



January 28, 2019

**MEMORANDUM TO PROSPECTIVE BIDDERS**

**Re: BOROUGH OF NAUGATUCK, CONNECTICUT  
\$5,455,000 General Obligation Bond Anticipation Notes**

**Dated: February 14, 2019      Date of Sale: Tuesday, February 5, 2019  
Due: August 14, 2019        Time of Sale: 11:30 A.M. (Eastern Time)**

***\*\*Phone Number to Place Bid: (203) 283-1110\*\****

As per the Notice of Telephone Sale, proposals may be submitted by telephone on Tuesday, February 5, 2019. Please note that a representative of Phoenix Advisors, LLC will be available until 11:30 A.M. (Eastern Time) on the day of the sale to assist with telephone bids. We ask that you submit your final bid by telephone at **(203) 283-1110 no later than 11:30 A.M. on Tuesday, February 5, 2019.**

*The issue of notes is exempt from the provisions of Rule 15c2-12, as amended, of the Securities and Exchange Commission. No Official Statement has been prepared by or on behalf of the Issuer for this sale.*

The General Purpose Financial Statements have been excerpted from the Annual Financial Report of the Borough of Naugatuck, Connecticut as of June 30, 2017. These excerpts are included in this package. Copies of the complete Annual Financial Report for June 30th are available upon request from Phoenix Advisors, LLC, Attention: Barry J. Bernabe, Managing Director, 53 River Street, Suite 1, Milford, Connecticut, Telephone (203) 283-1110.

We trust we may be of service.

**PHOENIX ADVISORS, LLC**



## **Telephone BAN Sale Term Sheet**

**\$5,455,000**

### **General Obligation Bond Anticipation Notes Borough of Naugatuck, Connecticut**

<b>Date of Sale:</b>	Tuesday, February 5, 2019 at 11:30 A.M. (Eastern Time).
<b>Location of Sale:</b>	Telephone sale: (203) 283-1110
<b>Issuer:</b>	Borough of Naugatuck, Connecticut (the "Borough").
<b>Issue:</b>	\$5,455,000 General Obligation Bond Anticipation Notes (the "Notes").
<b>Dated Date:</b>	February 14, 2019
<b>Principal and Interest Due:</b>	At maturity on August 14, 2019
<b>Purpose:</b>	The Notes are being issued to finance renovations to Naugatuck High School.
<b>Denominations:</b>	\$100,000, or integral multiples thereof, plus any odd amount.
<b>Redemption:</b>	The Notes are not subject to redemption prior to maturity.
<b>Security:</b>	The Notes will be General Obligations of the Borough and the Borough will pledge its full faith and credit to the payment of principal of and interest on the Notes when due.
<b>Credit Rating:</b>	No application for a rating on this Note issue has been made to any credit rating agency. The Borough has an outstanding bond rating of "Aa3" from Moody's Investors Service and "AA-" from S&P Global Ratings.
<b>Basis of Award:</b>	Lowest Net Interest Cost (NIC), as of dated date.
<b>Form of Legal Opinion and Tax Exemption:</b>	See "Appendix – Opinion of Bond Counsel and Tax Exemption."
<b>Bank Qualification:</b>	The Notes shall be designated by the Borough as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Notes.
<b>Registrar, Transfer Agent, Certifying Agent and Paying Agent:</b>	U.S Bank National Association of Hartford, Connecticut, Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, Connecticut 06103.
<b>Option for No Book Entry:</b>	A bidder for the Notes may request that the Notes be issued in the form of a single fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC. See "Option for No Book Entry" in Notice of Sale.
<b>Municipal Advisor:</b>	Phoenix Advisors, LLC of Milford, Connecticut will act as Municipal Advisor. Barry Bernabe, Managing Director, Telephone: (203) 283-1110.
<b>Legal Opinion:</b>	Pullman & Comley, LLC of Hartford, Connecticut will act as Bond Counsel.
<b>Delivery and Payment:</b>	It is expected that delivery of the Notes in book-entry-only form will be made to The Depository Trust Company on or about February 14, 2019. Delivery of the Notes will be made against payment in immediately available Federal Funds.
<b>Issuer Official:</b>	Questions concerning the Borough should be directed to Ms. Allyson Bruce, Controller, Town Hall, 229 Church Street, Naugatuck, Connecticut 06770, Telephone: (203) 720-7027.

**NOTICE OF TELEPHONE SALE  
BOROUGH OF NAUGATUCK, CONNECTICUT**

**\$5,455,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES  
Dated February 14, 2019: Due August 14, 2019**

Bids by TELEPHONE will be received by the **BOROUGH OF NAUGATUCK**, Connecticut (the "Borough"), at (203) 283-1110 until **11:30 A.M. (E.T.), Tuesday**

**February 5, 2019**

(the "Bid Date") for the purchase of the above-captioned **BOROUGH OF NAUGATUCK** General Obligation Bond Anticipation Notes (the "Notes").

**The Issue**

The full faith and credit of the Borough will be pledged for the prompt payment of the principal of and the interest on the Notes. The Notes will be general obligations of the Borough payable, unless paid from other sources, from ad valorem taxes which may be levied on all taxable property subject to taxation by the Borough without limit as to rate or amount except as to classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts pursuant to Connecticut General Statutes, as amended. The Notes will be dated February 14, 2019 and will be payable to the registered owners at maturity on August 14, 2019. They will be issued in minimum denominations of \$100,000 or integral multiples in excess thereof of \$1000. Denominations of less than \$100,000 will not be made available. The Notes will bear interest (computed on a 360-day year, 30-day month basis) payable at maturity at the rate or rates per annum fixed in the proposal accepted for their purchase, which rates shall be in multiples of 1/100 of 1% per annum.

The Notes are NOT subject to redemption prior to maturity.

**Bid Requirements**

Telephone bids for the Notes will be received until 11:30 A.M. (E.T.) on behalf of the Borough by Phoenix Advisors, LLC, the Borough's financial advisor. All telephone bids must be made to Phoenix Advisors, LLC at (203) 283-1110 and be completed by 11:30 A.M. (E.T.) on Tuesday, February 5, 2019.

Bidders shall recognize that a bid by telephone means that the bidder accepts the terms and conditions of this Notice of Sale and agrees to be bound by such and, further, such bidder recognizes and accepts the risk that its telephone bid may not be received by the Borough through its agent or may be received later than the time specified as the result of a failure in communications including, but not limited to, a failure in telephonic communications, or the inability to reach the Borough through its agent by the time required. A bid received after the time specified, as determined in the Borough's sole discretion, will not be reviewed or honored by the Borough.

A proposal may be for all or any part of the Notes, but any proposal for a part must be for at least \$100,000 or integral multiples thereof, plus any odd amount. A separate proposal will be required for each part of the Notes for which a separate stated interest rate is bid.

**Award, Delivery and Payment**

Unless all bids are rejected, the Notes will be awarded on the basis of the lowest net interest cost, computed as to each interest rate stated by adding the total interest which will be paid at such rate and deducting therefrom any premium offered. As between proposals resulting in the same lowest net interest cost, the award will be made on the basis of the highest principal amount of the Notes specified. In the event that two or more bidders offer bids at the same lowest net interest cost and the same principal amount, the Borough will determine by lot which of such bidders will be awarded the Notes. No bid for less than par and accrued interest, if any, will be considered and the Borough reserves the right to award to any bidder(s) all or any part of the Notes bid for in its proposal. If a bidder is awarded only a part of the Notes bid for in its proposal, any premium offered in such proposal will be proportionately reduced so that the net interest cost shall be the same as in the bidder's proposal with respect to the amount bid, carried to four places. The purchase price must be paid in federal funds.

Promptly upon verbal notification that a bidder's proposal may be accepted, the bidder shall confirm to the Borough the reoffering prices of the Notes.

Bids will be finally accepted or rejected promptly after opening and not later than 1:00 P.M. (E.T.) on the Bid Date in accordance with the provisions herein.

### **Establishment of Issue Price**

In order to provide the Borough with information that enables it to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the exclusion of interest on the Notes from the gross income of their owners, the winning bidder will be required to complete, execute, and deliver to the Borough at or prior to the delivery of the Notes an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the Public (the "Initial Offering Price") or the actual sales price or prices of the Notes, as circumstances may determine, together with the supporting pricing wires or equivalent communications, with such modifications as may be appropriate or necessary, in the reasonable judgment of Bond Counsel. However, such certificate may indicate that the winning bidder has purchased the Notes for its own account in a capacity other than as an Underwriter, and currently has no intent to reoffer the Notes for sale to the Public (as defined below). For purposes of this "Establishment of Issue Price" section, Bond Counsel may act on behalf of the Borough.

The Borough intends that the provisions of Treasury Regulations Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Notes) will apply to the initial sale of the Notes (the "Competitive Sale Rule") because:

- (1) the Borough shall disseminate, or have disseminated on its behalf, this Notice of Sale to potential bidders in a manner that is reasonably designed to reach potential bidders;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the Borough anticipates receiving bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the Borough anticipates awarding the sale of the Notes to the bidder who submits a firm offer to purchase the Notes at the lowest net interest cost, as set forth in this Notice of Sale.

By submitting a bid, each bidder is certifying that (i) it is an underwriter with an established industry reputation for underwriting municipal bonds, and (ii) its bid is a firm offer to purchase the Notes, is a good faith offer which the bidder believes reflects current market conditions, and is not a "courtesy bid" being submitted for the purpose of assisting in meeting the Competitive Sale Rule, including the requirement that bids be received from at least three (3) underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds. The municipal advisor will advise the winning bidder if the Competitive Sale Rule was met at the same time it notifies the winning bidder of the award of the Notes. Bids will not be subject to cancellation in the event that the Competitive Sale Rule is not satisfied.

In the event that the Competitive Sale Rule is not satisfied, the Borough shall treat the first price at which 10% of each interest rate for a maturity of the Notes (the "Actual Sale Rule") is sold to the Public as the issue price of that interest rate and maturity. In such event, the winning bidder shall promptly advise the Borough if the Notes satisfy the Actual Sale Rule as of the Bid Date.

To satisfy the Actual Sale Rule for the Notes, the winning bidder:

- (1) will make a bona fide offering to the Public of all of the Notes at the Initial Offering Price and provide the Borough with reasonable supporting documentation, such as a copy of the pricing wire or equivalent communication, the form of which is acceptable to Bond Counsel,

- (2) will report to the Borough information regarding the actual prices at which at least 10% of each maturity of the Notes have been sold to the Public,
- (3) will provide the Borough with reasonable supporting documentation or certifications of such sale prices the form of which is acceptable to Bond Counsel. This reporting requirement, which may extend beyond the closing date of the Notes, will continue until such date that 10% of each maturity of the Notes has been sold to the Public at such sale price, and
- (4) has or will include within any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the winning bidder is a party) relating to the initial sale of the Notes to the Public, together with the related pricing wires, language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such third-party distribution agreement, as applicable, to comply with the reporting requirement described above.

Sales of any Notes to any person that is a Related Party (as defined below) to an Underwriter shall not constitute sales to the Public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

- (1) “*Public*” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.
- (2) “*Related Party*” generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.
- (3) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Notes to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this definition to participate in the initial sale of the Notes to the Public (including a member of the selling group or a party to a retail distribution agreement participating in the initial sale of the Notes to the Public).

At or prior to the delivery of the Notes the successful bidder shall be furnished, without cost, with the approving opinion of Pullman & Comley, LLC, of Hartford, Connecticut, Bond Counsel. The successful bidder will also be furnished with a receipt of payment for the Notes, a Signature and No Litigation Certificate, dated as of the date of delivery of the Notes, stating that there is no litigation pending, or to the knowledge of the signers thereof, threatened, affecting the validity of the Notes or the power of the Borough to levy and collect taxes to pay them.

The Notes will be designated by the Borough as qualified tax exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Notes.

The Borough will have no responsibility to pay for any expenses of the underwriter except to the extent specifically stated in this Notice of Sale. The underwriter will have no responsibility to pay for any of the Borough’s costs of issuance except to the extent specifically stated in this Notice of Sale.

The underwriter will be responsible for the clearance or exemption with respect to the status of the Notes for sale under securities or “Blue Sky” laws and the preparation of any surveys or memoranda in connection with such sale. The Borough shall have no responsibility for such clearance, exemption or preparation.

It is expected that the Notes will be delivered to DTC in New York City on or about February 14, 2019 against payment in immediately available federal funds. The deposit of the Notes with DTC under a book-entry system requires the assignment of CUSIP numbers prior to delivery. It shall be the responsibility of the winning underwriter to obtain CUSIP numbers for the Notes prior to delivery and the Borough will not be responsible for any delay occasioned by the inability to deposit the Notes with DTC due to the failure of the winning underwriter to obtain such numbers and to supply them to the Borough in a timely manner. Neither the failure to print such CUSIP

number on any note, nor any error with respect thereto, shall constitute a cause for a failure or refusal by the underwriter thereof to accept delivery of and pay for the Notes.

### **Right to Reject Bids; Waiver**

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

### **Postponement; Change of Terms**

The Borough reserves the right to alter any terms of the Notes or this Notice of Sale and to postpone, from time to time, the date or time established for the receipt of the bids.

### **Book-Entry**

Subject to the paragraph below, the Notes will be issued by means of a book-entry system with no physical distribution of certificates made to the public. The Notes will be issued in registered form and one note certificate for each interest rate will be issued to The Depository Trust Company, New York, New York (DTC), registered in the name of its nominee, Cede & Co., and immobilized in their custody. A book-entry system will be employed, evidencing ownership of the Notes in principal amounts of \$100,000 or integral multiples in excess thereof of \$1000, with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures adopted by DTC and its Participants. The successful bidder or bidders, as a condition to delivery of the Notes, will be required to deposit the note certificates with DTC, registered in the name of Cede & Co. Principal of and interest on the Notes will be payable by the Borough or its agent in Federal funds to DTC or its nominee as registered owner of the Notes. Principal and interest payments to Participants of DTC will be the responsibility of DTC. Principal and interest payments to Beneficial Owners by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The Borough will not be responsible or liable for payments by DTC to its Participants or by DTC Participants to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Notes and the Borough fails to identify another qualified securities depository to replace DTC, or (b) the Borough determines to discontinue the book-entry system of evidence and transfer of ownership of the Notes, the Borough will authenticate and deliver replacement Notes in the form of fully registered Note certificates directly to the Beneficial Owners of the Notes or their nominees.

### **Option For No Book Entry**

A bidder for the Notes may request that the Notes be issued in the form of a single fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC, provided the bid is for all the Notes at the same interest rate. A bidder for the Notes requesting that the Notes be issued in non-book-entry form may request that it be designated by the Borough as the Certifying Agent, Registrar and Paying Agent for the Notes if it is a bank or trust company authorized to act in such capacity pursuant to the Connecticut General Statutes. Any bidder seeking to have the Notes issued in non-book-entry form, or to be designated as Certifying Agent, Registrar and Paying Agent for such Notes, shall indicate this preference to the Borough at the time of the submission of the bid. The Borough reserves the right to decline any request to issue the Notes in non-book entry form, or to designate the successful bidder as Certifying Agent, Registrar and Paying Agent for the Notes, if it should determine, in its sole discretion, that issuing the Notes in such manner or with such designation is not in its best interests. If the Notes are issued in non-book-entry form, the successful bidder, and any subsequent registered owner of the Notes, shall not impose on or charge the Borough any costs or expenses of any re-registration or transfer of Notes from time to time, including any costs of counsel, costs to convert the Notes to book-entry only form, or for any costs or expenses of services as Certifying Agent, Registrar and Paying Agent for the Notes if the successful bidder is so designated.

### **No Continuing Disclosure or Official Statement**

Since the Notes mature not more than nine months from the date of issue and are in denominations of \$100,000 or more, the undertaking to provide an official statement or continuing disclosure under SEC Rule 15c2-

12 does not apply to the Notes. Therefore, the Borough will not provide an official statement nor enter into a continuing disclosure agreement with respect to the Notes.

**Additional Information**

More information concerning the issue and the Borough may be obtained from Barry J. Bernabe, Managing Director, 53 River Street, Suite 1, Milford, CT. (203-283-1110).

January 28, 2019

N. Warren Hess III  
Mayor

Judith Anderson  
Treasurer

February \_\_, 2019

Borough of Naugatuck  
229 Church Street  
Naugatuck, CT 06770

Re: Borough of Naugatuck, Connecticut  
\$5,455,000 General Obligation Bond Anticipation Notes  
Dated February 14, 2019; Due August 14, 2019

Ladies and Gentlemen:

We have acted as Bond Counsel to the Borough of Naugatuck, Connecticut (the "Borough") in connection with the issuance by the Borough of its \$5,455,000 General Obligation Bond Anticipation Notes, dated February \_\_, 2019 (the "Notes"). In such capacity, we have examined records of proceedings of the Borough authorizing the Notes, a Tax Compliance Agreement of the Borough dated February \_\_, 2019 (the "Agreement"), such law and such other proceedings, certifications, and documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We are of the opinion that when the Notes are duly certified by U.S. Bank National Association, the Notes will be valid and legally binding general obligation notes of the Borough payable as to both principal and interest from ad valorem taxes which may be levied on all taxable property subject to taxation by the Borough without limitation as to rate or amount except as to classified property such as certified forest lands taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts pursuant to Connecticut statutes. We are further of the opinion that the Agreement is a valid and binding agreement of the Borough and was duly authorized by the Borough.

The rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be satisfied at and subsequent to the issuance and delivery of the Notes in order that interest on the Notes be excludable from gross income. In the Agreement, the Borough has made covenants and representations designed to assure compliance with such requirements of the Code. The Borough has covenanted in the Agreement that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes to ensure that interest on the Notes shall not be included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Notes.



In rendering the below opinions regarding the Federal treatment of interest on the Notes, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Agreement, and (ii) continuing compliance by the Borough with the covenants set forth in the Agreement as to such tax matters.

In our opinion, under existing statutes and court decisions, (i) interest on the Notes is excludable from gross income for federal income tax purposes; and (ii) such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations. We express no opinion regarding other Federal income tax consequences caused by ownership or disposition of, or receipt of interest on the Notes.

We are further of the opinion that, under existing statutes, interest on the Notes is excludable from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the Notes is excludable from amounts on which the net Connecticut minimum tax is based for individuals, trusts and estates required to pay the Federal alternative minimum tax. We express no opinion regarding other State income tax consequences caused by ownership or disposition of, or receipt of interest on the Notes.

The Notes have been designated to be and are qualified tax exempt obligations of the Borough under Section 265(b)(3) of the Code.

We have not undertaken to advise whether any events after the date of issuance of the Notes, including the adoption of Federal tax legislation, may affect the tax status of the Notes.

Although we have rendered an opinion that interest on the Notes is not includable in gross income for federal income tax purposes, federal income tax liability may otherwise be affected by the ownership or disposition of the Notes. We express no opinion regarding any tax consequence caused by ownership or disposition of, or receipt of interest income on, the Notes not specifically described herein.

Respectfully,

PULLMAN & COMLEY, LLC

# **BOROUGH OF NAUGATUCK, CONNECTICUT**

## **FINANCIAL INFORMATION**

**Annual Financial Statements of  
The Borough of Naugatuck, Connecticut  
Year Ended June 30, 2017**

## **Independent Auditors' Report**

### **Boards of Mayor and Burgesses and Board of Finance Borough of Naugatuck, Connecticut**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Borough of Naugatuck, Connecticut ("Borough"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Borough'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 from material misstatement.

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

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

**Boards of Mayor and Burgesses and Board of Finance  
Borough of Naugatuck, Connecticut**

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***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Borough of Naugatuck, Connecticut, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension and other post-employment benefit plan schedules on pages 6 through 14 and pages 72 through 85, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Naugatuck, Connecticut's basic financial statements. The introductory section, supplemental schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Boards of Mayor and Burgesses and Board of Finance  
Borough of Naugatuck, Connecticut**

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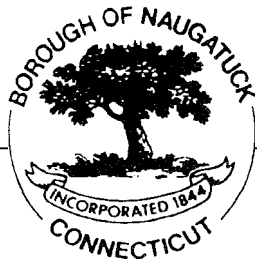
The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2018, on our consideration of the Borough of Naugatuck, Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough of Naugatuck, Connecticut's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Wethersfield, Connecticut  
February 26, 2018



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**Management's Discussion and Analysis  
For the Year Ended June 30, 2017**

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As management of the Borough of Naugatuck, Connecticut ("Borough"), we offer readers of the Borough's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2017.

**Financial Highlights**

- During the fiscal year, the Borough implemented GASB 74 and 75 related to other post-employment obligations (OPEB). GASB 75 requires that the net OPEB liability be recorded on the government-wide financial statements. The result of implementing GASB 75 was a prior period adjustment as of July 1, 2016 to record the net OPEB liability of \$211,729,279 and to remove the net OPEB obligation previously recorded of \$67,476,900. The current year OPEB expense was \$9,132,039 and the net OPEB liability at year end was \$184,905,485.
- The liabilities and deferred inflows of resources of the Borough exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$87,534,317 (*net position*). *Unrestricted net position*, the amount that may be used to meet the Borough's ongoing obligations to citizens and creditors, was a deficit balance of \$(248,188,730).
- The Borough's total net position decreased by \$440,592. The decrease is due substantially to positive operations of the General Fund and Town Aid Road Fund of \$448,933 and \$694,684, respectively, offset by the net decrease in the net position of the Internal Services Funds of \$268,259.
- As of the close of the current fiscal year, the Borough's governmental funds reported combined ending fund balances of \$23,812,137, an increase of \$5,412,130 in comparison with the prior year. This increase is primarily attributable to the issuance of \$8,500,000 in sewer bonds in the Capital Nonrecurring Fund resulting in a net change in fund balance of \$4,637,398 and the positive operations of the General Fund of \$448,933. . This was offset by the decrease in fund balance in NHS Reconstruction and Renovation fund of \$1,003,273 related to various school roof projects. Of the total fund balance, \$25,695,482 is nonspendable, restricted, committed or assigned, leaving an *unassigned fund balance* in the amount of (\$1,883,345).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$11,278,095, an increase of \$2,406,020 in comparison with the prior year. The increase is due to the positive General Fund operations of \$448,933 and the decrease in the amount appropriated to balance the budget from 2017 compared to 2018 of \$1,957,087. The unassigned fund balance represents 9.67% of total budgetary general fund expenditures and transfers out.

### **Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Borough of Naugatuck's basic financial statements. The Borough's basic financial statements comprise 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.** One of the most important questions asked about the Borough's finances is, "Is the Borough as a whole better off or worse off as a result of the year's activities?" The *statement of net position* and *statement of activities* report information about the Borough as a whole and about its activities in a way that helps answer this question.

These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The *statement of net position* presents information on all of the Borough's assets, deferred outflows, liabilities and deferred inflows, 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* health or position of the Borough is improving or deteriorating.

You will need to consider other nonfinancial factors, however, such as changes in the Borough's property tax base and the condition of the Borough's roads, to assess the overall health of the Borough.

The *statement of activities* presents information showing how the Borough's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event 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).

The government-wide financial statements present the functions of the Borough that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Borough include general government, public safety, public works, health and welfare and education.

**Fund financial statements.** The fund financial statements provide detailed information about the most significant funds; not the Borough as a whole. Some funds are required to be established by State law and by bond covenants. However, the Borough establishes many other funds to help it maintain control and manage money that have been segregated for specific activities or objectives. Funds are also established to ensure and demonstrate compliance with finance related legal requirements for using certain grants. All of the funds of the Borough 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 the Borough's near-term financing requirements.

## Management's Discussion and Analysis (continued)

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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 Borough'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.

The Borough reports governmental funds 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, NHS Reconstruction and Renovation fund and Capital Nonrecurring fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in Schedules 4 and 5 in this report.

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

**Proprietary fund.** The Borough maintains three proprietary funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Borough's various functions. The Borough uses an internal service fund to account for its self-insured dental benefits and Board of Education dental benefits as well as workers compensation benefits for the Borough and the Board of Education. This activity has been included within governmental activities in the government-wide financial statements.

The data for the internal service funds is provided in Exhibits G, H and I of this report.

**Fiduciary funds.** The Borough is the trustee, or fiduciary, for its employees' pension and OPEB plans. It is also responsible for other assets that, because of a trust agreement, can be used only for the trust beneficiaries. All of the Borough's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position (Exhibits J and K). We exclude these activities from the Borough's other financial statements because the Borough cannot use these assets to finance its operations. The Borough is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to 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.

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Borough's progress in funding its obligation to provide pension benefits and other post-employment benefits to its employees.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found in Schedules 4 through 5 of this report.



## Management's Discussion and Analysis (continued)

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### **Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a Borough's financial position. The Borough's net position decreased from a year ago from \$57,158,654 to \$(87,534,317) (after the restatement for the GASB 75 implementation).

By far the largest portion of the Borough's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Borough uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Borough'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.

A portion of the Borough's net position (3.91%) represents resources that are subject to external restrictions on how they may be used. When the balance is positive, the remaining balance of unrestricted net position is available to be used to meet the Borough's ongoing obligations to citizens and creditors.

### **Summary Statement of Net Position June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 51,202,237	\$ 46,918,272
Capital assets (net)	<u>221,759,552</u>	<u>220,406,747</u>
Total assets	<u>272,961,789</u>	<u>267,325,019</u>
Deferred outflows of resources	<u>10,907,856</u>	<u>22,942,663</u>
Current liabilities outstanding	16,782,836	21,023,213
Long-term liabilities outstanding	<u>323,000,981</u>	<u>210,877,334</u>
Total liabilities	<u>339,783,817</u>	<u>231,900,547</u>
Deferred inflows of resources	<u>31,620,145</u>	<u>1,208,481</u>
Net position:		
Net investment in capital assets	157,235,319	156,856,265
Restricted	3,419,094	2,706,865
Unrestricted	<u>(248,188,730)</u>	<u>(102,404,476)</u>
Total net position	<u><u>\$ (87,534,317)</u></u>	<u><u>\$ 57,158,654</u></u>

Management's Discussion and Analysis (continued)

**Governmental activities.** The Borough's net position decreased by \$440,592 from operations as detailed below:

**Statement of Changes in Net Position  
For the Years Ended June 30, 2017 and 2016**

	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 8,877,692	\$ 6,960,827
Operating grants and contributions	52,250,364	44,462,617
Capital grants and contributions	1,763,682	1,117,159
General revenues:		
Property taxes	78,289,678	72,211,784
Grants and contributions not restricted to specific programs	1,019,022	1,029,011
Investment income	111,445	118,229
Miscellaneous	155,489	171,608
	<b>142,467,372</b>	<b>126,071,235</b>
Expenses:		
General government	10,612,592	10,932,545
Public safety	24,654,616	23,346,992
Public works	12,748,803	12,948,306
Health and welfare	3,636,227	3,582,739
Education	87,088,961	84,492,269
Interest expense	4,166,765	4,026,760
	<b>142,907,964</b>	<b>139,329,611</b>
Change in net position	(440,592)	(13,258,376)
Net position - July 1	57,158,654	70,417,030
Restatement for net OPEB liability	(144,252,379)	-
Net position - June 30	\$ (87,534,317)	\$ 57,158,654

## Management's Discussion and Analysis (continued)

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Key elements of this decrease are as follows:

- The \$7,787,747 increase in operating grants and contributions was due to the receipt of the motor vehicle property tax grant for \$2,379,896 and the increase in the on-behalf amount by \$3,782,568.
- The increase in taxes of \$6,077,894 was primarily due to the increase in mil rate from 45.57 to 47.67 and related interest and lien fee amounts
- Charges for services increased by \$1,916,865 substantially due to an increase in Veolia contract rents for base element 1&2.
- The \$2,596,692 increase in education expenses increased mainly due to the increase in State Teachers' Retirement Plan on behalf payment as compared to the prior year of \$3,782,568 offset by a decrease in pension and OPEB expense.
- The \$1,307,624 increase in public safety expenditures is primarily due to increases in fire department salaries and expenses, as well increases in pension and other post-employment benefit expenses.

### **Financial Analysis of the Borough's Funds**

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

**Governmental funds.** The focus of the Borough's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Borough's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Borough's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Borough's governmental funds reported combined ending fund balances of \$23,812,137. Fund balance has been classified as 1) nonspendable \$812,652 for the library endowment and small cities loans, 2) restricted \$3,418,094, 3) committed \$18,158,198, 4) assigned \$3,306,538 and unassigned deficit of (\$1,883,345).

The total fund balance increased by \$5,412,130 to \$23,812,137. This increase is a result of the activity in the general fund, the NHS Reconstruction and Renovation fund, and the capital nonrecurring fund as described below.

The general fund is the operating fund of the Borough. At the end of the current fiscal year, unassigned fund balance of the general fund was \$11,278,095. As a measure of the general fund's liquidity, it is useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 9.67% of total general fund budgetary expenditures and transfers out.

The fund balance of the Borough's general fund increase by \$448,933 due to spending savings of \$4,284,320 which offset the \$3,356,651 appropriated to balance the 2017 budget.

## Management's Discussion and Analysis (continued)

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***NHS Reconstruction and Renovation Fund.*** This fund accounts for financial resources to be used for the \$81,000,000 reconstruction and renovation of the High School project. The primary source of funding is school building grants and bond proceeds. The fund ended the year with a decrease in fund balance of \$(1,003,273) as a net result of continued constructions costs. The fund ended the year with a deficit of \$13,117,822, which will be eliminated when additional school building grant funds are received.

***Capital Nonrecurring Fund.*** This fund accounts for financial resources to be used for the activities associated with major capital improvements and equipment. This fund is funded with grants and transfers from the general fund. The increase in fund balance of \$4,637,398 is due to the current year bond proceeds funding costs incurred in the prior year. The fund balance at fiscal year end was \$17,651,874, which will be spent in future years as projects are completed.

### **General Fund Budgetary Highlights**

Significant budget transfers made during the year were as follows:

- \$324,524 from the Fire Department to various other departments for increased expenditures for maintenance equipment and overtime.

Significant departments that were underspent during the year were as follows:

- Public works was under spent by \$756,764 due to lower than expected snow removal and related costs due to less than average number of storms.
- Insurance was underspent by \$346,651 due to lower than expected premiums.
- Debt service was underspent \$1,186,616 due to the timing of the issuance of bonds during the fiscal year.

### **Capital Assets and Debt Administration**

**Capital assets.** The Borough of Naugatuck's capital assets totaled \$221,759,552, net of accumulated depreciation. This includes land, buildings and improvements, land improvements, machinery and equipment, roads, bridges and construction in progress. The net increase in the Borough's capital assets for the current fiscal year was \$1,352,805 or 0.61%. This increase is largely due to an increase in construction in progress of \$6,986,559 for the Maple Street Bridge reconstruction project, the high school renovation project and various infrastructure projects, net with current year depreciation expense.

Other significant transactions were as follows:

- Infrastructure (road) improvements totaling \$389,081.
- Purchase of DUI/BAT Command Vehicle through grant funds for \$304,773
- Purchase of several new police vehicles
- Disposal of police and other vehicles comprising the majority of the machinery and equipment deletions totaling \$975,015.
- Disposal of William C. Rado Sr. Drive, 6.915 acres land totaling \$138,300.

Management's Discussion and Analysis (continued)

**Capital Assets  
(Net of Accumulated Depreciation)**

	<u>2017</u>	<u>2016</u>
Land	\$ 13,924,009	\$ 15,580,944
Construction in progress	87,668,618	80,682,059
Buildings and improvements	41,484,335	41,950,809
Land Improvements	819,041	-
Machinery and equipment	5,230,245	5,516,389
Infrastructure	<u>72,633,304</u>	<u>76,676,546</u>
<b>Total</b>	<b><u>\$ 221,759,552</u></b>	<b><u>\$ 220,406,747</u></b>

Additional information on the Borough's capital assets can be found in Note III. C.

**Long-term debt.** At the end of the current fiscal year, the Borough had total debt outstanding of \$93,933,223. The increase of \$2,721,645 from prior year is due to the issuance of taxable sewer bonds of \$8,500,000 net with scheduled debt payments and refunded bonds. All debt is backed by the full faith and credit of the Borough.

**Outstanding Debt  
Long-Term Obligations**

	<u>2017</u>	<u>2016</u>
General obligation bonds	\$ 12,354,500	\$ 13,708,000
General obligation bonds (taxable)	2,755,000	2,985,000
School bonds	26,505,500	19,647,000
Pension obligation bonds (taxable)	35,530,000	36,925,000
Bond anticipation notes (permanently financed)	-	8,000,000
Sewer bonds	6,500,000	-
Sewer bonds (taxable)	2,000,000	
Notes payable	303,223	381,578
Certificates of participation (taxable)	960,000	1,145,000
Certificates of participation	<u>7,025,000</u>	<u>8,420,000</u>
<b>Total</b>	<b><u>\$ 93,933,223</u></b>	<b><u>\$ 91,211,578</u></b>

The Borough maintains an "AA" bond rating from Standard and Poor's and an "Aa2" rating from Moody's Investor Service.

## Management's Discussion and Analysis (continued)

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### **Long-term debt**

State statutes limit the amount of general obligation debt a governmental entity may issue to 7 times total tax collections including interest and lien fees. The current debt limitation for the Borough is \$534,308,705, which is significantly in excess of the Borough's outstanding general obligation debt.

Additional information on the Borough's long-term debt can be found in Note III. F.

### **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for the Borough is currently 5.7%, which is 0.5% lower than fiscal year 2016. This is higher than the state's average unemployment rate of 5.80.
- Connecticut's economic and business growth remains slow. 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 Borough will receive in fiscal year 2018 and thereafter.
- Employee benefit costs continue to rise.
- State funding continues to be reduced.

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

### **Requests for Information**

This financial report is designed to provide a general overview of the Borough's finances for all those with an interest in the Borough's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Controller, Borough of Naugatuck, 229 Church Street, Naugatuck, CT 06770.

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# **Basic Financial Statements**

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Borough of Naugatuck, Connecticut

Statement of Net Position  
Governmental Activities  
June 30, 2017

Assets

Current assets:	
Cash	\$ 19,545,143
Investments	15,763,906
Receivables (net):	
Property taxes	4,861,519
Intergovernmental	1,250,100
Assessments	15,417
Loans	32,330
Other	1,385,202
Other assets	<u>50,068</u>
Total current assets	<u>42,903,685</u>
Noncurrent assets:	
Restricted assets:	
Temporarily restricted:	
Cash	195,578
Investments	61,787
Permanently restricted:	
Investments	<u>1,000</u>
Total restricted assets	<u>258,365</u>
Receivables (net):	
Property taxes	7,006,390
Loans	763,797
Other	<u>270,000</u>
Total receivables (net)	<u>8,040,187</u>
Capital assets (net of accumulated depreciation):	
Land	13,924,009
Construction in progress	87,668,618
Buildings and improvements	41,484,335
Land improvements	819,041
Machinery and equipment	5,230,245
Infrastructure	<u>72,633,304</u>
Total capital assets (net of accumulated depreciation)	<u>221,759,552</u>
Total noncurrent assets	<u>230,058,104</u>
Total assets	<u>272,961,789</u>

Deferred Outflows of Resources

OPEB related	412,500
Pension related	<u>10,495,356</u>
Total deferred outflows of resources	<u>10,907,856</u>

(Continued)

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



Borough of Naugatuck, Connecticut

Statement of Net Position  
Governmental Activities  
June 30, 2017

Liabilities

Liabilities:	
Current liabilities:	
Cash overdraft	\$ 21,035
Accounts payable	5,332,181
Accrued payroll	568,888
Performance bonds	128,061
Accrued interest payable	409,431
Unearned revenue	37,418
Bonds and notes payable	4,719,593
Certificates of participation	1,630,000
Capital leases payable	1,629,525
Compensated absences	837,234
Claims payable	1,032,618
Other liabilities	436,852
	<hr/>
Total current liabilities	16,782,836
Noncurrent liabilities:	
Bonds, notes and related liabilities	82,190,199
Certificates of participation	6,355,000
Capital leases payable	7,231,833
Net pension liability	38,550,679
Net OPEB liability	184,905,485
Claims payable	418,850
Compensated absences	3,348,935
	<hr/>
Total noncurrent liabilities	323,000,981
	<hr/>
Total liabilities	339,783,817

Deferred Inflows of Resources

Advance property tax collections	1,535,883
Deferred charge on refunding	1,053,083
OPEB related	28,924,986
Pension related	106,193
	<hr/>
Total deferred inflows of resources	31,620,145

Net Position

Net investment in capital assets	157,235,319
Restricted for:	
Endowments:	
Nonexpendable	1,000
Expendable	129,304
Public works	1,419,813
Public safety	168,987
Health and wellness	87,584
Education	1,612,406
Unrestricted	(248,188,730)
	<hr/>
Total net position	\$ (87,534,317)

(Concluded)

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

Borough of Naugatuck, Connecticut

Statement of Activities  
 Governmental Activities  
 For The Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 10,612,592	\$ 380,111	\$ 2,379,896	\$ -	\$ (7,852,585)
Public safety	24,654,616	1,240,135	324,652	-	(23,089,829)
Public works	12,748,803	5,245,462	6,914	1,763,682	(5,732,745)
Health and welfare	3,636,227	667,110	31,127	-	(2,937,990)
Education	87,088,961	1,344,874	49,507,775	-	(36,236,312)
Interest expense	4,166,765	-	-	-	(4,166,765)
<b>Total</b>	<b>\$ 142,907,964</b>	<b>\$ 8,877,692</b>	<b>\$ 52,250,364</b>	<b>\$ 1,763,682</b>	<b>(80,016,226)</b>
General revenues:					
Property taxes					78,289,678
Grants and contributions not restricted to specific programs					1,019,022
Investment income					111,445
Miscellaneous					155,489
Total general revenues					79,575,634
Change in net position					(440,592)
Net position (deficit) - July 1, 2016 (as restated)					(87,093,725)
Net position (deficit) - June 30, 2017					\$ (87,534,317)

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

Borough of Naugatuck, Connecticut

Balance Sheet  
Governmental Funds  
June 30, 2017

	General	NHS Reconstruction and Renovation	Capital Nonrecurring Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash	\$ 6,696,357	\$ 411,164	\$ 9,570,543	\$ 2,125,347	\$ 18,803,411
Restricted cash	128,061	-	-	67,517	195,578
Investments	11,439,498	-	558,702	1,275,028	13,273,228
Receivables:					
Property taxes	13,635,363	-	-	-	13,635,363
Intergovernmental	140,488	-	734,427	375,185	1,250,100
Assessments	15,417	-	-	-	15,417
Loans	-	-	-	811,652	811,652
Other	1,146,332	-	285,089	83,781	1,515,202
Due from other funds	13,676,982	-	7,469,105	2,960,353	24,106,440
Other	-	-	-	50,068	50,068
Total assets	<u>\$ 46,878,498</u>	<u>\$ 411,164</u>	<u>\$ 18,617,866</u>	<u>\$ 7,748,931</u>	<u>\$ 73,656,459</u>
<u>Liabilities</u>					
Cash overdraft	\$ -	\$ -	\$ -	\$ 21,035	\$ 21,035
Accounts payable	1,781,464	125,810	965,992	816,246	3,689,512
Accrued payroll and early retirement incentives	568,888	-	-	-	568,888
Due to other funds	16,098,911	13,403,176	-	273,806	29,775,893
Unearned revenue	-	-	-	37,418	37,418
Performance bonds	128,061	-	-	-	128,061
Other liabilities	436,852	-	-	-	436,852
Total liabilities	<u>19,014,176</u>	<u>13,528,986</u>	<u>965,992</u>	<u>1,148,505</u>	<u>34,657,659</u>
<u>Deferred Inflows of Resources</u>					
Unavailable revenue:					
Property taxes	13,635,363	-	-	-	13,635,363
Advance property tax collections	1,535,883	-	-	-	1,535,883
Sewer assessments	15,417	-	-	-	15,417
Total deferred inflows of resources	<u>15,186,663</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,186,663</u>
<u>Fund Balances</u>					
Nonspendable	-	-	-	812,652	812,652
Restricted	-	-	-	3,418,094	3,418,094
Committed	-	-	17,651,874	506,324	18,158,198
Assigned	1,399,564	-	-	1,906,974	3,306,538
Unassigned	11,278,095	(13,117,822)	-	(43,618)	(1,883,345)
Total fund balances	<u>12,677,659</u>	<u>(13,117,822)</u>	<u>17,651,874</u>	<u>6,600,426</u>	<u>23,812,137</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 46,878,498</u>	<u>\$ 411,164</u>	<u>\$ 18,617,866</u>	<u>\$ 7,748,931</u>	<u>\$ 73,656,459</u>

(Continued)

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

Borough of Naugatuck, Connecticut

Reconciliation of Fund Balance  
to Net Position of Governmental Activities  
June 30, 2017

Amounts reported for governmental activities in the statement of net position (Exhibit A) are different from the governmental fund balance sheet due to:

Total fund balance (Exhibit C, Page 1) \$ 23,812,137

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

Beginning capital assets	220,406,747
Current year additions (net of construction in progress)	8,308,518
Depreciation expense	(6,803,758)
Disposal of assets	(151,955)

Other long-term assets and deferred outflows are not available resources and, therefore, are not reported in the funds:

Property tax interest and lien accrual	8,765,065
Allowance for doubtful accounts	(10,548,044)
Other long-term receivable	140,000
Deferred outflows related to OPEB	412,500
Deferred outflows related to pensions	10,495,356

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

Property tax and sewer assessments receivable - accrual basis change	13,650,780
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Internal service funds are used by management to charge the cost of dental insurance and workers' compensation to individual departments:

The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position	5,870,513
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Some liabilities and deferred inflows, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds and notes payable	(85,948,223)
Premium	(961,569)
Certificates of participation	(7,985,000)
Capital leases	(8,861,358)
Net pension liability	(38,550,679)
Net OPEB liability	(184,905,485)
Compensated absences	(4,186,169)
Deferred charge on refunding	(1,053,083)
Deferred inflows related to OPEB	(28,924,986)
Deferred inflows related to pensions	(106,193)
Accrued interest payable	(409,431)

Net position of governmental activities	<u>\$ (87,534,317)</u>
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(Concluded)

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

## Borough of Naugatuck, Connecticut

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

	General	NHS Reconstruction and Renovation	Capital Nonrecurring Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 76,511,539	\$ -	\$ -	\$ -	\$ 76,511,539
Intergovernmental	43,233,350	-	1,293,465	10,498,785	55,025,600
Charges for services	5,537,503	-	80,000	3,260,262	8,877,765
Income from investments	88,625	2,064	13,422	7,334	111,445
Contributions	-	-	6,914	554	7,468
Miscellaneous	125,432	-	30,057	-	155,489
<b>Total revenues</b>	<b>125,496,449</b>	<b>2,064</b>	<b>1,423,858</b>	<b>13,766,935</b>	<b>140,689,306</b>
Expenditures:					
Current:					
General government	3,328,020	-	-	213,061	3,541,081
Public safety	10,937,365	-	-	1,544,905	12,482,270
Public works	8,941,997	-	-	188,059	9,130,056
Health and welfare	1,404,362	-	-	123,957	1,528,319
Education	70,427,642	-	-	10,661,346	81,088,988
Nondepartmental	17,195,568	-	-	-	17,195,568
Debt service	11,672,330	-	735	-	11,673,065
Capital outlay	-	1,182,393	7,051,957	-	8,234,350
<b>Total expenditures</b>	<b>123,907,284</b>	<b>1,182,393</b>	<b>7,052,692</b>	<b>12,731,328</b>	<b>144,873,697</b>
Excess (deficiency) of revenues over expenditures	1,589,165	(1,180,329)	(5,628,834)	1,035,607	(4,184,391)
Other financing sources (uses):					
Issuance of debt	-	-	8,500,000	-	8,500,000
Premium	-	177,056	149,985	-	327,041
Sale of capital assets	269,480	-	-	-	269,480
Transfers in	1,484,339	-	1,878,051	316,000	3,678,390
Transfers out	(2,894,051)	-	(261,804)	(22,535)	(3,178,390)
<b>Net other financing sources (uses)</b>	<b>(1,140,232)</b>	<b>177,056</b>	<b>10,266,232</b>	<b>293,465</b>	<b>9,596,521</b>
<b>Net change in fund balances</b>	<b>448,933</b>	<b>(1,003,273)</b>	<b>4,637,398</b>	<b>1,329,072</b>	<b>5,412,130</b>
Fund balances - July 1, 2016	12,228,726	(12,114,549)	13,014,476	5,271,354	18,400,007
<b>Fund balances - June 30, 2017</b>	<b>\$ 12,677,659</b>	<b>\$ (13,117,822)</b>	<b>\$ 17,651,874</b>	<b>\$ 6,600,426</b>	<b>\$ 23,812,137</b>

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

Borough of Naugatuck, Connecticut

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

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)	\$ 5,412,130
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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. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay	8,308,518
Depreciation expense	<u>(6,803,758)</u>
Total	<u>1,504,760</u>

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

Disposal of capital assets	<u>(151,955)</u>
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Change in property tax and sewer assessments - accrual basis change	297,177
Change in property tax interest and lien revenue	1,480,889
Change in investment income (loss)	(60,000)
Change in other long-term receivable	<u>(150,000)</u>
Total	<u>1,568,066</u>

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

Debt issued or incurred:	
General obligation bonds and notes	(8,500,000)
Premium	(327,041)
Principal repayments:	
General obligation bonds	4,120,000
Notes payable	78,355
Certificates of participation	1,580,000
Capital lease	<u>1,498,498</u>
Total	<u>(1,550,188)</u>

(Continued)

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

Borough of Naugatuck, Connecticut

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

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:

OPEB expense	\$ (1,688,692)
Compensated absences	9,102
Pension expense	(5,505,003)
Accrued interest payable	28,010
Amortization of deferred charges	155,398
Amortization of bond premium	<u>46,039</u>
Total	<u>(6,955,146)</u>
Internal Service Funds are used by management to charge costs of dental insurance and workers' compensation to individual departments	<u>(268,259)</u>
Change in net position (Exhibit B)	<u>\$ (440,592)</u>
	(Concluded)

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

## Borough of Naugatuck, Connecticut

**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For The Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Property taxes	\$ 75,805,419	\$ 75,805,419	\$ 76,511,539	\$ 706,120
Intergovernmental revenues	33,798,178	33,798,178	33,026,069	(772,109)
Charges for services	5,274,526	5,274,526	5,537,503	262,977
Income from investments	40,000	40,000	88,625	48,625
Miscellaneous	133,600	133,600	125,432	(8,168)
Total revenues	<u>115,051,723</u>	<u>115,051,723</u>	<u>115,289,168</u>	<u>237,445</u>
Expenditures:				
Current:				
General government	3,370,306	3,715,176	3,328,020	387,156
Public safety	11,846,089	11,349,098	10,937,365	411,733
Public works	9,769,713	9,698,761	8,941,997	756,764
Health and welfare	1,421,028	1,431,631	1,404,362	27,269
Nondepartmental	17,842,159	17,947,060	17,195,568	751,492
Education	60,983,651	60,983,651	60,220,361	763,290
Debt service	12,956,377	12,858,946	11,672,330	1,186,616
Total expenditures	<u>118,189,323</u>	<u>117,984,323</u>	<u>113,700,003</u>	<u>4,284,320</u>
Excess (deficiency) of revenues over expenditures	<u>(3,137,600)</u>	<u>(2,932,600)</u>	<u>1,589,165</u>	<u>4,521,765</u>
Other financing sources (uses):				
Appropriation of fund balance	3,356,651	3,356,651	-	(3,356,651)
Sale of capital assets	400,000	400,000	269,480	(130,520)
Transfers in	2,070,000	2,070,000	1,484,339	(585,661)
Transfers out	(2,689,051)	(2,894,051)	(2,894,051)	-
Net other financing sources (uses)	<u>3,137,600</u>	<u>2,932,600</u>	<u>(1,140,232)</u>	<u>(4,072,832)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	448,933	<u>\$ 448,933</u>
Fund balance - July 1, 2016			<u>12,228,726</u>	
Fund balance - June 30, 2017			<u>\$ 12,677,659</u>	

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



Borough of Naugatuck, Connecticut

Statement of Net Position  
 Proprietary Funds  
 June 30, 2017

	<u>Internal Service Funds</u>
<u>Assets</u>	
Cash	\$ 741,732
Investments	2,553,465
Due from other funds	<u>4,094,665</u>
Total assets	<u>7,389,862</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	67,881
Claims payable	<u>1,032,618</u>
Total current liabilities	1,100,499
Noncurrent liability:	
Claims payable	<u>418,850</u>
Total liabilities	<u>1,519,349</u>
<u>Net Position</u>	
Unrestricted	<u><u>\$ 5,870,513</u></u>

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

## Borough of Naugatuck, Connecticut

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

	<u>Internal Service Funds</u>
Operating revenues:	
Charges for services	\$ 3,089,961
Operating expenses:	
Claims	2,830,780
Administration	<u>27,440</u>
Total operating expenses	<u>2,858,220</u>
Operating income (loss) before transfers in and out	231,741
Transfers in	1,194,409
Transfers out	<u>(1,694,409)</u>
Change in net position	(268,259)
Net position - July 1, 2016	<u>6,138,772</u>
Net position - June 30, 2017	<u><u>\$ 5,870,513</u></u>

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

## Borough of Naugatuck, Connecticut

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

	<u>Internal Service Funds</u>
Cash flows from operating activities:	
Cash received for charges for services	\$ 3,089,961
Cash paid for benefits and claims	(2,545,122)
Cash paid for administration	(27,440)
Cash receipts (payments) of interfund balances	<u>688,912</u>
Net cash provided by (used in) operating activities	<u>1,206,311</u>
Cash flows from investing activities:	
Purchase of investments	<u>(2,553,465)</u>
Cash flows from noncapital and related financing activities:	
Transfers in from other funds	1,194,409
Transfers out to other funds	<u>(1,694,409)</u>
Net cash provided by (used in) noncapital and related financing activities	<u>(500,000)</u>
Net increase (decrease) in cash	(1,847,154)
Cash - July 1, 2016	<u>2,588,886</u>
Cash - June 30, 2017	<u><u>\$ 741,732</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ 231,741
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
(Increase) decrease in:	
Due from other funds	690,393
Increase (decrease) in:	
Accounts payable	(1,481)
Claims payable	<u>285,658</u>
Net cash provided by (used in) operating activities	<u><u>\$ 1,206,311</u></u>

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

## Borough of Naugatuck, Connecticut

**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2017**

	Pension Trust Fund	Other Post- Employment Benefit (OPEB) Trust Fund	Private- Purpose Trust Fund	Agency Fund
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<u>Assets</u>				
Cash	\$ -	\$ -	\$ -	\$ 410,038
Investments:				
Certificates of deposit	-	-	60,058	-
Mutual funds:				
Equity	22,309,289	4,065,752	-	-
Diversified bonds	116,241,569	4,259,169	-	-
	<u>138,550,858</u>	<u>8,324,921</u>	<u>60,058</u>	<u>-</u>
Total investments				
Due from other funds	<u>1,474,788</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Total assets	<u>140,025,646</u>	<u>8,424,921</u>	<u>60,058</u>	<u>410,038</u>
<u>Liability</u>				
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>410,038</u>
<u>Net Position</u>				
Restricted for pension and OPEB benefits and other purposes	<u>\$ 140,025,646</u>	<u>\$ 8,424,921</u>	<u>\$ 60,058</u>	<u>\$ -</u>

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

## Borough of Naugatuck, Connecticut

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

	Pension Trust Fund	Other Post- Employment Benefit (OPEB) Trust Fund	Private- Purpose Trust Fund
Additions:			
Contributions:			
Employer	\$ 4,553,240	\$ 7,585,727	\$ -
Plan members	842,464	-	-
Other	-	-	933
Total contributions	<u>5,395,704</u>	<u>7,585,727</u>	<u>933</u>
Investment income (loss):			
Net change in fair value of investments	17,944,474	-	-
Interest and dividends	1,042,000	730,062	-
Total investment income (loss)	18,986,474	730,062	-
Less investment expenses	106,759	31,320	-
Net investment income (loss)	<u>18,879,715</u>	<u>698,742</u>	<u>-</u>
Total additions	<u>24,275,419</u>	<u>8,284,469</u>	<u>933</u>
Deductions:			
Benefits	11,229,806	7,160,727	-
Administration	48,865	-	-
Scholarships	-	-	5,009
Total deductions	<u>11,278,671</u>	<u>7,160,727</u>	<u>5,009</u>
Changes in net position	12,996,748	1,123,742	(4,076)
Net position - July 1, 2016	<u>127,028,898</u>	<u>7,301,179</u>	<u>64,134</u>
Net position - June 30, 2017	<u>\$ 140,025,646</u>	<u>\$ 8,424,921</u>	<u>\$ 60,058</u>

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

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017**History and organization**

The Borough of Naugatuck ("Borough") operates under a Charter which became effective in 1893 and was revised in November 1994. The form of government includes an elected mayor and an eight-member Burgesses, which constitutes the Board of Mayor and Burgesses. The Borough also has an elected nine-member Board of Education, eight of which are elected and the ninth member is the Mayor. The Finance board is comprised of nine residents and three alternates who are appointed by the Board of Mayor and Burgesses.

The Borough provides the following public services as authorized by its charter: public safety, public works, health and welfare, recreation and parks and education.

**I. Summary of significant accounting policies****A. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Borough. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

**B. Measurement focus, basis of accounting and financial statement presentation**

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

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## I. Summary of significant accounting policies (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers reimbursement grants 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 related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

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

The Borough reports the following major governmental funds:

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

The *NHS Reconstruction and Renovation Fund* is used to account for the reconstruction and renovation of the high school.

The *Capital Nonrecurring Fund* is used to account for activities associated with major capital improvements and equipment.

Additionally, the Borough reports the following fund types:

The *Internal Service Funds* account for risk financing activities for dental insurance and workers' compensation benefits.

The *Pension Trust Fund* accounts for the activities of the Naugatuck Employee Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *Other Post-Employment Benefit Trust Fund* accounts for the activities of the Naugatuck Other Post-Employment Benefit Plan, which accumulates resources for retiree medical payments to qualified employees.

The *Private-Purpose Trust Fund* accounts for resources legally held in trust for student scholarships. All resources of the fund, including any earnings, may not be used to support Borough activities.

The *Agency Fund* accounts for monies held on behalf of students.

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017**I. Summary of significant accounting policies (Continued)**

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Borough's internal service funds are charges to Borough Departments for various types of self-insurance. Operating expenses for the internal service funds include the cost of insurance and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**C. Assets, liabilities, deferred outflows/inflows of resources and net position or equity****1. Deposits and investments**

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

Investments - In general, State of Connecticut Statutes allow the Borough to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any state or political subdivision rated within the top two rating categories of any nationally recognized rating service or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. For the capital and nonrecurring fund, not more than 31% can be invested in equity securities. Investment income is recorded in the fund in which it was earned. Certain real estate parcels have been reclassified from capital assets to investments based upon the provisions of Governmental Accounting Standards Board ("GASB") Statement 72.

Method to value investments - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.



Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

I. Summary of significant accounting policies (Continued)

1. Deposits and investments (Continued)

State Treasurers Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27c - 3-27e. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares. The balance of the pooled fixed income investments was invested in a 2a-7 like pool, which operates under State Statutes. The fair value of the position in the pool is the same as the value of the pool shares.

The Borough’s pension and OPEB plans have adopted a formal investment policy that defines allowable investments, prohibited investments, prohibited transactions, asset allocation guidelines and diversification guidelines and fixed income and cash equivalent guidelines.

The investment guidelines are as follows:

<u>Asset Class</u>	<u>Pension</u>	<u>OPEB</u>
Equities	65.00%	55.00%
Fixed income	25.00%	40.00%
REITs	10.00%	5.00%

2. Receivables and payables

a. Interfunds

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

b. Property taxes and other receivables

In the government-wide financial statements, property tax and loan receivables are shown net of an allowance for uncollectibles. Allowance percentages range from 2% to 63% of outstanding receivable balances and are calculated based upon prior collections.

In the fund financial statements, property tax revenues are recognized when they become available. Only taxes collected during the fiscal year have been recorded as revenue. All property taxes receivable, which have not been collected at June 30, have been recorded as deferred inflows of resources, since they are not considered to be available to finance expenditures of the current fiscal year.

Property taxes are assessed on property as of October 1. Taxes are billed in the following July and are due in two installments, July 1 and January 1. Liens are effective on the assessment date and are continued by filing before the end of the fiscal year following the due date.

Loans receivable consist of Community Development Block Grant loans. The Borough provides low interest loans for residential rehabilitation as well as loans to local businesses for facility improvements.

**Borough of Naugatuck, Connecticut**

**Notes to Financial Statements  
For the Year Ended June 30, 2017**

**I. Summary of significant accounting policies (Continued)**

**3. Restricted assets**

The restricted assets for the Borough are restricted for performance bonds and endowment purposes. Performance bonds are restricted until the monies are returned to the vendor after satisfactory completion of contract or the Borough calls the bond for nonperformance. The endowment’s trust agreement restricts the expenditure of the investment income only for the designated purpose.

**4. Capital assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 for equipment, \$20,000 for improvements and \$100,000 for infrastructure, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at 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 assets’ lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the Borough are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25-50
Land improvements	10-40
Machinery and equipment	5-20
Infrastructure	10-65

**5. Deferred outflows/inflows of resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Borough reports deferred outflows of resources related to pensions and OPEB in this category. The deferred outflows applicable to pensions relates to contributions made by the Borough after the measurement date. Deferred outflows for pension and OPEB (as applicable), are for the differences between expected and actual experience, changes in assumptions, changes in proportional share of employer and the net difference between projected and actual earnings on plan investments.

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## I. Summary of significant accounting policies (Continued)

## 5. Deferred outflows/inflows of resources (Continued)

The deferred outflows related to contributions will be recognized in the following year. Deferred outflows for differences between expected and actual experience, changes in assumptions and changes in proportional share of employer will be amortized over the average remaining service life of all plan members. The net difference between projected and actual earnings on plan investments is amortized over a 5 year period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Borough reports deferred charge on refunding, advance collections, and deferred inflows related to pensions and OPEB in this category.

The deferred inflows applicable to pensions relates to contributions made by the Borough after the measurement date. Deferred inflows for pension and OPEB (as applicable), are for the differences between expected and actual experience, changes in assumptions, changes in proportional share of employer and the net difference between projected and actual earnings on plan investments. Deferred inflows for differences between expected and actual experience, changes in assumptions and changes in proportional share of employer will be amortized over the average remaining service life of all plan members. The net difference between projected and actual earnings on plan investments is amortized over a 5 year period.

For governmental funds, the Borough reports unavailable revenue, which arises only under the modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the governmental funds' balance sheet. The governmental funds report unavailable revenues from several sources: property taxes (including advance collections, if any) and sewer assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## 6. Compensated absences

The Borough allows employees to accumulate earned but unused vacation and sick pay benefits. The rate that these benefits are earned and accumulate varies by bargaining unit. Upon severance from employment with the Borough, employees are paid by a prescribed formula for these accrued absences. All compensated absences are accrued when incurred in the government-wide financial statements. Expenditures for compensated absences are recognized in the governmental fund financial statements in the current year to the extent they are paid during the year, or the vested amount is expected to be paid with available resources.

Compensated absences are only reported in governmental funds if they are due and payable to an employee who has resigned or retired before or at fiscal year end.

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## I. Summary of significant accounting policies (Continued)

## 7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities' statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses.

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

## 8. Net position flow assumption

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

## 9. Fund equity and net position

In the government-wide financial statements, net position is classified into the following categories:

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

This category presents the net position of the Borough which is not restricted.

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

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## I. Summary of significant accounting policies (Continued)

## 9. Fund equity and net position (continued)

Nonspendable

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

Restricted

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

Committed

This category presents amounts that can be used only for specific purposes determined by a formal action at the highest level of decision-making authority for the Borough. Commitments may be established, modified or rescinded only through resolutions approved by Board of Mayor and Burgesses or referendum.

Assigned

This category presents amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Intent is expressed by the passage of a resolution by the Board of Mayor and Burgesses or by the issuance of a properly approved purchase order.

Unassigned

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

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

The Board of Mayor and Burgesses adopted a minimum fund balance policy for the General Fund. The policy requires the Borough to strive to maintain an unassigned general fund balance of not less than 8% nor more than 12% of current year budgeted general fund operating expenditures.

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## I. Summary of significant accounting policies (Continued)

## 10. Use of estimates

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

## 11. Reclassifications

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

## II. Stewardship, compliance and accountability

## A. Budgets and budgetary accounting

The Borough adheres to the following procedures in establishing the budgetary data included in the general fund financial statements. The operating budget, which is prepared by function and department, includes proposed expenditures and the means of financing them.

- Not later than 15 days before the end of the fiscal period, the Board of Finance and Board of Mayor and Burgesses hold a public hearing on the proposed operating budget.
- Not later than 5 days following the public hearing at a joint meeting of the Board of Finance and Board of Mayor and Burgesses, the adjusted budget is legally adopted.
- The Board of Finance is authorized to transfer budgeted amounts within departments.
- The Board of Finance is also authorized to approve additional appropriations up to \$2,000. Amounts over \$2,000 must be approved jointly by the Board of Finance and Board of Mayor and Burgesses with a 2/3 vote.

There were no additional appropriations approved during the fiscal year.

- Formal budgetary integration is employed as a management control device during the year.
- The legal level of control (the level at which expenditures may not legally exceed appropriations) is at the department level.
- The Board of Education is authorized under state law to make any transfers required within their budget at their discretion. Additionally, as required by the charter, these transfers must be reported to the Board of Mayor and Burgesses. Any additional appropriations must have Board of Education and Board of Mayor and Burgesses approval.

## Borough of Naugatuck, Connecticut

**Notes to Financial Statements  
For the Year Ended June 30, 2017**

**II. Stewardship, compliance and accountability (continued)****B. Budget - GAAP reconciliation**

A reconciliation of revenues and expenditures between the accounting treatment required by GAAP (Exhibit D) and budgetary requirements (Exhibit F) is as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Balance, budgetary basis, Exhibit F	\$115,289,168	\$113,700,003
State teachers' retirement on-behalf amount	<u>10,207,281</u>	<u>10,207,281</u>
Balance, GAAP basis, Exhibit D	<u>\$125,496,449</u>	<u>\$123,907,284</u>

**C. Capital projects authorizations**

The following is a summary of Capital Projects:

<u>Project Name</u>	<u>Project Authorization</u>	<u>Cumulative Expenditures</u>	<u>Project Balance</u>
Maple St. Bridge renovation	\$ 6,097,447	\$ 3,182,611	\$ 2,914,836
Naugatuck treatment plant	31,750,000	23,866,339	7,883,661
Naugatuck High School reconstruction & renovation	81,000,000	77,930,965	3,069,035
Capital Lease	3,000,000	2,585,000	415,000
2 <sup>nd</sup> 5-Year capital project	6,900,060	6,625,572	274,488
Improvement police station	345,000	341,789	3,211
Reclamation account	2,000,000	1,128,273	871,727
Renaissane Place downtown phase I	500,000	2,567	497,433
Roads and Infrastructure	5,075,000	1,767,199	3,307,801
Financing of Judgement	12,430,000	1,476,639	10,953,361
Parcel A, B & C Site	975,000	182,011	792,989
Bldg 25 Goodyear/Tuttle House	1,223,500	1,099,844	123,656
Hillside School Roof	1,569,855	703,071	866,784
Western School Roof	1,319,245	634,607	684,638
Hillside LL Ceiling	<u>309,177</u>	<u>291,051</u>	<u>18,126</u>
Totals	<u>\$ 154,494,284</u>	<u>\$ 121,817,538</u>	<u>\$ 32,676,746</u>

**D. Donor-restricted endowments**

The Borough has received certain endowments for the maintenance of the grounds at the Hillside Middle School (formally the high school). The amounts are reflected in net position as restricted for this purpose (education). Investment income is approved for expenditure by the Superintendent of Schools.

## Borough of Naugatuck, Connecticut

**Notes to Financial Statements  
For the Year Ended June 30, 2017**

**II. Stewardship, compliance and accountability (Continued)****D. Donor-restricted endowments (Continued)**

The Borough 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.

At year end, there is no appreciation available for appropriation.

**E. Deficit fund balances**

The School Cafeteria Fund had a deficit fund balance of \$43,618. The deficit will be reduced or eliminated in future years by future charges for services.

**III. Detailed notes****A. Cash and investments****Deposits - Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough does not have a deposit policy for custodial credit risk. At year end, \$20,759,277 of the Borough's bank balance of \$24,054,890 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$14,855,448
Uninsured and collateral held by the pledging bank's trust department, not in the Borough's name	<u>5,903,829</u>
Total amount subject to custodial credit risk	<u>\$20,759,277</u>

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

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

Type of Investment	Fair Value	N/A	Investment Maturities (In Years)			
			Less Than 1	1-5 Years	5-10 Years	Over 10
<u>Mutual funds:</u>						
Equity	\$96,024,934	\$96,024,934	\$ -	\$ -	\$ -	\$ -
Bonds	45,719,171	-	-	3,354,610	15,542,686	26,821,875
Money market	6,343,915	-	6,343,915	-	-	-
Certificates of deposit	8,314,456	-	8,314,456	-	-	-
Pooled fixed income	<u>6,360,054</u>	-	<u>6,360,054</u>	-	-	-
Total	<u>\$162,762,530</u>	<u>\$96,024,934</u>	<u>\$21,018,425</u>	<u>\$3,354,610</u>	<u>\$15,542,686</u>	<u>\$26,821,875</u>



## Borough of Naugatuck, Connecticut

**Notes to Financial Statements**  
**For the Year Ended June 30, 2017**

**III. Detailed notes (Continued)****A. Cash and investments (Continued)****Fair value of investments**

The Borough 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.

The Borough had the following recurring fair value measurements:

	Amount	Quoted Market Prices in Active Markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments by fair value level				
Mutual funds:				
Equity	\$ 96,024,934	\$ 96,024,934	\$ -	\$ -
Bonds	45,719,171	45,719,171	-	-
Money market	6,343,915	6,343,915	-	-
Total investments by fair value level	<u>148,088,020</u>	<u>148,088,020</u>	<u>-</u>	<u>-</u>
<u>Other investments not subject to fair value measurement</u>				
Certificates of deposit	8,314,456			
Pooled fixed income	<u>6,360,054</u>			
Total other investments	<u>14,674,510</u>			
Total Investments	<u>\$ 162,762,530</u>			

Securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Securities classified in Level 2 are valued using quoted prices for identical securities in markets that are not active.

Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

III. Detailed notes (Continued)

A. Cash and investments (Continued)

Interest rate risk - To minimize interest rate risk, the Borough's policy requires the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Operating funds should primarily be invested in shorter-term securities, money market funds or similar investment pools.

Credit risk - The Borough's policy states credit risk will be minimized by limiting investments to the safest types of securities and pre-qualifying the financial institutions and advisors with which the Borough will do business. The investment portfolio must be diversified so that potential losses on individual securities will be minimized.

The Borough's investments subject to credit risk have average ratings by Standard & Poor's as follows:

Ratings	Mutual Funds		Pooled Fixed Income
	Bonds	Money Market	
AAA	\$22,381,086	\$6,343,915	\$6,360,054
AA	2,045,580	-	-
A	5,345,937	-	-
BBB	6,622,414	-	-
BB	3,720,021	-	-
B	2,174,368	-	-
CCC	1,598,758	-	-
Unrated	1,831,007	-	-
Total	<u>\$45,719,171</u>	<u>\$6,343,915</u>	<u>\$6,360,054</u>

Custodial credit risk - The Borough 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 Borough will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Foreign currency risk - The Borough does not have a formal policy with respect the foreign currency risk. Foreign currency risk is the risk that the value of the investment may be affected by changes in the rate of exchange.

The investments are covered by the Securities Investor Protection Corporation ("SIPC") up to \$500,000, including \$250,000 of cash from sale or for purchase of investments, but not cash held solely for the purpose of earning interest. SIPC protects securities such as notes, stocks, bonds, debentures, certificates of deposit and money funds.

The Borough has no investments that are subject to custodial credit risk.

## Borough of Naugatuck, Connecticut

**Notes to Financial Statements**  
**For the Year Ended June 30, 2017**

**III. Detailed notes (Continued)****B. Receivables**

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables for the Borough's government-wide financial statements with allowances for uncollectible accounts are presented below.

	Property Taxes			CDBG Loans
	Taxes	Interest & Liens	Total	
Current portion	\$ 3,245,216	\$1,616,303	\$ 4,861,519	\$32,330
Long-term portion	\$10,390,147	\$7,148,762	\$17,538,909	\$779,322
Less allowance for uncollectibles	( 5,035,312)	(5,497,207)	(10,532,519)	(15,525)
Net long-term portion	<u>\$5,354,835</u>	<u>\$1,651,555</u>	<u>\$ 7,006,390</u>	<u>\$763,797</u>

**C. Capital assets**

Capital asset activity was as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
<u>Capital assets, not being depreciated:</u>				
Land	\$ 14,062,309	\$ -	\$138,300	\$ 13,924,009
Construction in progress	80,682,059	6,986,559	-	87,668,618
Total capital assets, not being depreciated	<u>94,744,368</u>	<u>6,986,559</u>	<u>138,300</u>	<u>101,592,627</u>
<u>Capital assets, being depreciated:</u>				
Buildings and improvements	76,247,267	2,100	7,431	76,241,936
Land Improvements	4,352,023	15,200	-	4,367,223
Machinery and equipment	19,442,911	915,578	975,015	19,383,474
Infrastructure	188,361,174	389,081	-	188,750,255
Total capital assets, being depreciated	<u>288,403,375</u>	<u>1,321,959</u>	<u>982,446</u>	<u>288,742,888</u>
Total capital assets	<u>383,147,743</u>	<u>8,308,518</u>	<u>1,120,746</u>	<u>390,335,515</u>
<u>Less accumulated depreciation:</u>				
Buildings and improvements	33,190,179	1,569,104	1,682	34,757,601
Land Improvements	3,468,484	79,698	-	3,548,182
Machinery and equipment	13,926,522	1,193,816	967,109	14,153,229
Infrastructure	112,155,811	3,961,140	-	116,116,951
Total accumulated depreciation	<u>162,740,996</u>	<u>6,803,758</u>	<u>968,791</u>	<u>168,575,963</u>
Total capital assets, being depreciated, net	<u>125,662,379</u>	<u>(5,481,799)</u>	<u>13,655</u>	<u>120,166,925</u>
Capital assets, net	<u>\$ 220,406,747</u>	<u>\$1,504,760</u>	<u>\$151,955</u>	<u>\$221,759,552</u>

## Borough of Naugatuck, Connecticut

**Notes to Financial Statements**  
**For the Year Ended June 30, 2017**

**III. Detailed notes (Continued)****C. Capital assets (Continued)**

Depreciation expense was charged to functions/programs of the Borough as follows:

General government	\$4,203,505
Education	1,337,159
Public safety	468,579
Health and welfare	417,478
Public works	262,428
Culture and Recreation	<u>114,609</u>
Total depreciation expense	<u>\$6,803,758</u>

**Construction commitments**

The Borough has the following construction commitments:

Maple Street Bridge Reconstruction	\$ 5,864,246
Naugatuck High School Renovation	565,777
Hillside Intermediate School Construction	312,059
Western Elementary School Roof Replacement	<u>305,400</u>
Total	<u>\$ 7,047,482</u>

**D. Interfund accounts****1. Interfund payables and receivables**

A summary of interfund balances is as follows:

<u>Major funds:</u>	<u>Corresponding Fund</u>	<u>Due From</u>	<u>Due To</u>
General fund:			
NHS reconstruction and renovation	N/A	\$13,403,176	\$ -
Capital nonrecurring fund	N/A	-	7,469,105
Town aid road	N/A	-	1,468,975
Private duty service	N/A	-	10,409
Special education grants	N/A	-	125,505
Dog fund	N/A	-	118,884
Public safety	N/A	-	139,479
Consolidation fund	N/A	-	342,299
Community fund	N/A	-	16,086
Youth service bureau	N/A	-	93
Youth services donations	N/A	-	314
School cafeteria	N/A	273,806	-
Debt service fund	N/A	-	693,755
Capital projects fund	N/A	-	44,554
Dental insurance - general government	N/A	-	591,568
Dental insurance - education	N/A	-	680,512
Workers' compensation	N/A	-	2,822,585
Pension trust fund	N/A	-	1,474,788
OPEB trust fund	N/A	-	<u>100,000</u>
Total general fund		<u>13,676,982</u>	<u>16,098,911</u>

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## III. Detailed notes (Continued)

## D. Interfund accounts (Continued)

## 1. Interfund payables and receivables (Continued)

	Corresponding Fund	Due From	Due To
NHS reconstruction and renovation	General fund	-	13,403,176
Capital nonrecurring fund	General fund	7,469,105	-
<u>Nonmajor funds:</u>			
Special revenue funds:			
Town aid road	General fund	\$ 1,468,975	\$ -
Private duty service	General fund	10,409	-
Special education grants	General fund	125,505	-
Dog fund	General fund	118,884	-
Public safety	General fund	139,479	-
Consolidation fund	General fund	342,299	-
Community fund	General fund	16,086	-
Youth services bureau	General fund	93	-
Youth services donations	General fund	314	-
School cafeteria	General fund	-	273,806
Total special revenue funds		2,222,044	273,806
Debt service fund	General fund	693,755	-
Capital projects fund	General fund	44,554	-
Total nonmajor governmental funds		2,960,353	273,806
Internal service funds:			
Dental insurance - general government	General fund	591,568	-
Dental insurance - education	General fund	680,512	-
Workers' compensation	General fund	2,822,585	-
Total internal service funds		4,094,665	-
Fiduciary funds:			
Pension trust fund	General fund	1,474,788	-
OPEB trust fund	General fund	100,000	-
Total fiduciary funds		1,574,788	-
Grand total		\$ 29,775,893	\$ 29,775,893

All interfund balances resulted from the time lag between the dates payments occurred between funds for short-term internal financing.

## Borough of Naugatuck, Connecticut

**Notes to Financial Statements**  
**For the Year Ended June 30, 2017**

## III. Detailed notes (Continued)

## D. Interfund accounts (Continued)

## 2. Interfund transfers

A summary of interfund transfers for the fiscal year is as follows:

	Corresponding Fund	Transfers In	Transfers Out
<u>Major funds:</u>			
<u>General fund:</u>			
Capital nonrecurring fund	N/A	\$ 261,804	\$ 1,878,051
Private duty service	N/A	22,535	-
Debt service fund	N/A	-	316,000
Workers' compensation	N/A	-	700,000
Dental insurance - education	N/A	<u>1,200,000</u>	-
Total general fund		<u>1,484,339</u>	<u>2,894,051</u>
Capital nonrecurring fund	General fund	<u>1,878,051</u>	<u>261,804</u>
<u>Nonmajor funds:</u>			
<u>Special revenue funds:</u>			
Private duty service	General fund	-	22,535
Debt service fund	General fund	<u>316,000</u>	-
Total nonmajor governmental funds		<u>316,000</u>	<u>22,535</u>
<u>Internal service funds:</u>			
Workers' compensation	General fund	700,000	-
Workers' compensation	Dental insurance - education	494,409	-
Dental insurance - education	General fund	-	1,200,000
Dental insurance - education	Workers' compensation	<u>-</u>	<u>494,409</u>
Total internal service funds		<u>1,194,409</u>	<u>1,694,409</u>
Grand total		<u>\$ 4,872,799</u>	<u>\$ 4,872,799</u>

Transfers are used to account for the financing by the general fund of various programs and activities in other funds. Transfers from the internal service funds to the general fund are to reduce the budget for employee benefits.

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## III. Detailed notes (Continued)

## E. Changes in long-term obligations

## 1. Summary of changes

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, 2016 (As restated)	Additions	Reductions	Balance June 30, 2017	Current Portion
<b>Bonds:</b>									
General purpose:									
Refunding bonds	\$ 2,398,000	03/24/16	08/01/30	3.00%-5.0%	\$ 2,398,000	\$ -	\$ 203,500	\$ 2,194,500	\$ 13,750
Bonds	9,235,000	09/24/15	09/15/35	3.00%-5.0%	9,235,000	-	465,000	8,770,000	465,000
Refunding bonds	2,530,000	08/10/10	08/01/30	2.00%-4.00%	915,000	-	455,000	460,000	460,000
Loss reserve (taxable)	4,560,000	06/01/06	06/01/26	5.43%-5.93%	2,985,000	-	230,000	2,755,000	240,000
5 year capital project	4,200,000	07/15/02	02/15/21	5.88%	1,160,000	-	230,000	930,000	230,000
Total general purpose					16,693,000		1,583,500	15,109,500	1,408,750
School bonds:									
NHS renovation	8,000,000	10/24/16	06/30/37	2.00%-5.0%	8,000,000	-	-	8,000,000	400,000
Refunding bonds	1,962,000	03/24/16	08/01/30	3.00%-5.0%	1,962,000	-	166,500	1,795,500	11,250
NHS addition & renovation	8,000,000	09/24/15	09/15/35	2.00%-5.0%	8,000,000	-	400,000	7,600,000	400,000
NHS addition & renovation	10,000,000	03/18/14	03/15/34	2.00%-5.00%	9,470,000	-	530,000	8,940,000	530,000
NHS cafeteria project	800,000	07/15/02	02/15/21	5.875%	215,000	-	45,000	170,000	45,000
Total school bonds					27,647,000		1,141,500	26,505,500	1,386,250
Sewer bonds:									
GOB (AMT) Series A	6,500,000	05/24/17	06/30/37	3.00%-5.0%	-	6,500,000	-	6,500,000	-
GOB Taxable Series B	2,000,000	05/24/17	06/30/22	2.00%-2.75%	-	2,000,000	-	2,000,000	425,000
Total sewer bonds					-	8,500,000	-	8,500,000	425,000
Pension deficit bonds (taxable):									
2013 (taxable)	6,435,000	06/25/13	06/30/18	2.30%	2,825,000	-	1,395,000	1,430,000	1,430,000
2003 (taxable)	49,265,000	10/23/03	06/01/33	1.35%-5.91%	34,100,000	-	-	34,100,000	-
Total pension deficit bonds					36,925,000	-	1,395,000	35,530,000	1,430,000
Total bonds					81,265,000	8,500,000	4,120,000	85,645,000	4,650,000
<b>Notes:</b>									
Clean water:									
CWF 175-CSL	472,000	06/30/08	06/30/27	2.00%	280,084	-	22,995	257,089	23,459
CWF 184-CD1	566,969	04/30/00	04/30/18	2.00%	57,481	-	31,354	26,127	26,127
CWF 184-C	480,131	10/30/98	04/30/18	2.00%	44,013	-	24,006	20,007	20,007
Total notes					381,578	-	78,355	303,223	69,593
Total bonds/notes					81,646,578	8,500,000	4,198,355	85,948,223	4,719,593
Premium					680,567	327,041	46,039	961,569	-
Total bonds/notes and related liabilities					82,327,145	8,827,041	4,244,394	86,909,792	4,719,593
Certificates of participation:									
Wastewater (taxable)	1,490,000	05/05/14	06/30/22	2.00-5.00%	1,145,000	-	185,000	960,000	195,000
Incinerator A	10,545,000	05/05/14	06/30/22	5.00%	8,420,000	-	1,395,000	7,025,000	1,435,000
Total certificates of participation					9,565,000	-	1,580,000	7,985,000	1,630,000
Capital lease obligations					10,359,856	-	1,498,498	8,861,358	1,629,525
Net pension liability					45,599,176	17,147,644	24,196,141	38,550,679	-
Net OPEB liability					211,729,279	13,891,359	40,715,153	184,905,485	-
Compensated absences					4,195,271	1,813,737	1,822,839	4,186,169	837,234
Risk management					1,165,810	2,830,780	2,545,122	1,451,468	1,032,618
Total long-term obligations					\$364,941,537	\$44,510,561	\$76,602,147	\$332,849,951	\$9,848,970

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## III. Detailed notes (Continued)

## E. Changes in long-term obligations (Continued)

## 1. Summary of changes (Continued)

The following is a summary of bond and note maturities:

Fiscal Year Ended June 30,	Notes Principal	Bond Principal	Certificates of Participation	Total Interest
2018	69,591	4,650,000	1,630,000	4,188,842
2019	23,933	4,565,000	1,705,000	3,973,483
2020	24,416	4,665,000	1,795,000	3,675,069
2021	24,909	4,860,000	1,720,000	3,363,266
2022	25,411	4,700,000	1,135,000	3,034,699
2023	25,924	4,825,000	-	2,757,359
2024	26,448	4,950,000	-	2,534,980
2025	26,981	5,090,000	-	2,310,431
2026	27,527	5,240,000	-	2,079,638
2027	28,083	4,690,000	-	1,850,998
2028	-	4,820,000	-	1,646,230
2029	-	4,965,000	-	1,431,551
2030	-	5,120,000	-	1,203,629
2031	-	5,285,000	-	967,084
2032	-	5,315,000	-	720,051
2033	-	5,500,000	-	462,633
2034	-	2,210,000	-	193,544
2035	-	1,685,000	-	118,694
2036	-	1,685,000	-	63,575
2037	-	825,000	-	22,231
	<u>\$ 303,223</u>	<u>\$ 85,645,000</u>	<u>\$ 7,985,000</u>	<u>\$36,597,987</u>

All long-term liabilities listed above after bonds and notes are generally liquidated by the General Fund.

## 2. Statutory debt limitations

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

Category	Debt Limit	Net Indebtedness	Balance
General purpose	\$ 171,742,084	\$ 15,109,500	\$ 156,632,584
Schools	343,484,168	26,505,500	316,978,668
Sewers	286,236,806	16,788,223	269,448,583
Urban renewal	248,071,899	-	248,071,899
Pension deficit	228,989,445	35,530,000	193,459,445

The total overall statutory debt limit for the Borough is equal to seven times annual receipts from taxation, \$534,308,705.



**Borough of Naugatuck, Connecticut**

**Notes to Financial Statements  
For the Year Ended June 30, 2017**

**III. Detailed notes (Continued)**

**E. Changes in long-term obligations (Continued)**

**2. Statutory debt limitations (Continued)**

The indebtedness reflected above includes bonds outstanding in addition to the amount of bonds authorized and unissued against which bond anticipation notes are issued and outstanding.

**3. Authorized/unissued bonds**

The amount of authorized, unissued bonds for general purposes and schools is as follows:

<u>Purpose of Bonds</u>	<u>Amount</u>
Refunding bonds	\$ 1,640,000
NHS reconstruction and renovation	55,000,000
Bridge, road and infrastructure repairs	<u>775,000</u>
Total	<u>\$ 57,415,000</u>

**4. Prior years' advance refunding**

In the prior years, the Borough had defeased a bond issue by creating a separate irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the Borough's financial statements. The amount of defeased debt outstanding but removed from the Borough's financial statements amounted to \$1,985,000.

Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

III. Detailed notes (Continued)

E. Changes in long-term obligations (Continued)

5. Capital leases

The Borough is committed under capital leases for various types of office and public safety equipment, computers, vehicles and building improvements. These lease agreements qualify as capital leases for accounting purposes (title transfers at the end of the lease term) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

Capital assets totaling \$10,616,589, net of accumulated depreciation of \$5,910,660, are recorded under the capital lease. This year, \$1,498,498 was included in depreciation expense.

The following is a schedule of the future minimum lease payments under capital leases, and the present value of the net minimum lease payments:

Year Ending <u>June 30,</u>	
2018	\$ 1,954,678
2019	1,793,762
2020	1,771,494
2021	1,496,725
2022	1,537,089
2023	<u>1,384,932</u>
	9,938,680
Less amount representing interest	<u>(1,077,322)</u>
Present value of minimum lease payments	<u>\$ 8,861,358</u>

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## III. Detailed notes (Continued)

## F. Fund balance classifications

Fund Balance Component	General Fund	NHS Reconstruction and Renovation	Capital Nonrecurring Fund	Nonmajor Funds	Total
<b><u>Nonspendable:</u></b>					
Community development loans	\$ -	\$ -	\$ -	\$ 811,652	\$ 811,652
Trust fund principal	-	-	-	1,000	1,000
Total nonspendable	-	-	-	812,652	812,652
<b><u>Restricted:</u></b>					
Public safety:					
Police	-	-	-	168,987	168,987
Public works:					
Road projects	-	-	-	1,419,813	1,419,813
Other	-	-	-	26,297	26,297
Health and welfare:					
Community development programs	-	-	-	60,880	60,880
Youth services programs	-	-	-	407	407
Education:					
School repairs and maintenance	-	-	-	129,304	129,304
Various education programs	-	-	-	1,612,406	1,612,406
Total restricted	-	-	-	3,418,094	3,418,094
<b><u>Committed:</u></b>					
Public safety	-	-	-	141,740	141,740
Health and welfare	-	-	-	152,042	152,042
Education programs	-	-	-	13,499	13,499
School repairs and maintenance	-	-	-	154,892	154,892
Construction and capital replacement	-	-	17,651,874	44,151	17,696,025
Total committed	-	-	17,651,874	506,324	18,158,198
<b><u>Assigned:</u></b>					
Subsequent years budget	1,399,564	-	-	-	1,399,564
Debt service	-	-	-	1,906,974	1,906,974
Total assigned	1,399,564	-	-	1,906,974	3,306,538
<b><u>Unassigned</u></b>	11,278,095	(13,117,822)	-	(43,618)	(1,883,345)
<b>Total</b>	<b>\$ 12,677,659</b>	<b>\$ (13,117,822)</b>	<b>\$ 17,651,874</b>	<b>\$ 6,600,426</b>	<b>\$ 23,812,137</b>

**Borough of Naugatuck, Connecticut**

**Notes to Financial Statements  
For the Year Ended June 30, 2017**

**IV. Other information**

**A. Risk management**

The Borough is exposed to various risks of loss related to public official liability, police liability, Board of Education legal liability, theft or impairment of assets, errors and omissions, injury to employees and natural disasters. The Borough purchases commercial insurance for risks of loss, including blanket and umbrella policies. Except for the purchase of commercial insurance coverage for all Borough buildings (flood, fire and casualty), errors and omissions, general liability, and workers' compensation excess policy with a retention limit of \$500,000 per incident, the Borough is exposed to various risks for which it has retained the risk of loss including torts; theft of, damage to and destruction of assets; natural disaster; workers' compensation; and employee and post-retiree group workers' compensation and dental coverage. Settled claims have not exceeded commercial coverage in any of the past three years, and there has not been any significant reductions in insurance coverage from amounts held in prior years.

The Borough utilizes a risk management fund (the Internal Service Fund) to account for and finance its uninsured risks of loss for workers' compensation and dental claims. The fund records all claim expenses and liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

The Borough and Board of Education are charged premiums by the Internal Service Fund, which are included in expenditures, to cover the estimated cost of claims payment based on historical cost estimates of the amounts needed to pay prior and current year claims. Claims liabilities include an estimate of claims incurred but not reported and are the Borough's best estimate based on available information.

The claims liability reported in the Internal Service Fund is based on the requirements of GASB Statements No. 10 and 30, which require that a liability for estimated claims incurred but not reported be recorded. The amount of claim accrual is based on the ultimate costs of settling the claim, which include past experience data, inflation and other future economic and societal factors and incremental claim adjustment expenses, net of estimated subrogation recoveries. The claim accrual does not include other allocated or unallocated claims adjustment expenses.

The following is a summary of changes in the claims liabilities:

	Claims Payable July 1,	Current Year Claims and Changes in Estimates	Claims Paid	Claims Payable June 30,
Dental insurance – general government:				
2016	\$ 51,183	\$ 356,424	\$ 389,007	\$ 18,600
2017	18,600	360,084	360,384	18,300
Dental insurance – education:				
2016	\$ 43,000	\$ 671,992	\$ 676,592	\$ 38,400
2017	38,400	649,381	650,781	37,000
Workers' compensation fund:				
2016	\$ 594,025	\$ 1,119,114	\$ 604,329	\$ 1,108,810
2017	1,108,810	1,821,315	1,533,957	1,396,168

**Borough of Naugatuck, Connecticut**

**Notes to Financial Statements  
For the Year Ended June 30, 2017**

**III. Other information**

**B. Commitments and litigation**

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 Borough expects such amounts, if any, to be immaterial.

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

**C. Pension plans**

**1. Plan description**

**a. Plan administration**

The Borough administers two single-employer defined benefit plans: the Employee’s Pension Fund and the Firemen’s Pension Fund that provide pension benefits for eligible employees of the Borough. The pension plans grant the authority to establish and amend the benefit terms to the Board of Mayor and Burgesses. The plans are considered to be a part of the Borough’s financial reporting entity and are included in the Borough’s financial statements as a pension trust fund. The plans do not issue stand-alone financial statements.

Management of the plans is vested in the Pension Board, which consists of one member from the Board of Mayor and Burgesses, one member from the Board of Finance, one member from the Board of Education, and three electors from the Borough of Naugatuck. The Comptroller of the Borough and/or the Chief Personnel Officer shall be advisory members of the Pension Board, without vote.

**Plan membership**

At July 1, 2016 for the Firemen’s plan and July 1, 2015 for Employees’ plan, pension plan membership consisted of the following:

	<u>Firemen</u>	<u>Employee</u>
Retirees and beneficiaries currently receiving benefits	44	417
Current plan members	24	363
Inactive with vested benefits	<u>1</u>	<u>55</u>
Total	<u>69</u>	<u>835</u>

The plans were closed to employees hired after January 2010. At that time, employees became eligible for participation in one of the Borough’s defined contribution plans.

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## III. Other information (Continued)

## C. Pension plans (Continued)

## 2. Benefit provisions

## a. Firemen's Pension Fund

The plan provides retirement, disability and death benefits for all Fire Department employees working more than 20 hours a week. All employees are 100% vested after 10 years of continuous service. Employees who retire at normal retirement, the earlier of age 55 with 10 years of service or 20 years of service, are entitled to receive a retirement benefit. Retirement benefits for firemen are calculated at a maximum of 75% of the eligible participant's average gross pay earned by the participant in the three calendar years during which the participant earned his highest gross pay excluding private duty, uniform allowance, and tuition reimbursement. Overtime pay is included in the calculation of benefits, capped at 60%.

All plan members with 10 or more years of service, who have contributed to the plan for 10 or more years, and become unable to perform the duties as a firefighter, are eligible for disability benefits. The benefit is limited to  $\frac{1}{2}$  of the average monthly pay received during the three calendar years that they earned their highest gross pay. Death benefits, whether prior to or subsequent to retirement, are equal to  $\frac{1}{2}$  of the pension benefits that are being paid or would have been paid to the participant if he had retired in accordance with the terms of the pension fund.

A member who terminates employment prior to normal retirement shall be paid a benefit equal to 2% of the highest three year average salary multiplied by years of credited service.

Members shall receive cost of living adjustments ("COLA") of 1.125% to 2.25% annually.

## b. Employee's Pension Fund

The Borough of Naugatuck Employee Retirement Plan covers all employees working more than 20 hours a week, except teachers covered under the State of Connecticut Teachers' Retirement System and Fire Department employees. All employees are 100% vested after 10 years of continuous service. Employees who retire at normal retirement (for police the earlier of age 55 with 10 years of service or 20 years of service, for all others age 60 with 15 years service) are entitled to receive a retirement benefit. Retirement benefits are paid to police officers based upon a formula that combines age and years of service. The benefit is calculated based upon a percentage of average three highest year gross pay up to a maximum of 75%. For Local 1303-50 and nonunion participants, benefits are paid to employees based upon a formula that combines age and years of service. The benefit is calculated based upon a percentage of average three highest year gross pay up to a maximum of 60%. Finally, for all other employees, benefits are calculated based upon benefit percentages ranging from 1.66% to 1.75% times the number of years of service up to a maximum of 65% or 75% of final average earnings.

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## III. Other information (Continued)

## C. Pension plans (Continued)

## 2. Benefit provisions (Continued)

Disability benefits are limited to one-half of the employee's covered earnings to a maximum of \$5,000 per month. Death benefits, whether prior to or subsequent to retirement, are equal to one-half of the pension benefits that are being paid or would have been paid to the participant if he had retired in accordance with the terms of the pension fund.

A member who terminates employment prior to normal retirement, and who does not elect a refund of his contributions with interest credited thereon, shall be vested in his accrued pension benefit payable at normal retirement date. A member who elects to refund contributions with interest credited shall forfeit all rights to benefits under the plan.

Cost of living increases for employees other than police department retirees are provided on an ad hoc basis by formal action of the Borough Retirement Board. For police officers who retired after April 1992, the cost of living increase is based upon 25% of the active employee's increase in pay, with a maximum of 100% of final average earnings. For actuarial purposes, an average cost of living adjustment percentage is used.

## 3. Contributions

## a. Firemen's Pension Fund

Firemen are required to contribute 8% of their earnings based upon union contract.

The Borough is required to contribute the amount determined by the actuary, considering the member contributions.

The average active member contribution rate was 8% of annual base compensation, and the Borough's average contribution rate was 28.17% of annual payroll.

## b. Employee's Pension Fund

Police employees contribute 8% of earnings; all other employees are required to contribute 3% to 4% of earnings to the plan, based upon the bargaining group.

The Borough is required to contribute the amount determined by the actuary, considering the member contributions.

The average active member contribution rate was 5% of annual base compensation, and the Borough's average contribution rate was 23.95% of annual payroll.

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## III. Other information (Continued)

## C. Pension plans (Continued)

## 4. Investments

*Investment policy.* The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board by a majority vote of its members. It is the policy of the Borough's Pension Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's adopted asset allocation policy:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equities	50%
International equities	15%
Fixed income	20%
REITs	10%
High yield bonds	<u>5%</u>
Total	<u>100%</u>

## 5. Concentrations

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

## 6. Rate of return

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 14.81% for the Firemen's Pension Fund and 14.02% for the Employee's Pension Fund. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## 7. Net pension liability

The components of the net pension liability, were as follows:

	<u>Firemen</u>	<u>Employee</u>
Total pension liability	\$ 41,310,565	\$ 137,265,760
Plan fiduciary net position	<u>36,153,064</u>	<u>103,872,582</u>
Net pension liability (asset)	<u>\$ 5,157,501</u>	<u>\$ 33,393,178</u>
Plan fiduciary net position as percentage of the total pension liability	<u>87.52%</u>	<u>75.67%</u>



## Borough of Naugatuck, Connecticut

**Notes to Financial Statements  
For the Year Ended June 30, 2017**

## III. Other information (Continued)

## C. Pension plans (Continued)

## 8. Actuarial assumptions

The total pension liability was determined by actuarial valuations, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>Firemen</u>	<u>Employee</u>
Actuarial valuation date	July 1, 2016	July 1, 2015
Actuarial cost method	Entry age	Entry age
Asset valuation method	Fair value	Fair value
Assumed average post-retirement increases	1.125% - 2.25%	1.125%
Amortization method	Level dollar	Level dollar
Inflation	2.75%	3.00%
Salary increase	4.00%	4.00%
Investment rate of return	7.25%	7.50%
Mortality rates	RP-2000 Mortality Table with separate male and female rates, with blue collar adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale BB.	RP-2000 Mortality Table with separate male and female rates, with total dataset adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale AA.

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 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Firemen</u> Long-Term Expected Real Rate of Return	<u>Employee</u> Long-Term Expected Real Rate of Return
Short-Term Fixed Income	0.50%	0.25%
Core Fixed Income	2.20%	1.00%
Large Cap	5.55%	5.25%
International Equity	5.85%	5.50%
REITs	4.10%	4.25%
Commodities	2.50%	2.60%

## Borough of Naugatuck, Connecticut

**Notes to Financial Statements  
For the Year Ended June 30, 2017**

**III. Other information (Continued)****C. Pension plans (Continued)****9. Discount rate**

The discount rate used to measure the total pension liability was 7.25% for the Firemen's plan and 7.50% for the Employee's plan. 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 Borough 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.

**10. Changes in the net pension liability**

The Borough's net pension liability was measured at June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 for the Firemen's pension plan and July 1, 2015 for the Employee's plan. The changes in net pension liability for each plan for the fiscal year were as follows:

Firemen's Plan	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at July 1, 2016	\$ 39,110,807	\$ 32,782,073	\$ 6,328,734
Service cost	859,601	-	859,601
Interest	2,900,555	-	2,900,555
Differences between expected and actual experience	(154,462)	-	(154,462)
Changes in assumptions	1,234,487	-	1,234,487
Contributions - employer	-	1,036,600	(1,036,600)
Contributions - member	-	178,934	(178,934)
Net investment income (loss)	-	4,799,970	(4,799,970)
Benefit payments, including refunds of member contributions	(2,640,423)	(2,640,423)	-
Administration expenses	-	(4,090)	4,090
Net change	2,199,758	3,370,991	(1,171,233)
Balance at June 30, 2017	\$ 41,310,565	\$ 36,153,064	\$ 5,157,501

Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

III. Other information (Continued)

C. Pension plans (Continued)

10. Changes in the net pension liability (Continued)

Employee's Plan	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at July 1, 2016	\$ 133,517,267	\$ 94,246,825	\$ 39,270,442
Service cost	2,426,816	-	2,426,816
Interest	9,911,060	-	9,911,060
Changes in assumptions	-	-	-
Contributions - employer	-	3,516,640	(3,516,640)
Contributions - member	-	663,530	(663,530)
Net investment income (loss)	-	14,079,745	(14,079,745)
Benefit payments, including refunds of member contributions	(8,589,383)	(8,589,383)	-
Administration expenses	-	(44,775)	44,775
Net change	3,748,493	9,625,757	(5,877,264)
Balance at June 30, 2017	\$ 137,265,760	\$ 103,872,582	\$ 33,393,178

11. Sensitivity of the net pension liability to changes in the discount rate

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

Firemen

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Net pension liability	\$ 10,079,579	\$ 5,157,501	\$ 1,057,312

Employee

	1% Decrease (6.50%)	Current Discount (7.50%)	1% Increase (8.50%)
Net pension liability	\$ 49,242,616	\$ 33,393,178	\$ 20,095,895

Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

III. Other information (Continued)

C. Pension plans (Continued)

12. Pension expense and deferred outflows of resources related to pensions

During the year, the Borough recognized pension expense of \$11,100,242. The Borough reported deferred outflows of resources related to pensions from the following sources:

Description of Outflows/Inflows	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,378,117	\$ 106,193
Changes in assumptions	4,976,875	-
Net difference between projected and actual earnings on pension plan investments	<u>4,140,364</u>	<u>-</u>
Total amount of deferred outflows	<u>\$ 10,495,356</u>	<u>\$ 106,193</u>
Net amount of deferred inflows and outflows		<u>\$ 10,389,163</u>

Actual investment earnings below (or above) projected earnings are amortized over 5 years. Changes of assumptions and experience losses (gains) are amortized over the average remaining service period of actives and inactive.

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

Year Ending June 30,	
2018	\$ 5,133,144
2019	5,044,391
2020	1,911,705
2021	<u>(1,700,077)</u>
Total	<u>\$ 10,389,163</u>

Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

III. Other information (Continued)

C. Pension plans (Continued)

13. Plan statements

Combining Statement of Fiduciary Net Position  
Pension Funds

	Pension Trust Funds		
	Firemen's Pension Fund	Employee's Pension Fund	Total
<u>Assets</u>			
Investments at fair value:			
Mutual funds:			
Equity	\$ 2,509,017	\$ 19,800,272	\$ 22,309,289
Diversified bonds	<u>33,588,493</u>	<u>82,653,076</u>	<u>116,241,569</u>
Total investments	36,097,510	102,453,348	138,550,858
Due from other funds	<u>55,554</u>	<u>1,419,234</u>	<u>1,474,788</u>
Total assets	<u>36,153,064</u>	<u>103,872,582</u>	<u>140,025,646</u>
<u>Net Position</u>			
Restricted for pension benefits	<u>\$ 36,153,064</u>	<u>\$ 103,872,582</u>	<u>\$ 140,025,646</u>

## Borough of Naugatuck, Connecticut

**Notes to Financial Statements**  
**For the Year Ended June 30, 2017**

**III. Other information (Continued)****C. Pension plans (Continued)****13. Plan statements (Continued)**

	Pension Trust Funds		
	Firemen's Pension Fund	Employee's Pension Fund	Total
Additions:			
Contributions:			
Employer	\$ 1,036,600	\$ 3,516,640	\$ 4,553,240
Plan members	178,934	663,530	842,464
Total contributions	<u>1,215,534</u>	<u>4,180,170</u>	<u>5,395,704</u>
Investment income (loss):			
Change in fair value of investments	4,833,689	13,110,785	17,944,474
Interest and dividends	-	1,042,000	1,042,000
Total investment income (loss)	<u>4,833,689</u>	<u>14,152,785</u>	<u>18,986,474</u>
Less investment expenses	<u>33,719</u>	<u>73,040</u>	<u>106,759</u>
Net investment income (loss)	<u>4,799,970</u>	<u>14,079,745</u>	<u>18,879,715</u>
Total additions	<u>6,015,504</u>	<u>18,259,915</u>	<u>24,275,419</u>
Deductions:			
Benefits	2,640,423	8,589,383	11,229,806
Administration	4,090	44,775	48,865
Total deductions	<u>2,644,513</u>	<u>8,634,158</u>	<u>11,278,671</u>
Changes in net position	3,370,991	9,625,757	12,996,748
Net position - July 1, 2016	<u>32,782,073</u>	<u>94,246,825</u>	<u>127,028,898</u>
Net position - June 30, 2017	<u>\$ 36,153,064</u>	<u>\$ 103,872,582</u>	<u>\$ 140,025,646</u>

**14. Defined contribution pension plans**

The Borough administers four separate single-employer defined contribution pension plans. The Board of Mayor and Burgesses has authority to establish and amend the plans. Employee contribution percentages are defined in the union contracts. For police and fire, employees are required to contribute a minimum of 3.75% of wages and the Borough contribution is a maximum of 3.75% of wages. For Plan A and Plan B, employees are required to contribute a minimum of 3% of wages and the Borough contribution is a maximum of 3% of wages. Pension expense and employee contributions made for the fiscal year are as follows:

<u>Plan</u>	<u>Pension expense</u>	<u>Employee contributions</u>
Police	\$ 137,298	\$ 95,170
Fire	57,194	94,632
Plan A	29,391	83,503
Plan B	35,814	57,327

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## III. Other information (Continued)

## D. Pension Plan - Connecticut State Teachers' Retirement System

## 1. 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](http://www.ct.gov).

## 2. Benefit provisions

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. 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 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 nonservice-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.

## 3. 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.

Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

III. Other information (Continued)

D. Pension Plan - Connecticut State Teachers' Retirement System (Continued)

3. Contributions (Continued)

Employees

Effective July 1, 1992, each teacher is required to contribute 6% of their salary for the pension benefit.

4. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

The Borough 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 Borough 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 Borough were as follows:

Borough's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the Borough	<u>93,598,763</u>
Total	<u>\$ 93,598,763</u>

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

For the fiscal year ended, the Borough recognized pension expense and revenue of \$10,207,281 for on-behalf amounts for the benefits provided by the State.

5. 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 increase	3.25-6.50%, average, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

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



## Borough of Naugatuck, Connecticut

**Notes to Financial Statements  
For the Year Ended June 30, 2017**

**III. Other information (Continued)****D. Pension Plan - Connecticut State Teachers' Retirement System (Continued)****5. Actuarial assumptions (Continued)**

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	21.0%	5.8%
Developed non-U.S. equities	18.0%	6.6%
Emerging markets (non-U.S.)	9.0%	8.3%
Core fixed income	7.0%	1.3%
Inflation linked bond fund	3.0%	1.0%
Emerging market fund	5.0%	3.7%
High yield bonds	5.0%	3.9%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Liquidity fund	<u>6.0%</u>	0.4%
Total	<u>100.0%</u>	

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## III. Other information (Continued)

## D. Pension Plan - Connecticut State Teachers' Retirement System (Continued)

## 6. 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.

## 7. Sensitivity of the net pension liability to changes in the discount rate

The Borough'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.

## 8. Plan fiduciary net position

Detailed information about the Connecticut State Teachers' Retirement System 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, 2016.

## E. Other post-employment benefit plan (OPEB)

## 1. Plan description

## A. Plan administration

The Borough administers one single-employer, post retirement healthcare plan for the Borough and Board of Education through the Borough of Naugatuck Other Post-Employment Benefit ("OPEB") trust fund. The plan provides medical, dental and life insurance benefits to eligible retirees and their spouses. The plan does not issue stand alone financial reports.

## B. Benefit provided

The Borough plan provides for medical and dental benefits for all eligible retirees and their spouses. Benefits and contributions are established by contract and may be amended by union negotiations. Benefits are provided by a third party insurer and the full cost of benefits is covered by the plan.

## C. Contributions

The Borough's contributions are actuarially determined on an annual basis using the projected unit credit method. The Borough's total contribution to the plan was \$7,585,727. There are no required employee contributions.

Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

III. Other information (Continued)

E. Other post-employment benefit plan (OPEB)

1. Plan description (continued)

D. Employees Covered by Benefit Terms

As of July 1, 2016, the following employees are covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	622
Active plan members	<u>764</u>
Total	<u>1,386</u>

2. Investments

a. Investment Policy

The OPEB plans' policy in regard to the allocation of invested assets is established and may be amended by the Retirement Board by a majority vote of its members. It is the policy of the Borough's Retirement Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's adopted asset allocation policy for the OPEB plan:

<u>Asset Class</u>	<u>Target Allocation</u>
Short duration fixed income	5.00%
U.S. core fixed income	35.00%
U.S. large cap	25.00%
U.S. small cap	5.00%
Emerging markets equity	5.00%
International developed equity	20.00%
REITs	<u>5.00%</u>
Total	<u>100.00%</u>

b. Concentrations

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

3. Rate of Return

The annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 6.21%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

III. Other information (Continued)

E. Other Post-Employment Benefit Plan (continued)

4. Net OPEB Liability

The Borough's net OPEB liability of \$184,905,485 was measured as of June 30, 2017, and was determined by an actuarial valuation as July 1, 2016.

Total OPEB liability	\$ 193,330,406
Plan fiduciary net position	<u>(8,424,921)</u>
Net OPEB liability	<u>\$ 184,905,485</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>4.36%</u>

5. Actuarial methods and other inputs

The total OPEB liability was determined based upon a July 1, 2016 actuarial valuation using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	4.38%
Inflation	2.75%
<u>Healthcare cost trend rates:</u>	
Medical trend rate	7.75-4.75% - over 30 years
Ultimate medical trend rate	4.75%

The discount rate was based on the S&P municipal bond 20 year high grade index as of the measurement date.

Mortality rates were based on the RP-2000 Mortality Table separate male and female rates, with no white collar adjustment and blue collar adjustment, projected to the valuation date with a Scale BB.

The valuation results provided in this report reflect a best estimate of the potential impact of the Patient Protection and Affordable Care Act (PPACA). Consideration has been made for provisions of the law that are effective as of the valuation date as well as those provisions that will take effect in the future.

## Borough of Naugatuck, Connecticut

**Notes to Financial Statements  
For the Year Ended June 30, 2017**

**III. Other information (Continued)****E. Other Post-Employment Benefit Plan (continued)****5. Actuarial methods and other inputs (continued)**

The long-term expected rate of return on OPEB 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 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. Best estimates of geometric means real rates of return for each major asset class included in the OPEB plan's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Short duration fixed income	0.60%
U.S. core fixed income	1.65%
U.S. large cap	5.55%
U.S. small cap	6.00%
Emerging markets equity	6.50%
International developed equity	5.55%
REITs	4.40%

**6. Discount rate**

The discount rate used to measure the total OPEB liability was 4.38% for the OPEB plan. 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 Borough contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

## Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

## III. Other information (Continued)

## E. Other Post-Employment Benefit Plan (continued)

## 7. Changes in the net OPEB liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at July 1, 2016	\$ 219,030,458	\$ 7,301,179	211,729,279
Service cost	5,908,859	-	5,908,859
Interest	7,482,937	-	7,482,937
Differences between expected and actual experience	468,243	-	468,243
Changes in assumptions	(32,399,364)	-	(32,399,364)
Contributions - employer	-	7,585,727	(7,585,727)
Contributions - member	-	-	-
Net investment income	-	698,742	(698,742)
Benefit payments, including refunds of member contributions	(7,160,727)	(7,160,727)	-
Net change	(25,700,052)	1,123,742	(26,823,794)
Balance at June 30, 2017	\$ 193,330,406	\$ 8,424,921	\$ 184,905,485

## 8. Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.38%) or 1-percentage-point higher (5.38%) than the current discount rate:

Net OPEB Liability	1% Decrease 3.38%	Discount Rate 4.38%	1% Increase 5.38%
Borough Employees' OPEB Plan	\$ 217,312,698	\$ 184,905,485	\$ 159,102,883

## 9. Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate.

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current trend rates:

Net OPEB Liability	1% Decrease	Current Trend Rate	1% Increase
Borough Employees' OPEB Plan	\$ 156,235,011	\$ 184,905,485	\$ 221,585,718

Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

III. Other information (Continued)

E. Other Post-Employment Benefit Plan (continued)

10. OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the fiscal year the Borough recognized OPEB expense of \$9,132,039. The Borough reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 412,500	\$ -
Changes in assumptions	-	(28,542,297)
Net difference between projected and actual earnings on OPEB plan investments	-	(382,689)
Total	<u>\$ 412,500</u>	<u>\$ (28,924,986)</u>
Net amount of deferred inflows and outflows		<u>\$ (28,512,486)</u>

Actual investment earnings below (or above) projected earnings are amortized over 5 years.

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

Year Ending June 30,	
2018	\$ (3,896,996)
2019	(3,896,996)
2020	(3,896,996)
2021	(3,896,996)
2022	(3,801,324)
Thereafter	<u>(9,123,178)</u>
Total	<u>\$ (28,512,486)</u>

Borough of Naugatuck, Connecticut

Notes to Financial Statements  
For the Year Ended June 30, 2017

III. Other information (Continued)

F. Retiree health care defined contribution plan

The Town has a defined contribution healthcare plan covering police officers that was established in July 2004. The plan provides for retiree health care benefits through reimbursement of eligible medical care expenses, including the reimbursement of retiree healthcare premiums upon retirement from the Town. Participation in the plan is mandatory for all eligible police officers. The employee contribution is 2% of base pay with an equivalent Town match. Upon normal retirement, the participant's account balance shall be a minimum of \$32,000. If the account balance is less than \$32,000, the Town shall make contributions necessary to bring the account balance to \$32,000. Total Town and employee contributions year ended were \$79,681 and \$54,681, respectively.

G. Prior period adjustment

The government-wide net position was restated as follows:

Net position as previously reported at June 30, 2016	\$ 57,158,654
To remove OPEB obligation previously recorded	67,476,900
To record beginning net OPEB liability (NOL)	<u>(211,729,279)</u>
Net position as restated at July 1, 2016	<u>\$ (87,093,725)</u>

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**Required  
Supplementary  
Information**

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## Borough of Naugatuck, Connecticut

## Firemen's Pension Fund

Required Supplementary Information  
Last Four YearsSchedule of Changes in Net Pension Liability

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:				
Service cost	\$ 859,601	\$ 781,284	\$ 702,150	\$ 671,914
Interest	2,900,555	2,820,903	2,633,972	2,514,224
Differences between expected and actual experience	(154,462)	-	909,390	-
Changes in assumptions	1,234,487	1,049,215	1,220,757	-
Benefit payments, including refunds of member contributions	<u>(2,640,423)</u>	<u>(2,273,689)</u>	<u>(1,875,261)</u>	<u>(1,569,689)</u>
Net change in total pension liability	2,199,758	2,377,713	3,591,008	1,616,449
Total pension liability - July 1	<u>39,110,807</u>	<u>36,733,094</u>	<u>33,142,086</u>	<u>31,525,637</u>
Total pension liability - June 30 (a)	<u>\$ 41,310,565</u>	<u>\$ 39,110,807</u>	<u>\$ 36,733,094</u>	<u>\$ 33,142,086</u>
Plan fiduciary net position:				
Contributions - employer	\$ 1,036,600	\$ 1,024,100	\$ 988,400	\$ 1,065,039
Contributions - member	178,934	224,909	253,109	190,130
Net investment income (loss)	4,799,970	(980,071)	980,242	5,512,663
Benefit payments, including refunds of member contributions	(2,640,423)	(2,273,689)	(1,875,261)	(1,569,689)
Administration expenses	<u>(4,090)</u>	<u>(12,718)</u>	<u>(13,235)</u>	<u>(12,375)</u>
Net change in plan fiduciary net position	3,370,991	(2,017,469)	333,255	5,185,768
Plan fiduciary net position - July 1	<u>32,782,073</u>	<u>34,799,542</u>	<u>34,466,287</u>	<u>29,280,519</u>
Plan fiduciary net position - June 30 (b)	<u>\$ 36,153,064</u>	<u>\$ 32,782,073</u>	<u>\$ 34,799,542</u>	<u>\$ 34,466,287</u>
Net pension liability (asset) - June 30 (a)-(b)	<u>\$ 5,157,501</u>	<u>\$ 6,328,734</u>	<u>\$ 1,933,552</u>	<u>\$ (1,324,201)</u>

Note: These schedules are intended to present information for 10 years. Additional years will be presented as they become available.

## Borough of Naugatuck, Connecticut

## Employee's Pension Fund

Required Supplementary Information  
Last Four Years

## Schedule of Changes in Net Pension Liability

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:				
Service cost	\$ 2,426,816	\$ 2,204,399	\$ 2,201,496	\$ 2,127,000
Interest	9,911,060	9,654,950	9,158,335	8,834,440
Changes in benefit terms	-	-	2,267,177	-
Differences between expected and actual experience	-	-	2,451,313	-
Changes in assumptions	-	3,458,280	2,608,643	-
Benefit payments, including refunds of member contributions	<u>(8,589,383)</u>	<u>(8,198,938)</u>	<u>(7,929,977)</u>	<u>(7,109,921)</u>
Net change in total pension liability	3,748,493	7,118,691	10,756,987	3,851,519
Total pension liability - July 1	<u>133,517,267</u>	<u>126,398,576</u>	<u>115,641,589</u>	<u>111,790,070</u>
Total pension liability - June 30 (a)	<u>\$ 137,265,760</u>	<u>\$ 133,517,267</u>	<u>\$ 126,398,576</u>	<u>\$ 115,641,589</u>
Plan fiduciary net position:				
Contributions - employer	\$ 3,516,640	\$ 4,177,500	\$ 4,557,044	\$ 4,616,760
Contributions - member	663,530	680,554	672,250	646,463
Net investment income (loss)	14,079,745	(2,360,461)	2,721,009	15,323,438
Benefit payments, including refunds of member contributions	(8,589,383)	(8,198,938)	(7,929,977)	(7,190,247)
Administration expenses	<u>(44,775)</u>	<u>(40,035)</u>	<u>(40,939)</u>	<u>(53,218)</u>
Net change in plan fiduciary net position	9,625,757	(5,741,380)	(20,613)	13,343,196
Plan fiduciary net position - July 1	<u>94,246,825</u>	<u>99,988,205</u>	<u>100,008,818</u>	<u>86,665,622</u>
Plan fiduciary net position - June 30 (b)	<u>\$ 103,872,582</u>	<u>\$ 94,246,825</u>	<u>\$ 99,988,205</u>	<u>\$ 100,008,818</u>
Net pension liability (asset) - June 30 (a)-(b)	<u>\$ 33,393,178</u>	<u>\$ 39,270,442</u>	<u>\$ 26,410,371</u>	<u>\$ 15,632,771</u>

Note: These schedules are intended to present information for 10 years. Additional years will be presented as they become available.

## Borough of Naugatuck, Connecticut

## Firemen's Pension Fund

Required Supplementary Information  
Last Four YearsSchedule of Net Pension Liability

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 41,310,565	\$ 39,110,807	\$ 36,733,094	\$ 33,142,086
Plan fiduciary net position	<u>36,153,064</u>	<u>32,782,073</u>	<u>34,799,542</u>	<u>34,466,287</u>
Net pension liability (asset)	<u>\$ 5,157,501</u>	<u>\$ 6,328,734</u>	<u>\$ 1,933,552</u>	<u>\$ (1,324,201)</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>87.52%</u>	<u>83.82%</u>	<u>94.74%</u>	<u>104.00%</u>
Covered payroll	<u>\$ 2,288,320</u>	<u>\$ 3,635,130</u>	<u>\$ 3,478,593</u>	<u>\$ 3,544,134</u>
Net pension liability (asset) as a percentage of covered payroll	<u>225.38%</u>	<u>174.10%</u>	<u>55.58%</u>	<u>(37.36%)</u>

Schedule of Investment Returns

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	<u>14.81%</u>	<u>(2.83%)</u>	<u>2.86%</u>	<u>18.80%</u>

Note: These schedules are intended to present information for 10 years. Additional years will be presented as they become available.

## Borough of Naugatuck, Connecticut

## Employee's Pension Fund

Required Supplementary Information  
Last Four YearsSchedule of Net Pension Liability

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 137,265,760	\$ 133,517,267	\$ 126,398,576	\$ 115,641,589
Plan fiduciary net position	<u>103,872,582</u>	<u>94,246,825</u>	<u>99,988,205</u>	<u>100,008,818</u>
Net pension liability (asset)	<u>\$ 33,393,178</u>	<u>\$ 39,270,442</u>	<u>\$ 26,410,371</u>	<u>\$ 15,632,771</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>75.67%</u>	<u>70.59%</u>	<u>79.11%</u>	<u>86.48%</u>
Covered payroll	<u>\$ 18,137,256</u>	<u>\$ 17,439,670</u>	<u>\$ 16,768,913</u>	<u>\$ 18,579,111</u>
Net pension liability (asset) as a percentage of covered payroll	<u>184.11%</u>	<u>225.18%</u>	<u>157.50%</u>	<u>84.14%</u>

Schedule of Investment Returns

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	<u>14.02%</u>	<u>(2.38%)</u>	<u>2.74%</u>	<u>17.79%</u>

Note: These schedules are intended to present information for 10 years. Additional years will be presented as they become available.

## Borough of Naugatuck, Connecticut

## Firemen's Pension Fund

Required Supplementary Information  
Last Ten YearsSchedule of Contributions

<u>Fiscal Year</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Excess (Deficiency)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2017	\$ 922,351	\$ 1,036,600	\$ 114,249	\$ 2,288,320	45.30%
2016	1,016,600	1,024,100	7,500	3,635,130	28.17%
2015	925,647	988,400	62,753	3,478,593	28.41%
2014	968,400	1,065,039	96,639	3,544,134	30.05%
2013	875,900	785,600	(90,300)	3,391,516	23.16%
2012	655,600	738,220	82,620	3,245,470	22.75%
2011	565,951	855,900	289,949	N/A	N/A
2010	691,200	646,626	(44,574)	3,191,877	20.26%
2009	646,626	616,200	(30,426)	N/A	N/A
2008	616,200	546,442	(69,758)	3,111,067	17.56%

## Borough of Naugatuck, Connecticut

## Employee's Pension Fund

## Required Supplementary Information

## Last Ten Years

Schedule of Contributions

<u>Fiscal Year</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Excess (Deficiency)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2017	\$ 4,607,900	\$ 3,516,640	\$ (1,091,260)	\$ 18,137,256	19.39%
2016	4,524,800	4,177,500	(347,300)	17,439,670	23.95%
2015	4,304,743	4,557,044	252,301	16,768,913	27.18%
2014	4,094,700	4,616,760	522,060	18,579,111	24.85%
2013	3,936,044	4,477,275	541,231	17,779,053	25.18%
2012	3,424,600	3,503,091	78,491	17,013,448	20.59%
2011	3,009,841	3,100,136	90,295	N/A	N/A
2010	1,881,600	1,712,256	(169,344)	17,108,383	10.01%
2009	1,617,606	1,601,430	(16,176)	N/A	N/A
2008	1,556,200	1,665,134	108,934	18,758,499	8.88%



## Borough of Naugatuck, Connecticut

## Firemen's Pension Fund

**Notes to Required Supplementary Information**  
**Schedule of Contributions**  
**Last Four Years**

Changes of benefit terms	None
Changes of assumptions	<p><b>2017</b> - Discount rate was reduced from 7.50% to 7.25%</p> <p><b>2016</b> - Discount rate was reduced from 7.75% to 7.50%</p> <p><b>2015</b> - Discount rate was reduced from 8.00% to 7.75%</p> <p><b>2015</b> - Salary increase was reduced from 4.50% to 4.00%</p>
Method and assumptions used in calculations of actuarially determined contribution	The actuarially determined contribution rates in the schedule of contributions are calculated as of July 1, 2016, one year prior to the end of the fiscal year in which contributions are reported

The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level dollar
Asset Valuation Method	Fair value
Inflation	2.75%
Salary Increases	4.00%, average, including inflation
Investment Rate of Return	7.25%, net of pension plan investment expense, including inflation
Mortality Rates	RP-2000 Mortality Table with separate male and female rates, with Blue Collar adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale BB.

Note: These schedules are intended to present information for 10 years.  
Additional years will be presented as they become available.

Borough of Naugatuck, Connecticut

Employee's Pension Fund

Notes to Required Supplementary Information  
Schedule of Contributions  
Last Four Years

Changes of benefit terms	<b>2015</b> - Benefit calculation changed from last three years gross pay to highest three years gross pay. In addition, benefit formula changed to 70% times final average earnings (FAE) plus 1% for years in excess of 20 years.
Changes of assumptions	<b>2016</b> - Discount rate was reduced from 7.75% to 7.50% <b>2015</b> - Discount rate was reduced from 8.00% to 7.75% <b>2015</b> - Salary increase changed from 4.50% to 4.00% <b>2015</b> Mortality table change from no collar to blue collar adjustment
Method and assumptions used in calculations of actuarially determined contribution	The actuarially determined contribution rates in the schedule of contributions are calculated as of July 1, 2015, two years prior to the end of the fiscal year in which contributions are reported

The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level dollar
Asset Valuation Method	Fair value
Inflation	3.00%
Salary Increases	4.0%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation
Mortality Rates	RP-2000 Mortality Table with separate male and female rates, with no collar adjustment, combined table for non-annuitants and annuitants, projected to the valuation date with Scale AA.

Note: These schedules are intended to present information for 10 years.  
Additional years will be presented as they become available.

**Borough of Naugatuck, Connecticut**  
**Connecticut State Teachers' Retirement System**  
**Required Supplementary Information**  
**Last Three Years**

**Schedule of Proportionate Share of the Net Pension Liability**

	2017	2016	2015
Borough's proportion of the net pension liability	0.00%	0.00%	0.00%
Borough's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State of Connecticut's proportionate share of the net pension liability associated with Borough	93,598,763	80,183,428	74,113,510
Total	\$ 93,598,763	\$ 80,183,428	\$ 74,113,510
Borough's covered payroll (2)	N/A	N/A	N/A
Borough's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	65.70%	59.50%	61.51%

**Schedule of Contributions**

	2017	2016	2015
Contractually required contribution (1)	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Borough's covered payroll (2)	N/A	N/A	N/A
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%

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

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

Note: These schedules are intended to present information for 10 years. Additional years will be presented as they become available.

## Borough of Naugatuck, Connecticut

## State Teachers' Retirement System

Notes to Required Supplementary Information  
Last Three Years

Changes of benefit terms	None
Changes of assumptions	<b>2016:</b> 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 proratable 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

Note: These schedules are intended to present information for 10 years.  
Additional years will be presented as they become available.

**Borough of Naugatuck, Connecticut**  
**Other Post-Employment Benefit (OPEB) Plan**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2017**

**Schedule of Changes in Net OPEB Liability**

Total OPEB liability:	
Service cost	\$ 5,908,859
Interest	7,482,937
Differences between expected and actual experience	468,243
Changes of assumptions	(32,399,364)
Benefit payments, including refunds of member contributions	<u>(7,160,727)</u>
Net Change in total OPEB liability	(25,700,052)
Total OPEB liability - July 1	<u>219,030,458</u>
Total OPEB liability - June 30 (a)	<u>\$ 193,330,406</u>
Plan fiduciary net position:	
Contributions - employer	\$ 7,585,727
Net investment income	698,742
Benefit payments, including refunds of member contributions	<u>(7,160,727)</u>
Net change in plan fiduciary net position	1,123,742
Plan fiduciary net position - July 1	<u>7,301,179</u>
Plan fiduciary net position - June 30 (b)	<u>\$ 8,424,921</u>
Net OPEB liability - June 30 (a)-(b)	<u><u>\$ 184,905,485</u></u>

Note: These schedules are intended to present information for 10 years.  
Additional years will be presented as they become available.

## Borough of Naugatuck, Connecticut

## Other Post-Employment Benefit (OPEB) Plan

Required Supplementary Information  
As of and For the Year Ended June 30, 2017

Schedule of Net OPEB Liability

Total OPEB liability	\$ 193,330,406
Plan fiduciary net position	<u>(8,424,921)</u>
Net OPEB liability	<u>\$ 184,905,485</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>4.36%</u>
Covered payroll	<u>\$ 47,873,280</u>
Net OPEB liability as a percentage of covered payroll	<u>386.24%</u>

Schedule of Investment Returns

Annual money weighted rate of return, net of investment expense	<u>6.21%</u>
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Note: These schedules are intended to present information for 10 years.  
Additional years will be presented as they become available.

**Borough of Naugatuck, Connecticut**  
**Other Post-Employment Benefit (OPEB) Plan**  
**Required Supplementary Information**  
**Last Nine Years**

**Schedule of Employer Contributions**

Fiscal year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution excess (deficiency)	Covered payroll	Contributions as a percentage of covered payroll
2017	\$ 13,498,000	\$ 7,585,727	\$ (5,912,273)	\$ 47,873,280	16%
2016	13,287,000	8,471,200	(4,815,800)	54,406,000	16%
2015	14,636,200	6,227,100	(8,409,100)	53,905,000	12%
2014	14,372,300	5,080,300	(9,292,000)	52,127,000	10%
2013	14,507,500	5,872,200	(8,635,300)	52,815,200	11%
2012	14,238,500	6,099,700	(8,138,800)	49,972,600	12%
2011	15,118,900	3,798,200	(11,320,700)	N/A	N/A
2010	14,858,100	5,139,200	(9,718,900)	N/A	N/A
2009	15,969,900	5,642,200	(10,327,700)	N/A	N/A

N/A - Not available

Note: These schedules are intended to present information for 10 years.  
 Additional years will be presented as they become available.

## Borough of Naugatuck, Connecticut

## Other Post-Employment Benefit (OPEB) Plan

Notes to Required Supplementary Information  
Schedule of Contributions  
Last Five Years

Changes of benefit terms	None
Changes of assumptions	<p><b>2013:</b> The Board of Education will only provide a high deductible plan with a health savings account</p> <p><b>2016:</b> Assumptions changed for Interest, Mortality, Retirement, Withdrawal, Disability, Inflation, Compensation, Medical Trend Rates and Morbidity.</p>
Method and assumptions used in calculations of actuarially determined contribution	The actuarially determined contribution rates in the schedule of contributions are calculated as of July 1, 2016, one year prior to the end of the fiscal year in which contributions are reported

The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent
Amortization Period	30 years, open
Asset Valuation Method	Fair value
Investment Rate of Return	4.38%
Healthcare Inflation rate - Initial	7.75%, reducing by 0.5% for each year to a final of 4.75% for 2020 and later. Dental 4.75%.
Healthcare and dental Inflation rate - Ultimate	4.75%
Rate of Compensation	3.75%
Inflation rate	2.75%

Note: These schedules are intended to present information for 10 years. Additional years will be presented as they become available.