
			(Continued)

See Notes to Schedule of Expenditures of State Financial Assistance.

City of Torrington, Connecticut

Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2018

<u>State Grantor/Pass Through Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Expenditures</u>
EXEMPT PROGRAMS			
<u>Department of Education</u>			
Education Cost Sharing	11000-SDE64370-17041	\$ -	\$ 23,667,040
Special Education - Excess Cost - Student Based	11000-SDE64370-17047	-	2,032,907
<u>Department of Administrative Services</u>			
School Construction-Regular Principal	13010-DAS27635-40901	-	363,919
School Construction- Principal SDE	13010-DAS27636-40901	-	2,130,848
School Construction-Interest	13009-DAS27636-40896	-	149,520
<u>Office of Policy and Management</u>			
Mashantucket Pequot and Mohegan Fund Grant	12009-OPM20600-17005	-	287,599
Municipal Stabilization Grant	11000-OPM20600-17104	-	330,604
Municipal Transition Grant	11000-OPM20600-17103	-	<u>603,276</u>
Total Exempt Programs		<u>-</u>	<u>29,565,713</u>
Total State Financial Assistance		<u>\$ -</u>	<u>\$ 35,166,827</u>

(Concluded)

See Notes to Schedule of Expenditures of State Financial Assistance.

City of Torrington, Connecticut

Notes to Schedule of Expenditures of State Financial Assistance For the Year Ended June 30, 2018

1. Basis of presentation

The accompanying schedule of expenditures of state financial assistance ("Schedule") includes state grant activity of the City of Torrington, Connecticut ("City"), under programs of the State of Connecticut. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including general government, education, public safety, public works, sanitation and social services.

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 position, or cash flows of the City.

2. Summary of significant accounting policies

The accounting policies of the City conform to accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board.

The information in the schedule of expenditures of state financial assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Basis of accounting

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

3. Loan program

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:

Department of Energy and Environmental Protection:

Clean Water Funds: (21015-DEP43720-42318)

Loan Number	Issue Date	Interest Rate	Original Amount	As Restated July 1, 2017	Addition	Retired	June 30, 2018
611-C	3/1/2011	2%	\$ 1,123,491	\$ 785,903	\$ -	\$ 52,328	\$ 733,575
695-DC	6/18/2018	2%	2,076,689	1,515,075	561,614	-	2,076,689
Totals			<u>\$ 3,200,180</u>	<u>\$ 2,300,978</u>	<u>\$ 561,614</u>	<u>\$ 52,328</u>	<u>\$ 2,810,264</u>

City of Torrington, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

I. Summary of Auditors' Results

Financial Statements

Type of auditors' opinion issued:

Unmodified opinion

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 opinion

Any audit findings disclosed that are required
to be reported in accordance with Section
4-236-24 of the Regulations of the
State Single Audit Act?

____yes x no

City of Torrington, Connecticut

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

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

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
Department of Administrative Services Urban Act Grant	13019-DAS27662-43697	\$ 800,000
Department of Energy and Environmental Protection: Clean Water Fund	21014-DEP43720-4001/ 21015-DEP43720-42318	702,017
Department of Transportation Town Aid Road Grants Transportation Fund	12052-DOT57131-43455	458,386
Department of Economic and Community Development Brownfield Remediation Program	12060-ECD46260-35533	381,875
Office of Early Childhood School Readiness in Priority School Districts	11000-OEC64841-16274	228,886
Department of Education Education Cost Sharing - Alliance District	11000-SDE64370-17041	549,522
Dollar threshold used to distinguish between type A and type B programs:	<u>\$200,000</u>	

II. Financial Statement Findings

None.

III - State Financial Assistance Findings and Questioned Costs

None.