



February 4, 2020

MEMORANDUM TO PROSPECTIVE BIDDERS

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

**Dated: February 20, 2020 Date of Sale: Tuesday, February 11, 2020
Due: August 20, 2020 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 11, 2020. 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 11, 2020.**

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, 2018. 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

Date of Sale:	Tuesday, February 11, 2020 at 11:30 A.M. (Eastern Time).
Location of Sale:	Telephone Sale: (203) 283-1110
Issuer:	Borough of Naugatuck, Connecticut (the "Borough").
Issue:	\$5,455,000 General Obligation Bond Anticipation Notes (the "Notes").
Dated Date:	February 20, 2020
Principal and Interest Due:	At maturity on August 20, 2020
Purpose:	The Notes are being issued to finance renovations to Naugatuck High School.
Denominations:	\$100,000, or integral multiples in excess thereof of \$1,000.
Redemption:	The Notes are not subject to redemption prior to maturity.
Security:	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.
Credit Rating:	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.
Basis of Award:	Lowest Net Interest Cost (NIC), as of dated date.
Form of Legal Opinion and Tax Exemption:	See Opinion of Bond Counsel.
Bank Qualification:	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.
Registrar, Transfer Agent, Certifying Agent and Paying Agent:	U.S Bank National Association of Hartford, Connecticut, Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, Connecticut 06103.
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. See "Option for No Book Entry" in Notice of Sale.
Municipal Advisor:	Phoenix Advisors, LLC of Milford, Connecticut will act as Municipal Advisor. Barry Bernabe, Managing Director, Telephone: (203) 283-1110.
Legal Opinion:	Pullman & Comley, LLC of Hartford, Connecticut will act as Bond Counsel.
Delivery and Payment:	Except if the winning bidder requests no book entry, 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 20, 2020. Delivery of the Notes will be made against payment in immediately available Federal Funds.
Issuer Official:	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 20, 2020: Due August 20, 2020**

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 11, 2020

(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 20, 2020 and will be payable to the registered owners at maturity on August 20, 2020. They will be issued in minimum denominations of \$100,000 or integral multiples in excess thereof of \$1,000. 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 on behalf of the Borough by Phoenix Advisors, LLC, the Borough's municipal 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 11, 2020.

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 shall be deemed 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 20, 2020 against payment in immediately available federal funds, except in the case that the option for no book entry is selected by the underwriter. 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 \$1,000, 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, Phoenix Advisors, LLC, 53 River Street, Suite 1, Milford, CT 06460 (203) 283-1110.

N. Warren Hess, III
Mayor

Judith E. Anderson
Treasurer

February 4, 2020

February 20, 2020

Borough of Naugatuck
229 Church Street
Naugatuck, CT 06770

Re: Borough of Naugatuck, Connecticut
\$5,455,000 General Obligation Bond Anticipation Notes
Dated February 20, 2020; Due August 20, 2020

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 20, 2020 (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 20, 2020 (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 calculating the federal alternative minimum tax. 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 is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. 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, 2018

Independent Auditors' Report

Board 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, 2018, 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.

**Board 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparisons and the pension and other post-employment benefit plan schedules on pages 6 through 14 and pages 76 through 96, 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.

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

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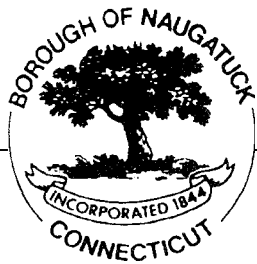
The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2019, on our consideration of the Borough'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's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Wethersfield, Connecticut
March 29, 2019



**Management's Discussion and Analysis
For the Year Ended June 30, 2018**

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, 2018.

Financial Highlights

- 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 \$85,632,550 (*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 \$(258,687,232).
- The Borough's total net position increased by \$1,901,767. The increase is due substantially to increases in capital grants and contributions and charges for services offset by decreases in taxes and operating grants and contributions from prior years and decreases in pension and OPEB expense, offset by increases in net capital asset and debt related activity due to accounting basis changes.
- As of the close of the current fiscal year, the Borough's governmental funds reported combined ending fund balances of \$17,707,946, a decrease of \$6,104,191 in comparison with the prior year. This decrease is primarily attributable to the negative operations of the Capital Nonrecurring Fund which resulted in a decrease in fund balance of \$5,717,919 due to the current year expenditures for Maple Street Bridge renovations and other road projects funded in previous years. Additionally there was a decrease in fund balance in the NHS Reconstruction and Renovation Fund of \$710,321 as well as decreases in the Town Aid Road and Education Grants funds of \$1,041,308 and \$611,110, respectively. These decreases were offset by the positive operations of the General Fund of \$2,470,614 due mostly to spending savings in public works of \$493,733 and employee benefits and contingency of \$1,243,457.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$12,043,464, an increase of \$765,369 in comparison with the prior year. The increase is due to the positive General Fund operations of \$2,470,614 and the decrease in the amount appropriated to balance the budget from 2018 compared to 2019 of \$1,957,087. The unassigned fund balance represents 10.24% 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, liabilities and deferred outflows/inflows of resources 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 of resources, liabilities and deferred inflows of resources, with the difference between these accounts being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the *financial* 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)

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 other governmental funds is provided in the form of combining statements in Schedules 2 and 3 in this report.

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 F, G and H 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 I and J). 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.

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.

Other information. The combining statements referred to earlier in connection with other governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found in Schedules 2 through 6 of this report.

Management's Discussion and Analysis (continued)

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Borough's financial position. The Borough's net position increased from a year ago by \$1,901,767 to \$(85,632,550).

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 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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 43,518,307	\$ 51,202,237
Capital assets (net)	<u>230,258,756</u>	<u>221,759,552</u>
Total assets	<u>273,777,063</u>	<u>272,961,789</u>
Deferred outflows of resources	<u>9,306,012</u>	<u>10,907,856</u>
Current liabilities outstanding	18,798,887	16,782,836
Long-term liabilities outstanding	<u>310,076,811</u>	<u>323,000,981</u>
Total liabilities	<u>328,875,698</u>	<u>339,783,817</u>
Deferred inflows of resources	<u>39,839,927</u>	<u>31,620,145</u>
Net position:		
Net investment in capital assets	170,382,476	157,235,319
Restricted	2,672,206	3,419,094
Unrestricted	<u>(258,687,232)</u>	<u>(248,188,730)</u>
Total net position	<u>\$ (85,632,550)</u>	<u>\$ (87,534,317)</u>

Governmental activities. The Borough's net position increased by \$1,901,767 from operations as detailed below:

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

	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 10,266,483	\$ 8,877,692
Operating grants and contributions	50,424,172	52,250,364
Capital grants and contributions	6,003,178	1,763,682
General revenues:		
Property taxes	74,995,756	78,289,678
Grants and contributions not restricted to specific programs	1,270,987	1,019,022
Income from investments	193,766	111,445
Other	<u>285,232</u>	<u>155,489</u>
Total revenues	<u>143,439,574</u>	<u>142,467,372</u>
Expenses:		
General government	9,684,934	10,612,592
Public safety	23,723,836	24,654,616
Public works	16,576,629	12,748,803
Health and welfare	3,504,500	3,636,227
Education	86,599,042	87,088,961
Interest expense	<u>1,448,866</u>	<u>4,166,765</u>
Total expenses	<u>141,537,807</u>	<u>142,907,964</u>
Change in net position	1,901,767	(440,592)
Net position - July 1	<u>(87,534,317)</u>	<u>(87,093,725)</u>
Net position - June 30	<u><u>\$ (85,632,550)</u></u>	<u><u>\$ (87,534,317)</u></u>

Management's Discussion and Analysis (continued)

Key elements of this increase are as follows:

- The \$1,826,192 decrease in operating grants and contributions was due to reductions in the motor vehicle property tax grant of \$1,965,531 by the State.
- The decrease in taxes of \$3,293,922 was primarily due to \$3,254,267 of suspense transfers approved during the year. This reduced the amount of taxes, interest and liens receivable outstanding. In addition the allowance for doubtful accounts was adjusted to reflect the reduced receivable balances. The decrease was offset by the increase in the tax levy required to fund the general fund budget.
- Capital grants and contributions increased by \$4,239,496 primarily due to receipt of the Highway Planning and Construction grant of \$3,724,677 for the Maple Street Bridge Renovation project.
- Charges for services increased by \$1,388,791 substantially due to an increase of \$1,500,000 in Veolia rent.
- The \$930,780 decrease in public safety expense was mainly due to decreases in pension and OPEB expense of \$465,675 as well as employee benefits \$257,083.
- The \$3,827,826 increase in public works expense is primarily due to \$2,378,570 in increases in the WPCA department operations. This increase was a result of expanded operations post renovations on the sewer facility.

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 \$17,707,946. Fund balance has been classified as 1) nonspendable \$768,732 for the education endowment and small cities loans, 2) restricted \$1,903,474 3) committed \$12,002,814, 4) assigned \$4,868,694 and unassigned deficit of (\$1,835,768).

The total fund balance decreased by \$6,104,191 to \$17,707,946. This decrease is a result of the following:

General Fund. The general fund is the operating fund of the Borough. The fund balance of the Borough's general fund increased by \$2,470,614 due to increases in tax revenue of \$2,880,125 and spending savings of \$2,776,500 which offset the shortfall of \$2,354,740 in intergovernmental revenue and \$1,399,564 appropriated to balance the 2018 budget.

At the end of the current fiscal year, unassigned fund balance of the general fund was \$12,043,464. 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 10.24% of total general fund budgetary expenditures and transfers out.

Management's Discussion and Analysis (continued)

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 \$(710,321) as a net result of the final construction costs. The fund ended the year with a deficit of \$13,828,143 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 decrease in fund balance of \$5,717,919 is due to the current year expenditures related to Maple Street Bridge renovation and other road projects funded in previous years. The fund balance at fiscal year end was \$11,978,106, 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:

- \$480,555 from the public works department to various other departments and transfers to the capital nonrecurring fund for increased expenditures for maintenance, equipment and overtime.

Significant revenues variance from the budget were as follows:

- Property taxes were in excess of the amount budgeted by \$2,880,125 due to an increase in the collection rate.
- Intergovernmental revenues were less than budgeted by \$2,254,740 to State grant reductions after the budget was adopted

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

- General Government was underspent by \$394,091 primarily due to lower than expected contract settlements of \$227,368.
- Public works was under spent by \$493,733 due to lower than expected maintenance and sewer costs for the WPCA department.
- Pension was underspent by \$477,887 due to lower anticipated actuarially determined contributions. The Borough's actual contributions did exceed the actuarially determined contribution.
- Contingency was underspent by \$600,000 as there were no budget transfers for overages necessary during the year.

Capital Assets and Debt Administration

Capital assets. The Borough of Naugatuck's capital assets totaled \$230,258,756, net of accumulated depreciation. This includes land, buildings and improvements, land improvements, machinery and equipment, infrastructure and construction in progress. The net increase in the Borough's capital assets for the current fiscal year was \$8,499,204 or 3.83%. This increase is largely due to an increase in construction in progress of \$12,511,435 for sewer incinerator upgrades, Maple Street Bridge reconstruction project, and various infrastructure projects, net with current year depreciation expense.

Management's Discussion and Analysis (continued)

Other significant transactions were as follows:

- Infrastructure (road) improvements totaling \$2,819,738.
- Purchase of police vehicles of \$140,701.
- Purchase of several new public works vehicles and equipment for \$542,851.
- Disposal of police and other vehicles comprising the majority of the machinery and equipment deletions totaling \$150,438.
- Disposal of 15 Woodcrest Drive parcels B & C, land totaling \$16,580.

Capital Assets (Net of Accumulated Depreciation)

	<u>2018</u>	<u>2017</u>
Land	\$ 14,400,464	\$ 13,924,009
Construction in progress	21,534,502	87,668,618
Buildings and improvements	117,285,189	41,484,335
Land improvements	738,963	819,041
Machinery and equipment	4,995,096	5,230,245
Infrastructure	<u>71,304,542</u>	<u>72,633,304</u>
Total	<u>\$ 230,258,756</u>	<u>\$ 221,759,552</u>

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 \$87,583,630. The decrease of \$6,349,593 from prior year is due to scheduled debt payments. All debt is backed by the full faith and credit of the Borough.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 7 times prior year 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.

Management's Discussion and Analysis (continued)

Long-term debt (continued)

	Outstanding Debt Long-Term Obligations	
	2018	2017
General purpose bonds	\$ 11,185,750	\$12,354,500
General purpose bonds (taxable)	2,515,000	2,755,000
School bonds	25,119,250	26,505,500
Sewer bonds	6,500,000	6,500,000
Sewer bonds (taxable)	1,575,000	2,000,000
Pension bonds (taxable)	34,100,000	35,530,000
Notes payable	233,630	303,223
Certificates of participation (taxable)	765,000	960,000
Certificates of participation	5,590,000	7,025,000
Total	<u>\$ 87,583,630</u>	<u>\$93,933,223</u>

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Borough is currently 5.0%, which is 0.7% lower than fiscal year 2017. This is higher than the state's average unemployment rate of 4.5%.
- 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 2019 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 2019 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.

Basic Financial Statements

Borough of Naugatuck, Connecticut

Statement of Net Position
Governmental Activities
June 30, 2018

Assets

Current assets:	
Cash	\$ 15,826,307
Investments	17,034,991
Receivables (net):	
Property taxes	3,520,806
Intergovernmental	806,301
Assessments	15,342
Loans	43,920
Other	1,000,881
Other assets	50,068
	<hr/>
Total current assets	38,298,616
	<hr/>
Noncurrent assets:	
Restricted assets:	
Temporarily restricted:	
Cash	182,731
Investments	61,787
Permanently restricted:	
Investments	1,000
	<hr/>
Total restricted assets	245,518
	<hr/>
Receivables (net):	
Property taxes	4,105,886
Loans	708,287
Other	160,000
	<hr/>
Total receivables (net)	4,974,173
	<hr/>
Capital assets (net of accumulated depreciation):	
Land	14,400,464
Construction in progress	21,534,502
Buildings and improvements	117,285,189
Land improvements	738,963
Machinery and equipment	4,995,096
Infrastructure	71,304,542
	<hr/>
Total capital assets (net of accumulated depreciation)	230,258,756
	<hr/>
Total noncurrent assets	235,478,447
	<hr/>
Total assets	273,777,063
	<hr/>

Deferred Outflows of Resources

Pension related	8,938,838
OPEB related	367,174
	<hr/>
Total deferred outflows of resources	9,306,012
	<hr/>

(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, 2018

Liabilities

Liabilities:

Current liabilities:

Cash overdraft	\$ 144,958
Accounts payable	6,134,415
Accrued payroll	738,975
Accrued interest payable	385,190
Unearned revenue	1,159,535
Performance bonds	125,565
Other liabilities	426,749
Bonds and notes payable	4,588,933
Certificates of participation	1,705,000
Capital leases payable	1,877,205
Compensated absences	628,952
Claims payable	883,410
	<hr/>

Total current liabilities	<hr/> 18,798,887
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Noncurrent liabilities:

Bonds, notes and related liabilities	77,546,765
Certificates of participation	4,650,000
Capital leases payable	6,800,692
Net pension liability	33,659,222
Net OPEB liability	184,548,947
Compensated absences	2,515,809
Claims payable	355,376
	<hr/>

Total noncurrent liabilities	<hr/> 310,076,811
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Total liabilities	<hr/> 328,875,698
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Deferred Inflows of Resources

Advance property tax collections	1,509,988
Deferred charge on refunding	897,685
Pension related	7,269,378
OPEB related	30,162,876
	<hr/>

Total deferred inflows of resources	<hr/> 39,839,927
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Net Position

Net investment in capital assets	170,382,476
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Restricted for:

Endowments:

Nonexpendable	1,000
Expendable	118,953

Public works	378,505
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Public safety	193,253
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Health and wellness	62,313
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Community development programs	790,656
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Education	1,127,526
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Unrestricted	(258,687,232)
	<hr/>

Total net position	<hr/> \$ (85,632,550)
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The notes to the financial statements are an integral part of this statement.

(Concluded)

Borough of Naugatuck, Connecticut

Statement of Activities
Governmental Activities
For The Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 9,684,934	\$ 358,492	\$ 1,022,172	\$ -	\$ (8,304,270)
Public safety	23,723,836	1,238,688	112,925	-	(22,372,223)
Public works	16,576,629	6,692,546	-	6,003,178	(3,880,905)
Health and welfare	3,504,500	719,524	49,988	-	(2,734,988)
Education	86,599,042	1,257,233	49,239,087	-	(36,102,722)
Interest expense	1,448,866	-	-	-	(1,448,866)
Total	\$ 141,537,807	\$ 10,266,483	\$ 50,424,172	\$ 6,003,178	(74,843,974)
General revenues:					
Property taxes					74,995,756
Grants and contributions not restricted to specific programs					1,270,987
Income from investments					193,766
Other					285,232
Total general revenues					76,745,741
Change in net position					1,901,767
Net position - July 1, 2017					(87,534,317)
Net position - June 30, 2018					\$ (85,632,550)

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

Borough of Naugatuck, Connecticut

Balance Sheet
Governmental Funds
June 30, 2018

	General	NHS Reconstruction and Renovation	Capital Nonrecurring Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash	\$ 8,280,806	\$ 415,426	\$ 3,074,628	\$ 3,309,022	\$ 15,079,882
Restricted cash	125,565	-	-	57,166	182,731
Investments	11,968,571	-	285,917	1,288,801	13,543,289
Receivables:					
Property taxes	9,265,599	-	-	-	9,265,599
Intergovernmental	42,907	-	216,599	546,795	806,301
Assessments	15,342	-	-	-	15,342
Loans	-	-	-	767,732	767,732
Other	924,737	-	228	95,916	1,020,881
Due from other funds	15,084,983	-	11,195,595	1,492,737	27,773,315
Other	-	-	-	50,068	50,068
Total assets	<u>\$ 45,708,510</u>	<u>\$ 415,426</u>	<u>\$ 14,772,967</u>	<u>\$ 7,608,237</u>	<u>\$ 68,505,140</u>
<u>Liabilities</u>					
Cash overdraft	\$ -	\$ -	\$ -	\$ 144,958	\$ 144,958
Accounts payable	1,714,491	19,312	2,794,861	846,548	5,375,212
Accrued payroll and related liabilities	552,215	-	-	186,760	738,975
Due to other funds	16,950,288	14,224,257	-	860,726	32,035,271
Unearned revenue	-	-	-	1,159,535	1,159,535
Performance bonds	125,565	-	-	-	125,565
Other liabilities	426,749	-	-	-	426,749
Total liabilities	<u>19,769,308</u>	<u>14,243,569</u>	<u>2,794,861</u>	<u>3,198,527</u>	<u>40,006,265</u>
<u>Deferred Inflows of Resources</u>					
Unavailable revenue:					
Property taxes	9,265,599	-	-	-	9,265,599
Advance property tax collections	1,509,988	-	-	-	1,509,988
Sewer assessments	15,342	-	-	-	15,342
Total deferred inflows of resources	<u>10,790,929</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,790,929</u>
<u>Fund Balances</u>					
Nonspendable	-	-	-	768,732	768,732
Restricted	-	-	-	1,903,474	1,903,474
Committed	-	-	11,978,106	24,708	12,002,814
Assigned	3,104,809	-	-	1,763,885	4,868,694
Unassigned	12,043,464	(13,828,143)	-	(51,089)	(1,835,768)
Total fund balances	<u>15,148,273</u>	<u>(13,828,143)</u>	<u>11,978,106</u>	<u>4,409,710</u>	<u>17,707,946</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 45,708,510</u>	<u>\$ 415,426</u>	<u>\$ 14,772,967</u>	<u>\$ 7,608,237</u>	<u>\$ 68,505,140</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, 2018**

Amounts reported 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 of 2)	\$ 17,707,946
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Beginning capital assets	221,759,552
Current year additions (net of construction in progress)	16,712,206
Current year additions (donations)	
Depreciation expense	(8,196,422)
Disposal of assets	(16,580)

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

Property tax interest and lien accrual	5,661,093
Allowance for doubtful accounts	(7,315,525)
Other long-term receivable	140,000
Deferred outflows related to pensions	8,938,838
Deferred outflows related to OPEB	367,174

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	9,280,941
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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 the statement of net position	6,564,881
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Some liabilities and deferred inflows of resources, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds and notes payable	(81,228,630)
Premium	(907,068)
Certificates of participation	(6,355,000)
Capital leases	(8,677,897)
Compensated absences	(3,144,761)
Net pension liability	(33,659,222)
Net OPEB liability	(184,548,947)
Accrued interest payable	(385,190)
Deferred charge on refunding	(897,685)
Deferred inflows related to pensions	(7,269,378)
Deferred inflows related to OPEB	(30,162,876)

Net position (Exhibit A)	<u>\$ (85,632,550)</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, 2018

	General	NHS Reconstruction and Renovation	Capital Nonrecurring Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 79,236,973	\$ -	\$ -	\$ -	\$ 79,236,973
Intergovernmental	43,224,128	-	5,581,013	8,893,196	57,698,337
Charges for services	7,020,629	-	237,157	3,008,772	10,266,558
Income from investments	140,686	4,262	31,221	17,597	193,766
Other	259,932	-	25,300	-	285,232
Total revenues	<u>129,882,348</u>	<u>4,262</u>	<u>5,874,691</u>	<u>11,919,565</u>	<u>147,680,866</u>
Expenditures:					
Current:					
General government	3,185,289	-	-	-	3,185,289
Public safety	11,590,953	-	-	1,356,407	12,947,360
Public works	11,755,954	-	-	1,800,429	13,556,383
Health and welfare	1,391,596	-	-	122,715	1,514,311
Nondepartmental	16,914,299	-	-	-	16,914,299
Education	72,819,498	-	-	10,397,503	83,217,001
Debt service	9,629,680	-	1,660	313,415	9,944,755
Capital outlay	-	714,583	15,128,757	-	15,843,340
Total expenditures	<u>127,287,269</u>	<u>714,583</u>	<u>15,130,417</u>	<u>13,990,469</u>	<u>157,122,738</u>
Excess (deficiency) of revenues over expenditures	<u>2,595,079</u>	<u>(710,321)</u>	<u>(9,255,726)</u>	<u>(2,070,904)</u>	<u>(9,441,872)</u>
Other financing sources (uses):					
Proceeds from insurance	-	-	390,223	-	390,223
Capital leases	-	-	1,728,695	-	1,728,695
Sale of capital assets	243,186	-	-	-	243,186
Transfers in	1,325,101	-	1,692,752	-	3,017,853
Transfers out	(1,692,752)	-	(273,863)	(75,661)	(2,042,276)
Net other financing sources (uses)	<u>(124,465)</u>	<u>-</u>	<u>3,537,807</u>	<u>(75,661)</u>	<u>3,337,681</u>
Net change in fund balances	2,470,614	(710,321)	(5,717,919)	(2,146,565)	(6,104,191)
Fund balances - July 1, 2017	<u>12,677,659</u>	<u>(13,117,822)</u>	<u>17,696,025</u>	<u>6,556,275</u>	<u>23,812,137</u>
Fund balances - June 30, 2018	<u>\$ 15,148,273</u>	<u>\$ (13,828,143)</u>	<u>\$ 11,978,106</u>	<u>\$ 4,409,710</u>	<u>\$ 17,707,946</u>

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, 2018**

Amounts reported in the statement of activities (Exhibit B) are different due to:

Net change in fund balances - total governmental funds (Exhibit D) \$ (6,104,191)

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	16,712,206
Depreciation expense	(8,196,422)
Total	8,515,784

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	(16,580)
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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	(4,369,839)
Change in property tax interest and lien revenue	(3,103,972)
Change in allowance for doubtful accounts	3,232,519
Total	(4,241,292)

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:	
Capital lease	(1,728,695)
Principal repayments:	
General obligation bonds	4,650,000
Notes payable	69,593
Certificates of participation	1,630,000
Capital lease	1,912,156
Total	6,533,054

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

Compensated absences	\$ 1,041,408
Pension liability	4,891,457
OPEB liability	356,538
Accrued interest payable	24,241
Amortization of deferred charges	155,398
Amortization of bond premium	54,501
Amortization of deferred outflows of resources	(1,601,844)
Amortization of deferred inflows of resources	(8,401,075)
Total	(3,479,376)

Internal Service Funds are used by management to charge costs of dental insurance and workers' compensation to individual departments

694,368

Change in net position (Exhibit B)	\$ 1,901,767
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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, 2018

	<u>Internal Service Funds</u>
<u>Assets</u>	
Cash	\$ 746,425
Investments	3,554,489
Due from other funds	<u>3,570,152</u>
Total assets	<u>7,871,066</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	67,399
Claims payable	<u>883,410</u>
Total current liabilities	950,809
Noncurrent liability:	
Claims payable	<u>355,376</u>
Total liabilities	<u>1,306,185</u>
<u>Net Position</u>	
Unrestricted	<u><u>\$ 6,564,881</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 Net Position
Proprietary Funds
For The Year Ended June 30, 2018

	<u>Internal Service Funds</u>
Operating revenues:	
Charges for services	<u>\$ 4,191,911</u>
Operating expenses:	
Claims	2,457,280
Administration	<u>64,686</u>
Total operating expenses	<u>2,521,966</u>
Operating income (loss) before transfers in and out	1,669,945
Transfers out	<u>(975,577)</u>
Change in net position	694,368
Total net position - July 1, 2017	<u>5,870,513</u>
Total net position - June 30, 2018	<u><u>\$ 6,564,881</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, 2018

	<u>Internal Service Funds</u>
Cash flows from operating activities:	
Cash received for charges for services	\$ 4,715,942
Cash paid for benefits and claims	(2,669,962)
Cash paid for administration	(64,686)
	<u>1,981,294</u>
Net cash provided by (used in) operating activities	<u>1,981,294</u>
Cash flows from investing activities:	
Purchase of investments	(1,001,024)
Cash flows from noncapital and related financing activities:	
Transfers out to other funds	<u>(975,577)</u>
Net increase (decrease) in cash	4,693
Cash - July 1, 2017	<u>741,732</u>
Cash - June 30, 2018	<u><u>\$ 746,425</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ 1,669,945
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
(Increase) decrease in:	
Due from other funds	524,513
Increase (decrease) in:	
Accounts payable	(482)
Claims payable	(212,682)
	<u>(212,682)</u>
Net cash provided by (used in) operating activities	<u><u>\$ 1,981,294</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, 2018

	Pension and OPEB Trust Funds	Private- Purpose Trust Fund	Custodial Funds
<u>Assets</u>			
Cash	\$ -	\$ -	\$ 404,012
Investments:			
Certificates of deposit	-	59,475	-
Mutual funds:			
Equity	107,329,516	-	-
Bonds	46,175,669	-	-
Money market	1,321,541	-	-
Total investments	154,826,726	59,475	-
Due from other funds	691,804	-	-
Total assets	155,518,530	59,475	404,012
<u>Net Position</u>			
Restricted for:			
Pension benefits	146,379,784	-	-
OPEB benefits	9,138,746	-	-
Individuals and events	-	59,475	404,012
Total net position	\$ 155,518,530	\$ 59,475	\$ 404,012

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, 2018

	Pension and OPEB Trust Funds	Private- Purpose Trust Fund	Custodial Funds
Additions:			
Contributions:			
Employer	\$ 13,458,520	\$ -	\$ -
Plan members	852,788	-	-
Private	-	1,423	-
Charges for services	-	-	776,462
Total	14,311,308	1,423	776,462
Investment income (loss):			
Net change in fair value of investments	9,252,861	-	-
Interest and dividends	2,899,489	4	-
Total investment income (loss)	12,152,350	4	-
Less investment expenses	113,084	-	-
Net investment income (loss)	12,039,266	-	-
Total additions	26,350,574	1,427	776,462
Deductions:			
Benefits	19,201,870	-	-
Administration	80,741	-	-
Scholarships	-	2,010	-
Activities and events	-	-	780,007
Total deductions	19,282,611	2,010	780,007
Changes in net position	7,067,963	(583)	(3,545)
Net position - July 1, 2017 (as restated)	148,450,567	60,058	407,557
Net position - June 30, 2018	\$ 155,518,530	\$ 59,475	\$ 404,012

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, 2018**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 Board of Finance 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, 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. 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, 2018

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 *Custodial Funds* account for monies held on behalf of students.

Borough of Naugatuck, Connecticut

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

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.

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

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

1. Cash and investments

Cash – For cash flow purposes 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.

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, 2018**

I. Summary of significant accounting policies (Continued)**1. Cash 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 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 49% 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, 2018**

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 may 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 for differences between expected and actual experience, changes in assumptions, and the net difference between projected and actual earnings on plan investments. The deferred outflow related to the differences between expected and actual experience and changes in assumptions will be amortized over the average remaining service life of all plan members. The deferred outflow for the net difference between projected and actual earnings of the plan investments will be amortized over a five year period.

Borough of Naugatuck, Connecticut

**Notes to Financial Statements
For the Year Ended June 30, 2018****I. Summary of significant accounting policies (Continued)****5. Deferred outflows/inflows of resources (Continued)**

In addition to liabilities, the statement of net position may 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 a deferred inflow related to pensions and OPEB for the differences between expected and actual experience, changes in assumptions, and the net difference between projected and actual earnings on plan investments. These deferred inflows will be amortized over the remaining service life of all plan members. The deferred inflow for the net difference between projected and actual earnings of the plan investments will be amortized over a five year period. The Borough also reports the deferred charge on refunding which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 property taxes. 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, 2018****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 reflects 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.

Borough of Naugatuck, Connecticut

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

I. Summary of significant accounting policies (Continued)

9. Fund equity and net position (Continued)

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

Nonspendable

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

Restricted

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

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 the 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, 2018****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, 2018**

II. Stewardship, compliance and accountability (Continued)**B. 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>
Naugatuck treatment plant	\$ 31,750,000	\$ 23,866,339	\$ 7,883,661
Renaissance Place downtown phase I	500,000	2,567	497,433
Naugatuck High School reconstruction and renovation	81,000,000	78,645,549	2,354,451
Improvement police station	345,000	341,789	3,211
Maple Street bridge renovation	6,097,447	5,860,810	236,637
Roads and infrastructure	5,075,000	2,278,507	2,796,493
Financing of judgment	12,430,000	8,698,687	3,731,313
Capital lease	3,000,000	2,585,000	415,000
Parcel A, B and C Site	975,000	254,348	720,652
Building 25 Goodyear/Tuttle House	1,573,889	1,573,889	-
Hillside School roof	1,569,855	711,741	858,114
Western School roof	1,319,245	634,607	684,638
Reclamation account	2,000,000	1,405,223	594,777
Hillside LL ceiling	309,177	291,051	18,126
2nd 5 Year capital project	6,900,060	6,684,984	215,076
Total	<u>\$ 154,844,673</u>	<u>\$ 133,835,091</u>	<u>\$ 21,009,582</u>

C. 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.

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.

Borough of Naugatuck, Connecticut

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

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, \$21,285,780, of the Borough's bank balance of \$23,902,155 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 15,437,397
Uninsured and collateral held by the pledging bank's trust department, not in the Borough's name	<u>5,848,383</u>
Total amount subject to custodial credit risk	<u>\$ 21,285,780</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	Investment Maturities (In Years)				
		N/A	Less Than 1	1-5 Years	5-10 Years	Over 10 Years
<u>Mutual funds:</u>						
Equity	\$ 107,329,516	\$ 107,329,516	\$ -	\$ -	\$ -	\$ -
Bonds	46,175,669	-	-	3,599,217	15,951,860	26,624,592
Money market	2,547,555	-	2,547,555	-	-	-
Certificates of deposit	6,634,299	-	6,634,299	-	-	-
Pooled fixed income	9,296,940	-	9,296,940	-	-	-
Total	<u>\$ 171,983,979</u>	<u>\$ 107,329,516</u>	<u>\$ 18,478,794</u>	<u>\$ 3,599,217</u>	<u>\$ 15,951,860</u>	<u>\$ 26,624,592</u>

Borough of Naugatuck, Connecticut

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

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 in the United States of America (GAAP). 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 using quoted prices for identical securities in markets that are not active;

Level 3: Unobservable inputs.

The Borough had the following recurring fair value measurements:

	<u>Amount</u>	<u>Quoted Market Prices in Active Markets Level 1</u>
Investments by fair value level		
Mutual funds:		
Equity	\$107,329,516	\$ 107,329,516
Bonds	46,175,669	46,175,669
Money market	2,547,555	2,547,555
Total investments by fair value level	<u>156,052,740</u>	<u>\$ 156,052,740</u>
<u>Other investments not subject to fair value measurement</u>		
Certificates of deposit	6,634,299	
Pooled fixed income	<u>9,296,940</u>	
Total other investments	<u>15,931,239</u>	
Total Investments	<u>\$171,983,979</u>	

Borough of Naugatuck, Connecticut

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

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	\$ 3,599,217	\$ 2,547,555	\$ 9,296,940
AA	3,059,715	-	-
BBB	26,624,592	-	-
BB	12,892,145	-	-
Total	<u>\$ 46,175,669</u>	<u>\$ 2,547,555</u>	<u>\$ 9,296,940</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 to 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, 2018

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	\$ 2,344,196	\$ 1,176,610	\$ 3,520,806	\$ 43,920
Long Term Portion	6,921,403	4,484,483	11,405,886	723,812
Less Allowance for uncollectible	(3,500,000)	(3,800,000)	(7,300,000)	(15,525)
Net Long Term Portion	3,421,403	684,483	4,105,886	708,287
Total Receivable	\$ 9,265,599	\$ 5,661,093	\$ 14,926,692	\$ 767,732

C. Capital assets

Capital asset activity was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
<u>Capital assets, not being depreciated:</u>				
Land	\$ 13,924,009	\$ 493,035	\$ 16,580	\$ 14,400,464
Construction in progress	87,668,618	12,511,435	78,645,551	21,534,502
Total capital assets, not being depreciated	101,592,627	13,004,470	78,662,131	35,934,966
<u>Capital assets, being depreciated:</u>				
Buildings and improvements	76,241,936	78,645,551	-	154,887,487
Land improvements	4,367,223	-	-	4,367,223
Machinery and equipment	19,383,474	887,998	150,438	20,121,034
Infrastructure	188,750,255	2,819,738	-	191,569,993
Total capital assets, being depreciated	288,742,888	82,353,287	150,438	370,945,737
Total capital assets	390,335,515	95,357,757	78,812,569	406,880,703
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	34,757,601	2,844,697	-	37,602,298
Land improvements	3,548,182	80,078	-	3,628,260
Machinery and equipment	14,153,229	1,123,147	150,438	15,125,938
Infrastructure	116,116,951	4,148,500	-	120,265,451
Total accumulated depreciation	168,575,963	8,196,422	150,438	176,621,947
Total capital assets being depreciated, net	120,166,925	74,156,865	-	194,323,790
Governmental activities capital assets, net	\$ 221,759,552	\$ 87,161,335	\$ 78,662,131	\$ 230,258,756

Borough of Naugatuck, Connecticut

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

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

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

General government	\$ 4,223,354
Education	2,722,473
Public safety	457,952
Health and welfare	408,008
Public works	<u>384,635</u>
Total depreciation expense	<u>\$ 8,196,422</u>

Construction commitments

The Borough has the following construction commitments:

Incinerator upgrade	<u>\$ 2,090,467</u>
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D. Interfund accounts**1. Interfund payables and receivables**

A summary of interfund balances is as follows:

	Corresponding Fund	Due From	Due To
Major Funds:			
General Fund			
Capital Nonrecurring Fund	N/A	\$ -	\$ 11,195,595
NHS Reconstruction and Renovation	N/A	14,224,257	-
Town Aid Road	N/A	-	556,276
Private Duty Service	N/A	-	5,377
Dog Fund	N/A	11,263	-
Youth Services Bureau	N/A	-	93
Youth Services Donations	N/A	-	314
Community Fund	N/A	-	17,673
Community Development	N/A	-	22,924
Consolidation Fund	N/A	-	316,487
Public Safety	N/A	-	193,253
Debt Service Fund	N/A	-	380,340
School Cafeteria	N/A	557,558	-
Special Education Grants	N/A	291,905	-
Workers' Compensation	N/A	-	2,990,517
Dental Insurance - Board of Education	N/A	-	57,183
Dental Insurance - General Government	N/A	-	522,452
Pension and OPEB Trust Funds	N/A	-	<u>691,804</u>
Total General Fund		<u>15,084,983</u>	<u>16,950,288</u>

Borough of Naugatuck, Connecticut

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

III. Detailed notes (Continued)**D. Interfund accounts (Continued)****1. Interfund payables and receivables (Continued)**

	Corresponding Fund	Due From	Due To
Capital Nonrecurring Fund	General Fund	\$ 11,195,595	\$ -
NHS Reconstruction and Renovation	General Fund	-	14,224,257
Other Governmental Funds:			
Special Revenue Funds			
Town Aid Road	General Fund	556,276	-
Dog Fund	General Fund	-	11,263
Private Duty Service	General Fund	5,377	-
Public Safety	General Fund	193,253	-
Community Fund	General Fund	17,673	-
Community Development	General Fund	22,924	-
Consolidation Fund	General Fund	316,487	-
Youth Services Bureau	General Fund	93	-
Youth Services Donations	General Fund	314	-
School Cafeteria	General Fund	-	557,558
Special Education Grants	General Fund	-	291,905
Total Special Revenue Funds		1,112,397	860,726
Debt Service Fund	General Fund	380,340	-
Total Other Governmental Funds		1,492,737	860,726
Internal Service Funds			
Dental Insurance - General Government	General Fund	522,452	-
Dental Insurance - Board of Education	General Fund	57,183	-
Workers' Compensation	General Fund	2,990,517	-
Total Internal Service Funds		3,570,152	-
Fiduciary Funds			
Firemen's Pension Fund	General Fund	34,919	-
Employee's Pension Fund	General Fund	656,885	-
Total Fiduciary Funds		691,804	-
Grand Total		\$ 32,035,271	\$ 32,035,271

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, 2018**

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>			
General Fund			
Capital Nonrecurring Fund	N/A	\$ 273,863	\$ 1,692,752
Private Duty Service	N/A	11,643	-
Dog Fund	N/A	64,018	-
Dental Insurance - General Government	N/A	300,000	-
Dental Insurance - Board of Education	N/A	675,577	-
Total General Fund		1,325,101	1,692,752
Capital Nonrecurring Fund	General Fund	1,692,752	273,863
<u>Other Governmental Funds:</u>			
Special Revenue Funds			
Private Duty Service	General Fund	-	11,643
Dog Fund	General Fund	-	64,018
Total Special Revenue Funds		-	75,661
<u>Internal Service Funds:</u>			
Dental Insurance - General Government	General Fund	-	300,000
Dental Insurance - Board of Education	General Fund	-	675,577
Total Internal Service Funds		-	975,577
Grand Total		\$ 3,017,853	\$ 3,017,853

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, 2018**

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, 2017	Additions	Deductions	Balance June 30, 2018	Current Portion	Long-Term Portion
Bonds:										
General Purpose:										
Refunding bonds	\$ 4,360,000	03/24/16	08/01/30	3.00%-5.00%	\$ 2,194,500	\$ -	\$ 13,750	\$ 2,180,750	\$ 181,500	\$ 1,999,250
Bonds	9,235,000	09/24/15	09/15/35	3.00%-5.00%	8,770,000	-	465,000	8,305,000	465,000	7,840,000
Refunding bonds	2,530,000	08/10/10	08/01/30	2.00%-4.00%	460,000	-	460,000	-	-	-
Loss reserve (taxable)	4,560,000	06/01/06	06/01/26	5.43% to 5.93%	2,755,000	-	240,000	2,515,000	255,000	2,260,000
5 year capital project	4,200,000	07/15/02	02/15/21	5.88%	930,000	-	230,000	700,000	230,000	470,000
Total general purpose					15,109,500	-	1,408,750	13,700,750	1,131,500	12,569,250
School bonds:										
NHS renovation	8,000,000	10/24/16	06/30/37	2.00%-5.00%	8,000,000	-	400,000	7,600,000	400,000	7,200,000
Refunding bonds	4,360,000	03/24/16	08/01/30	3.00%-5.00%	1,795,500	-	11,250	1,784,250	148,500	1,635,750
NHS addition & renovation	8,000,000	09/24/15	09/15/35	2.00%-5.00%	7,600,000	-	400,000	7,200,000	400,000	6,800,000
NHS addition & renovation	10,000,000	03/18/14	03/15/34	2.00%-5.00%	8,940,000	-	530,000	8,410,000	530,000	7,880,000
NHS cafeteria project	800,000	07/15/02	02/15/21	5.88%	170,000	-	45,000	125,000	45,000	80,000
Total school bonds					26,505,500	-	1,386,250	25,119,250	1,523,500	23,595,750
Sewer bonds										
GOB (AMT) Series A	6,500,000	05/24/17	06/30/37	3.00%-5.00%	6,500,000	-	-	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	-	425,000	1,575,000	425,000	1,150,000
Total sewer bonds					8,500,000	-	425,000	8,075,000	425,000	7,650,000
Pension bonds (taxable):										
2013 (taxable)	6,435,000	06/25/13	06/30/18	2.30%	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	1,485,000	32,615,000
Total pension deficit bonds					35,530,000	-	1,430,000	34,100,000	1,485,000	32,615,000
Total bonds					85,645,000	-	4,650,000	80,995,000	4,565,000	76,430,000
Notes:										
Clean Water:										
CWF 175-CSL	472,000	06/30/08	06/30/27	2.00%	257,089	-	23,459	233,630	23,933	209,697
CWF 184-CD1	566,969	04/30/00	04/30/18	2.00%	26,127	-	26,127	-	-	-
CWF 184-C	480,131	04/30/99	04/30/18	2.00%	20,007	-	20,007	-	-	-
Total notes					303,223	-	69,593	233,630	23,933	209,697
Total bonds/notes					85,948,223	-	4,719,593	81,228,630	4,588,933	76,639,697
Premium					961,569	-	54,501	907,068	-	907,068
Total bonds/notes and related liabilities					86,909,792	-	4,774,094	82,135,698	4,588,933	77,546,765
Certificates of participation:										
Wastewater (taxable)	1,490,000	05/05/14	06/30/22	2.00%-5.0%	960,000	-	195,000	765,000	200,000	565,000
Incinerator A	10,545,000	05/05/14	06/30/22	5.00%	7,025,000	-	1,435,000	5,590,000	1,505,000	4,085,000
Total certificates of participation					7,985,000	-	1,630,000	6,355,000	1,705,000	4,650,000
Capital lease obligations					8,861,358	1,728,695	1,912,156	8,677,897	1,877,205	6,800,692
Compensated absences					4,186,169	1,447,264	2,488,672	3,144,761	628,952	2,515,809
Net pension liability					38,550,679	23,574,385	28,465,842	33,659,222	-	33,659,222
Net OPEB liability					184,905,485	13,140,171	13,496,709	184,548,947	-	184,548,947
Claims payable					1,396,168	1,553,555	1,765,137	1,184,586	829,210	355,376
Total long-term obligations					\$ 332,794,651	\$ 41,444,070	\$ 54,532,610	\$ 319,706,111	\$ 9,629,300	\$ 310,076,811

In February 2019, the Borough issued \$5,455,000 of bond anticipation notes that mature in August 2019, and carry a coupon interest rate of 2.5% and a true interest cost of 1.88%.

Borough of Naugatuck, Connecticut

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

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:

Debt Maturities				
Year Ending June 30,	Bond Principal	Notes Principal	Certificates of Participation	Total Interest
2019	\$ 4,565,000	\$ 23,933	\$ 1,705,000	\$ 3,973,483
2020	4,665,000	24,416	1,795,000	3,675,069
2021	4,860,000	24,909	1,720,000	3,363,266
2022	4,700,000	25,411	1,135,000	3,034,699
2023	4,825,000	25,924	-	2,757,359
2024	4,950,000	26,448	-	2,534,980
2025	5,090,000	26,981	-	2,310,431
2026	5,240,000	27,527	-	2,079,638
2027	4,690,000	28,081	-	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
Totals	<u>\$ 80,995,000</u>	<u>\$ 233,630</u>	<u>\$ 6,355,000</u>	<u>\$ 32,409,145</u>

All long-term liabilities listed above 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	Debit Limit	Net Indebtedness	Balance
General purpose	\$ 171,742,084	\$ 13,700,750	\$ 158,041,334
Schools	343,484,168	25,119,250	318,364,918
Sewers	286,236,806	14,663,630	271,573,176
Urban renewal	248,071,899	-	248,071,899
Pension deficit	228,989,445	34,100,000	194,889,445

Borough of Naugatuck, Connecticut

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

III. Detailed notes (Continued)**E. Changes in long-term obligations (Continued)****2. Statutory debt limitations (Continued)**

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

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>
High school	<u>\$ 55,000,000</u>

4. 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 \$12,345,284, net of accumulated depreciation of \$7,546,333 are recorded under the capital lease. This year, \$1,635,673 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:

<u>Year Ending</u> <u>June 30</u>	
2019	\$ 2,179,681
2020	2,157,412
2021	1,682,973
2022	1,714,513
2023	1,559,415
2024	174,482
2025	<u>87,241</u>
Total	9,555,716
Less amount representing interest	<u>877,830</u>
Present value of minimum lease payments	<u>\$ 8,677,897</u>

Borough of Naugatuck, Connecticut

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

III. Detailed notes (Continued)**F. Fund balance classifications**

Fund Balance Component	General Fund	NHS Reconstruction and Renovation	Capital Nonrecurring Fund	Other Governmental Funds	Total
<u>Nonspendable:</u>					
Community development loans	\$ -	\$ -	\$ -	\$ 767,732	\$ 767,732
Trust fund principal	-	-	-	1,000	1,000
Total nonspendable	-	-	-	768,732	768,732
<u>Restricted:</u>					
Public safety:					
Police	-	-	-	193,253	193,253
Public works:					
Road projects	-	-	-	378,505	378,505
Health and welfare:					
Community development programs	-	-	-	61,906	61,906
Youth services programs	-	-	-	23,331	23,331
Education:					
School repairs and maintenance	-	-	-	118,953	118,953
Various education programs	-	-	-	1,127,526	1,127,526
Total restricted	-	-	-	1,903,474	1,903,474
<u>Committed:</u>					
Public safety	-	-	-	5,377	5,377
Education programs	-	-	-	19,331	19,331
Construction and capital replacement	-	-	11,978,106	-	11,978,106
Total committed	-	-	11,978,106	24,708	12,002,814
<u>Assigned:</u>					
Subsequent years budget	3,104,809	-	-	-	3,104,809
School repairs and maintenance	-	-	-	155,219	155,219
Debt service	-	-	-	1,608,666	1,608,666
Total assigned	3,104,809	-	-	1,763,885	4,868,694
<u>Unassigned:</u>	12,043,464	(13,828,143)	-	(51,089)	(1,835,768)
Total	\$ 15,148,273	\$ (13,828,143)	\$ 11,978,106	\$ 4,409,710	\$ 17,707,946

There were no amounts restricted by enabling legislation.

G. Deficit fund balances

The School Cafeteria Fund had a deficit fund balance of \$51,089. The deficit will be reduced or eliminated in future years by future charges for services.

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

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**A. Risk management (Continued)**

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	Current Portion
<u>Workers Compensation:</u>					
2016-2017	\$ 1,108,810	\$ 1,821,315	\$ 1,533,957	\$ 1,396,168	\$ 977,318
2017-2018	<u>1,396,168</u>	<u>1,553,555</u>	<u>1,765,137</u>	<u>1,184,586</u>	<u>829,210</u>
<u>Dental insurance:</u>					
General government					
2016-2017	18,600	360,084	360,384	18,300	18,300
2017-2018	18,300	302,297	302,597	18,000	18,000
Education					
2016-2017	38,400	649,381	650,781	37,000	37,000
2017-2018	<u>37,000</u>	<u>601,428</u>	<u>602,228</u>	<u>36,200</u>	<u>36,200</u>
<u>Subtotal</u>					
2016-2017	57,000	1,009,465	1,011,165	55,300	55,300
2017-2018	<u>55,300</u>	<u>903,725</u>	<u>904,825</u>	<u>54,200</u>	<u>54,200</u>
<u>Totals</u>					
2016-2017	\$ 1,165,810	\$ 2,830,780	\$ 2,545,122	\$ 1,451,468	\$1,032,618
2017-2018	<u>\$ 1,451,468</u>	<u>\$ 2,457,280</u>	<u>\$ 2,669,962</u>	<u>\$ 1,238,786</u>	<u>\$ 883,410</u>

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.

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**C. Pension plans****1. Plan description****A. Plan administration**

The Borough administers two single-employer defined benefit plans: the Employees' 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 Employees' plan, pension plan membership consisted of the following:

	<u>Firemen</u>	<u>Employee</u>
Retirees and beneficiaries currently receiving benefits	44	441
Current plan members	24	288
Inactive with vested benefits	<u>1</u>	<u>66</u>
Total	<u>69</u>	<u>795</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, 2018****IV. 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 the average three highest years 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, 2018****IV. 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 8.00% of annual base compensation, and the Borough's average contribution rate was 40.02% 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 5.00% of annual base compensation, and the Borough's average contribution rate was 27.33% of annual payroll.

Borough of Naugatuck, Connecticut

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

IV. 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 8.80% for the Firemen's Pension Fund and 9.10% 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	\$ 41,829,283	\$ 138,209,723
Plan fiduciary net position	<u>37,356,512</u>	<u>109,023,272</u>
Net pension liability	<u>\$ 4,472,771</u>	<u>\$ 29,186,451</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>89.31%</u>	<u>78.88%</u>

Borough of Naugatuck, Connecticut

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

IV. 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, 2016
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%	7.25%
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>Firemen</u>	<u>Employee</u>
<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Fixed Income	1.75%	1.75%
Large Cap	5.60%	5.60%
International Equity	12.65%	12.65%
REITs	4.50%	4.50%
Commodities	2.25%	2.25%

Borough of Naugatuck, Connecticut

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

IV. 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 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, 2018, 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 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, 2017	\$ 41,310,565	\$ 36,153,064	\$ 5,157,501
Service cost	549,640	-	549,640
Interest	2,929,430	-	2,929,430
Contributions - employer	-	952,351	(952,351)
Contributions - member	-	125,554	(125,554)
Net investment income (loss)	-	3,118,524	(3,118,524)
Benefit payments, including refunds of member contributions	(2,960,352)	(2,960,352)	-
Administration expenses	-	(32,629)	32,629
Net change	518,718	1,203,448	(684,730)
Balance at June 30, 2018	\$ 41,829,283	\$ 37,356,512	\$ 4,472,771

Borough of Naugatuck, Connecticut

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

IV. 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, 2017	\$ 137,265,760	\$ 103,872,582	\$ 33,393,178
Service cost	2,523,889	-	2,523,889
Interest	10,144,867	-	10,144,867
Differences between expected and actual experience	(9,859,657)	-	(9,859,657)
Changes in assumptions	7,351,004	-	7,351,004
Contributions - employer	-	5,155,791	(5,155,791)
Contributions - member	-	727,234	(727,234)
Net investment income (loss)	-	8,526,731	(8,526,731)
Benefit payments, including refunds of member contributions	(9,216,140)	(9,216,140)	-
Administration expenses	-	(42,926)	42,926
Net change	943,963	5,150,690	(4,206,727)
Balance at June 30, 2018	\$ 138,209,723	\$ 109,023,272	\$ 29,186,451

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 7.25% 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

<u>Firemen</u>	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Net pension liability	\$ 9,450,037	\$ 4,472,771	\$ 320,085
<u>Employee</u>	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Net pension liability	\$ 45,117,899	\$ 29,186,451	\$ 15,873,735

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**C. Pension plans (Continued)****12. Pension expense and deferred outflows/inflows of resources related to pensions**

During the year, the Borough recognized pension expense of \$9,936,547. The Borough reported deferred outflows of resources related to pensions from the following sources:

Employee's Plan Description of Outflows/Inflows	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 565,689	\$ (7,120,863)
Changes in assumptions	7,113,933	-
Net difference between projected and actual earnings on pension plan investments	<u>47,800</u>	<u>-</u>
Totals	<u>\$ 7,727,422</u>	<u>\$ (7,120,863)</u>
Net amount of deferred inflows and outflows		<u>\$ 606,559</u>

Firemen's Plan Description of Outflows/Inflows	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 151,566	\$ (57,924)
Changes in assumptions	1,059,851	-
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>(90,591)</u>
Totals	<u>\$ 1,211,417</u>	<u>\$ (148,515)</u>
Net amount of deferred inflows and outflows		<u>\$ 1,062,902</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, which was 5.2 years.

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**C. Pension plans (Continued)****12. Pension expense and deferred outflows/inflows of resources related to pensions (Continued)**

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

	<u>Employee's Plan</u>	<u>Fireman's Plan</u>
2019	\$ 2,509,039	\$ 1,394,815
2020	395,438	375,731
2021	(1,967,714)	(594,161)
2022	<u>(330,204)</u>	<u>(113,483)</u>
Total	<u>\$ 606,559</u>	<u>\$ 1,062,902</u>

13. 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	\$ 143,604	\$ 201,531
Fire	71,429	113,369
Plan A	42,101	110,776
Plan B	51,634	85,994

Borough of Naugatuck, Connecticut

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

IV. 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.

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. ContributionsState 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, 2018

IV. 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.

Effective January 1, 2018, each teacher is required to contribute 7% 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>88,718,563</u>
Total	<u>\$ 88,718,563</u>

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

For the fiscal year ended, the Borough recognized pension expense and revenue of \$10,262,146 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 RP-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, 2018

IV. 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%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Core fixed income	7.0%	1.3%
High yield bonds	5.0%	3.9%
Emerging market bond	5.0%	3.7%
Inflation linked bond fund	3.0%	1.0%
Cash	<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, 2018

IV. 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, 2017.

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 \$7,350,378. There are no required employee contributions.

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**E. Other post-employment benefit plan (OPEB) (Continued)****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 plan's 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 plan's net position.

3. Rate of Return

The annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 6.16%. 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, 2018

IV. Other information (Continued)**E. Other Post-Employment Benefit Plan (Continued)****4. Net OPEB Liability**

The Borough's net OPEB liability of \$184,548,947 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2016.

Total OPEB liability	\$ 193,687,693
Plan fiduciary net position	<u>9,138,746</u>
Net OPEB liability	<u><u>\$ 184,548,947</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u><u>4.72%</u></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	4.58%
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%

A blended discount rate was used to discount liabilities. The discount rate used for the unfunded portion is based on the Bond Buyer GO municipal bond 20 year AA index as of June 30, 2018 of 3.87%.

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.

Change in Assumptions

The discount rate was increased from 4.38% to 4.58%.

Borough of Naugatuck, Connecticut

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

IV. 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 4.58% 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, 2018

IV. 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, 2017	\$ 193,330,406	\$ 8,424,921	\$ 184,905,485
Service cost	4,605,763	-	4,605,763
Interest	8,517,397	-	8,517,397
Differences between expected and actual experience	11,825	-	11,825
Changes in assumptions	(5,752,320)	-	(5,752,320)
Contributions - employer	-	7,350,378	(7,350,378)
Net investment income	-	394,011	(394,011)
Benefit payments, including refunds of member contributions	(7,025,378)	(7,025,378)	-
Administration expenses	-	(5,186)	5,186
Net change	357,287	713,825	(356,538)
Balance at June 30, 2018	<u>\$ 193,687,693</u>	<u>\$ 9,138,746</u>	<u>\$ 184,548,947</u>

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 or 1-percentage-point higher than the current discount rate:

Net OPEB Liability	1% Decrease 3.58%	Discount Rate 4.58%	1% Increase 5.58%
Borough Employees' OPEB Plan	<u>\$ 216,127,287</u>	<u>\$ 184,548,947</u>	<u>\$ 159,293,962</u>

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	<u>\$ 154,875,389</u>	<u>\$ 184,548,947</u>	<u>\$ 222,520,611</u>

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**E. Other Post-Employment Benefit Plan (Continued)****10. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

For the fiscal year the Borough recognized OPEB expense of \$8,036,169. The Borough reported deferred outflows/inflows 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	\$ 367,174	\$ -
Changes in assumptions	-	(29,752,750)
Net difference between projected and actual earnings on OPEB plan investments	<u>-</u>	<u>(410,126)</u>
Total	<u>\$ 367,174</u>	<u>\$ (30,162,876)</u>
Net amount of deferred inflows and outflows		<u>\$ (29,795,702)</u>

Changes in assumptions and differences between expected and actual experience are amortized over 8.4 years. Actual investment earnings below (or above) projected earnings are amortized over 5 years.

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

Year Ending June 30,	
2019	\$ (4,611,165)
2020	(4,611,165)
2021	(4,611,166)
2022	(4,515,494)
2023	(4,484,716)
Thereafter	<u>(6,961,996)</u>
Total	<u>\$ (29,795,702)</u>

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)

F. Pension and Other Post-Employment Benefit Plan Statements

**Combining Statement of Fiduciary Net Position
Pension and OPEB Trust Funds**

	<u>Firemen's Pension Fund</u>	<u>Employee's Pension Fund</u>	<u>OPEB Trust Fund</u>	<u>Total</u>
<u>Assets</u>				
Investments at fair value:				
Mutual funds:				
Equity	\$ 26,444,387	\$ 75,286,274	\$ 5,598,855	\$ 107,329,516
Bonds	10,204,987	32,467,700	3,502,982	46,175,669
Money market	672,219	612,413	36,909	1,321,541
	<u>37,321,593</u>	<u>108,366,387</u>	<u>9,138,746</u>	<u>154,826,726</u>
Total investments	37,321,593	108,366,387	9,138,746	154,826,726
Due from other funds	34,919	656,885	-	691,804
	<u>37,356,512</u>	<u>109,023,272</u>	<u>9,138,746</u>	<u>155,518,530</u>
Total assets	37,356,512	109,023,272	9,138,746	155,518,530
<u>Net Position</u>				
Restricted for:				
Pension benefits	37,356,512	109,023,272	-	146,379,784
OPEB benefits	-	-	9,138,746	9,138,746
	<u>-</u>	<u>-</u>	<u>9,138,746</u>	<u>9,138,746</u>
Total net position	<u>\$ 37,356,512</u>	<u>\$ 109,023,272</u>	<u>\$ 9,138,746</u>	<u>\$ 155,518,530</u>

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)

F. Pension and Other Post-Employment Benefit Plan Statements (Continued)

Combining Statement of Changes in Fiduciary Net Position
Pension and OPEB Trust Funds

	Firemen's Pension Fund	Employee's Pension Fund	OPEB Trust Fund	Total
Additions:				
Contributions:				
Employer	\$ 952,351	\$ 5,155,791	\$ 7,350,378	\$ 13,458,520
Plan members	125,554	727,234	-	852,788
Total contributions	1,077,905	5,883,025	7,350,378	14,311,308
Investment income (loss):				
Change in fair value of investments	2,470,507	6,573,943	208,411	9,252,861
Interest and dividends	675,794	2,007,326	216,369	2,899,489
Total investment income (loss)	3,146,301	8,581,269	424,780	12,152,350
Less investment expenses	27,777	54,538	30,769	113,084
Net investment income (loss)	3,118,524	8,526,731	394,011	12,039,266
Total additions	4,196,429	14,409,756	7,744,389	26,350,574
Deductions:				
Benefits	2,960,352	9,216,140	7,025,378	19,201,870
Administration	32,629	42,926	5,186	80,741
Total deductions	2,992,981	9,259,066	7,030,564	19,282,611
Changes in net position	1,203,448	5,150,690	713,825	7,067,963
Net position - July 1, 2017	36,153,064	103,872,582	8,424,921	148,450,567
Net position - June 30, 2018	\$ 37,356,512	\$ 109,023,272	\$ 9,138,746	\$ 155,518,530

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**G. OPEB – Connecticut State Teachers’ Retirement Plan****1. Plan Description**

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

2. Benefit Provisions

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

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

Retiree Health Care Coverage

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

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**G. OPEB – Connecticut State Teachers' Retirement Plan (Continued)****2. Benefit Provisions (Continued)**

Any member that is not currently participating in Medicare Parts A & B is eligible to continue health care coverage with their former employer. A subsidy of up to \$110 per month for a retired member plus an additional \$110 per month for a spouse enrolled in a local school district plan is provided to the school district to first offset the retiree's share of the cost of coverage, any remaining portion is used to offset the district's cost. The subsidy amount is set by statute, and has not increased since July of 1996. A subsidy amount of \$220 per month may be paid for a retired member, spouse or the surviving spouse of a member who has attained the normal retirement age to participate in Medicare, is not eligible for Part A of Medicare without cost, and contributes at least \$220 per month towards coverage under a local school district plan.

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

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

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

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

Survivor Health Care Coverage

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

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**G. OPEB – Connecticut State Teachers' Retirement Plan (Continued)****3. Contributions**State of Connecticut

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

Employer (School Districts)

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

Employees

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

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

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

Borough's proportionate share of the net OPEB liability	\$ -
State's proportionate share of the net OPEB liability associated with the Borough	<u>22,835,165</u>
Total	<u>\$ 22,835,165</u>

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**G. OPEB – Connecticut State Teachers' Retirement Plan (Continued)****4. OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)**

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

The Borough recognized OPEB expense and revenue of \$1,058,297 for on-behalf amounts for the benefits provided by the State.

5. Actuarial Assumptions

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

Mortality rates were based on the RP-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80. For disabled retirees, the RPH-2014 Disabled Mortality table projected to 2017 using the BB improvement scale was used.

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

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)

G. OPEB – Connecticut State Teachers’ Retirement Plan (Continued)

5. Actuarial Assumptions (Continued)

Changes from Prior Valuation

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

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

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

Affordable Care Act (ACA)

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

Given the uncertainty regarding the ACA’s implementation (e.g., the impact of excise tax on high-value health insurance plans, changes in participation resulting from the implementation of state-based health insurance exchanges), continued monitoring of the ACA’s impact on the Plan’s liability will be required.

Borough of Naugatuck, Connecticut

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

IV. Other information (Continued)**G. OPEB – Connecticut State Teachers' Retirement Plan (Continued)****6. Discount Rate**

The discount rate used to measure the total OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

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

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

8. Plan Fiduciary Net Position

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

H. Prior period adjustment

The custodial funds net position was restated to present the funds in accordance with the implementation of a new reporting standard (GASB 84):

	<u>Custodial Funds</u>
Net position as previously reported at June 30, 2017	\$ -
GASB 84 implementation	<u>407,557</u>
Net position as restated at July 1, 2017	<u>\$ 407,557</u>

The Bonded Projects Fund (other governmental fund) was combined with the Capital Nonrecurring Fund in the current year. As a result, the other governmental beginning fund balance decreased by \$44,151 and the Capital Nonrecurring Fund increased by the same amount.

**Required
Supplementary
Information**

Borough of Naugatuck, Connecticut

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For The Year Ended June 30, 2018

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance With Final Budget
Revenues:					
Property taxes	\$ 76,356,848	\$ -	\$ 76,356,848	\$ 79,236,973	\$ 2,880,125
Intergovernmental revenues	34,258,425	-	34,258,425	31,903,685	(2,354,740)
Charges for services	6,980,241	-	6,980,241	7,020,629	40,388
Income from investments	80,000	-	80,000	140,686	60,686
Other	77,423	-	77,423	259,932	182,509
Total revenues	117,752,937	-	117,752,937	118,561,905	808,968
Expenditures:					
Current:					
General government	3,628,795	(49,415)	3,579,380	3,185,289	394,091
Public safety	11,812,962	62,000	11,874,962	11,590,953	284,009
Public works	12,730,242	(480,555)	12,249,687	11,755,954	493,733
Health and welfare	1,391,667	6,730	1,398,397	1,391,596	6,801
Nondepartmental	18,114,516	43,240	18,157,756	16,914,299	1,243,457
Education	61,683,651	-	61,683,651	61,499,055	184,596
Debt service	9,674,681	124,812	9,799,493	9,629,680	169,813
Total expenditures	119,036,514	(293,188)	118,743,326	115,966,826	2,776,500
Excess (deficiency) of revenues over expenditures	(1,283,577)	293,188	(990,389)	2,595,079	3,585,468
Other financing sources (uses):					
Appropriation of fund balance	1,399,564	-	1,399,564	-	(1,399,564)
Sale of capital assets	300,000	-	300,000	243,186	(56,814)
Transfers in	983,577	-	983,577	1,325,101	341,524
Transfers out	(1,399,564)	(293,188)	(1,692,752)	(1,692,752)	-
Net other financing sources (uses)	1,283,577	(293,188)	990,389	(124,465)	(1,114,854)
Net change in fund balance	\$ -	\$ -	\$ -	2,470,614	\$ 2,470,614
Fund balance - July 1, 2017				12,677,659	
Fund balance - June 30, 2018				<u>\$ 15,148,273</u>	

Reconciliation to Exhibit D

	Revenues	Expenditures
Budgetary Basis - RSI-1	\$ 118,561,905	\$ 115,966,826
State Teachers' pension on behalf amount	10,262,146	10,262,146
State Teachers' OPEB on behalf amount	1,058,297	1,058,297
GAAP Basis - Exhibit D	<u>\$ 129,882,348</u>	<u>\$ 127,287,269</u>

Notes to Required Supplementary Information: This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exception: The Borough does not recognize as revenue or expenditures on behalf amounts for the State Teachers' pension and OPEB by the State of Connecticut on the Borough's behalf.

Borough of Naugatuck, Connecticut

General Fund
Schedule of Revenues and Other Financing Sources -
Budget and Actual
For The Year Ended June 30, 2018

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance With Final Budget
Property taxes:					
Taxes	\$ 66,342,340	\$ -	\$ 66,342,340	\$ 66,935,437	\$ 593,097
Taxes new construction	50,000	-	50,000	50,000	-
Prior year taxes	2,200,850	-	2,200,850	3,853,062	1,652,212
Interest and lien fees	1,014,514	-	1,014,514	1,795,193	780,679
Motor vehicle tax	6,596,244	-	6,596,244	6,474,997	(121,247)
Exemption P.A. 515	900	-	900	-	(900)
In lieu of taxes - Housing Authority	92,000	-	92,000	80,323	(11,677)
Telephone access grant	60,000	-	60,000	47,961	(12,039)
Total property taxes	76,356,848	-	76,356,848	79,236,973	2,880,125
Intergovernmental revenues - grants:					
Town:					
Motor vehicle property tax grant	2,987,703	-	2,987,703	1,022,172	(1,965,531)
Sales tax revenue sharing	26,000	-	26,000	-	(26,000)
Elderly circuit breaker	208,854	-	208,854	-	(208,854)
LOCIP	128,440	-	128,440	128,440	-
Superior court distribution	12,000	-	12,000	-	(12,000)
Grants for municipal project	423,171	-	423,171	401,182	(21,989)
Capital improvements	75,000	-	75,000	13,358	(61,642)
In lieu of taxes - state property	2,998	-	2,998	2,998	-
Additional exempt vets	36,137	-	36,137	36,573	436
Social security disability	16,390	-	16,390	15,217	(1,173)
Municipal revenue sharing	341,656	-	341,656	341,656	-
Miscellaneous state grants	-	-	-	101,207	101,207
Enterprise zone	60,000	-	60,000	-	(60,000)
Pequot grant	230,356	-	230,356	230,356	-
Total Town	4,548,705	-	4,548,705	2,293,159	(2,255,546)
Education:					
Education cost sharing	29,211,401	-	29,211,401	29,186,325	(25,076)
Special ed excess cost	498,319	-	498,319	424,201	(74,118)
Total education	29,709,720	-	29,709,720	29,610,526	(99,194)
Total intergovernmental revenues	34,258,425	-	34,258,425	31,903,685	(2,354,740)
Charges for services:					
Assessor's copies	700	-	700	463	(237)
Fire miscellaneous	500	-	500	314	(186)
Probate court	9,200	-	9,200	10,191	991
Permits & licenses	2,500	-	2,500	14,800	12,300
Zoning hearing costs	21,000	-	21,000	22,525	1,525
Other costs - Borough clerk	100	-	100	48	(52)
Recording fees	125,000	-	125,000	110,289	(14,711)
Conveyance tax	135,000	-	135,000	187,181	52,181
Vital statistics	30,000	-	30,000	30,836	836
Dog licenses	750	-	750	1,108	358
Miscellaneous - Town clerk	32,000	-	32,000	27,984	(4,016)
Building, plumbing & electrical	310,000	-	310,000	346,891	36,891
Parking fines	4,000	-	4,000	3,072	(928)
Sewer connections	9,000	-	9,000	-	(9,000)
Miscellaneous - police	22,000	-	22,000	18,229	(3,771)
Golf course fees	425,000	-	425,000	413,209	(11,791)
Rental club house	32,100	-	32,100	32,100	-
Tuition other schools	40,000	-	40,000	-	(40,000)

(Continued)

Borough of Naugatuck, Connecticut

General Fund
Schedule of Revenues and Other Financing Sources -
Budget and Actual
For The Year Ended June 30, 2018

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance With Final Budget
Charges for services: (continued)					
Interest & lien fees	\$ 2,000	\$ -	\$ 2,000	\$ 658	\$ (1,342)
Rental - conrad street water tank	24,200	-	24,200	26,136	1,936
Tipping fees	-	-	-	31,787	31,787
Oxford connection	450,000	-	450,000	450,000	-
Transfer sewer authority	-	-	-	446	446
Clearwire	50,000	-	50,000	27,472	(22,528)
Hopkins park	80	-	80	80	-
Beacon falls / beacon hills east	68,615	-	68,615	66,434	(2,181)
Prospect connection	9,868	-	9,868	9,625	(243)
Veolia contract monitoring payment	87,189	-	87,189	87,189	-
Veolia base rent element 1	2,304,995	-	2,304,995	2,324,215	19,220
Middlebury connection - contract	130,304	-	130,304	124,216	(6,088)
Veolia base element 2	1,099,140	-	1,099,140	1,099,140	-
Veolia settlement	1,500,000	-	1,500,000	1,500,000	-
Bulk trash fees	55,000	-	55,000	53,991	(1,009)
Total charges for services	6,980,241	-	6,980,241	7,020,629	40,388
Income from investments	80,000	-	80,000	140,686	60,686
Other:					
Miscellaneous revenue	74,423	-	74,423	259,932	185,509
Clean water fund bond	3,000	-	3,000	-	(3,000)
Total other	77,423	-	77,423	259,932	182,509
Total revenues	117,752,937	-	117,752,937	118,561,905	808,968
Other financing sources:					
Appropriation of fund balance	1,399,564	-	1,399,564	-	(1,399,564)
Sale of capital assets	300,000	-	300,000	243,186	(56,814)
Transfers in:					
Capital nonrecurring fund	-	-	-	273,863	273,863
Police private duty	8,000	-	8,000	11,643	3,643
Dog fund	-	-	-	64,018	64,018
Internal service funds	975,577	-	975,577	975,577	-
Total other financing sources	2,683,141	-	2,683,141	1,568,287	(1,114,854)
Total revenues and other financing sources	\$ 120,436,078	\$ -	\$ 120,436,078	\$ 120,130,192	\$ (305,886)

(Concluded)

Borough of Naugatuck, Connecticut

General Fund
Schedule of Expenditures and Other Financing Uses -
Budget and Actual
For The Year Ended June 30, 2018

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance With Final Budget
General government:					
General administration	\$ 277,183	\$ -	\$ 277,183	\$ 268,395	\$ 8,788
Town hall building	130,853	7,573	138,426	138,348	78
Town wide activity	179,000	-	179,000	174,331	4,669
Department of finance	512,420	4,000	516,420	501,800	14,620
Probate court	24,795	-	24,795	17,945	6,850
Elections	95,842	-	95,842	57,312	38,530
Tax department	245,424	-	245,424	223,241	22,183
Property assessment	260,474	-	260,474	230,751	29,723
Building inspector	215,909	5,066	220,975	220,570	405
Information technology	284,786	-	284,786	263,949	20,837
Town clerk	183,008	-	183,008	176,922	6,086
Downtown development	252,600	3,275	255,875	248,359	7,516
Naugatuck economic development	90,000	-	90,000	90,000	-
Land use	115,126	23,400	138,526	138,281	245
Legal department	284,000	59,256	343,256	337,063	6,193
Estimated wage increase	379,353	(151,985)	227,368	-	227,368
Human resources	98,022	-	98,022	98,022	-
Total general government	3,628,795	(49,415)	3,579,380	3,185,289	394,091
Public safety:					
Police department	7,331,446	12,000	7,343,446	7,272,417	71,029
Fire department	4,363,423	50,000	4,413,423	4,284,567	128,856
Animal control	78,855	-	78,855	-	78,855
Emergency management	20,250	-	20,250	19,733	517
Eastside fire station	16,800	-	16,800	12,158	4,642
Safety patrol	1,688	-	1,688	1,655	33
Fire police	500	-	500	423	77
Total public safety	11,812,962	62,000	11,874,962	11,590,953	284,009
Public works:					
Operation and maintenance	5,223,375	33,000	5,256,375	5,201,369	55,006
Engineering department	313,429	-	313,429	306,094	7,335
Water Pollution Control Board	7,193,438	(513,555)	6,679,883	6,248,491	431,392
Total public works	12,730,242	(480,555)	12,249,687	11,755,954	493,733
Health and welfare:					
Social services	30,000	-	30,000	30,000	-
Youth services	35,809	3,288	39,097	39,097	-
Community service	1,240,135	-	1,240,135	1,233,936	6,199
Senior citizens	85,723	3,442	89,165	88,563	602
Total health and welfare	1,391,667	6,730	1,398,397	1,391,596	6,801
Nondepartmental:					
Pension	5,663,471	(101,000)	5,562,471	5,084,584	477,887
Insurance	10,662,259	(280,093)	10,382,166	10,244,807	137,359
General	1,188,786	424,333	1,613,119	1,584,908	28,211
Contingency	600,000	-	600,000	-	600,000
Total nondepartmental	18,114,516	43,240	18,157,756	16,914,299	1,243,457

(Continued)

Borough of Naugatuck, Connecticut

General Fund
Schedule of Expenditures and Other Financing Uses -
Budget and Actual
For The Year Ended June 30, 2018

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance With Final Budget
Education	\$ 61,683,651	\$ -	\$ 61,683,651	\$ 61,499,055	\$ 184,596
Debt service:					
Bond redemption	3,119,591	170,000	3,289,591	3,289,591	-
Pension obligation bonds	3,463,817	-	3,463,817	3,463,817	-
Interest on bonds	1,570,067	188,000	1,758,067	1,757,725	342
Miscellaneous borrowing cost	20,000	-	20,000	750	19,250
Lease payments	1,501,206	(233,188)	1,268,018	1,117,797	150,221
Total debt service	9,674,681	124,812	9,799,493	9,629,680	169,813
Total expenditures	119,036,514	(293,188)	118,743,326	115,966,826	2,776,500
Other financing uses:					
Transfers to other funds:					
Capital nonrecurring fund	1,399,564	293,188	1,692,752	1,692,752	-
Total expenditures and other financing uses	\$ 120,436,078	\$ -	\$ 120,436,078	\$ 117,659,578	\$ 2,776,500

(Concluded)

Borough of Naugatuck, Connecticut

Firemen's Pension Fund

Required Supplementary Information
Last Five Years (1)Schedule of Changes in Net Pension Liability

	2018	2017	2016	2015	2014
Total pension liability:					
Service cost	\$ 549,640	\$ 859,601	\$ 781,284	\$ 702,150	\$ 671,914
Interest	2,929,430	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	(2,960,352)	(2,640,423)	(2,273,689)	(1,875,261)	(1,569,689)
Net change in total pension liability	518,718	2,199,758	2,377,713	3,591,008	1,616,449
Total pension liability - July 1	41,310,565	39,110,807	36,733,094	33,142,086	31,525,637
Total pension liability - June 30 (a)	<u>\$41,829,283</u>	<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	\$ 952,351	\$ 1,036,600	\$ 1,024,100	\$ 988,400	\$ 1,065,039
Contributions - member	125,554	178,934	224,909	253,109	190,130
Net investment income (loss)	3,118,524	4,799,970	(980,071)	980,242	5,512,663
Benefit payments, including refunds of member contributions	(2,960,352)	(2,640,423)	(2,273,689)	(1,875,261)	(1,569,689)
Administration expenses	(32,629)	(4,090)	(12,718)	(13,235)	(12,375)
Net change in plan fiduciary net position	1,203,448	3,370,991	(2,017,469)	333,255	5,185,768
Plan fiduciary net position - July 1	36,153,064	32,782,073	34,799,542	34,466,287	29,280,519
Plan fiduciary net position - June 30 (b)	<u>\$37,356,512</u>	<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>\$ 4,472,771</u>	<u>\$ 5,157,501</u>	<u>\$ 6,328,734</u>	<u>\$ 1,933,552</u>	<u>\$ (1,324,201)</u>

(1) 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 Five Years (1)

Schedule of Changes in Net Pension Liability

	2018	2017	2016	2015	2014
Total pension liability:					
Service cost	\$ 2,523,889	\$ 2,426,816	\$ 2,204,399	\$ 2,201,496	\$ 2,127,000
Interest	10,144,867	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	(9,859,657)	-	-	2,451,313	-
Changes in assumptions	7,351,004	-	3,458,280	2,608,643	-
Benefit payments, including refunds of member contributions	(9,216,140)	(8,589,383)	(8,198,938)	(7,929,977)	(7,109,921)
Net change in total pension liability	943,963	3,748,493	7,118,691	10,756,987	3,851,519
Total pension liability - July 1	137,265,760	133,517,267	126,398,576	115,641,589	111,790,070
Total pension liability - June 30 (a)	<u>\$ 138,209,723</u>	<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	\$ 5,155,791	\$ 3,516,640	\$ 4,177,500	\$ 4,557,044	\$ 4,616,760
Contributions - member	727,234	663,530	680,554	672,250	646,463
Net investment income (loss)	8,526,731	14,079,745	(2,360,461)	2,721,009	15,323,438
Benefit payments, including refunds of member contributions	(9,216,140)	(8,589,383)	(8,198,938)	(7,929,977)	(7,190,247)
Administration expenses	(42,926)	(44,775)	(40,035)	(40,939)	(53,218)
Net change in plan fiduciary net position	5,150,690	9,625,757	(5,741,380)	(20,613)	13,343,196
Plan fiduciary net position - July 1	103,872,582	94,246,825	99,988,205	100,008,818	86,665,622
Plan fiduciary net position - June 30 (b)	<u>\$ 109,023,272</u>	<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>\$ 29,186,451</u>	<u>\$ 33,393,178</u>	<u>\$ 39,270,442</u>	<u>\$ 26,410,371</u>	<u>\$ 15,632,771</u>

(1) 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 Five Years (1)

	2018	2017	2016	2015	2014
<u>Schedule of Net Pension Liability</u>					
Total pension liability	\$ 41,829,283	\$ 41,310,565	\$ 39,110,807	\$ 36,733,094	\$ 33,142,086
Plan fiduciary net position	37,356,512	36,153,064	32,782,073	34,799,542	34,466,287
Net pension liability (asset)	<u>\$ 4,472,771</u>	<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>89.31%</u>	<u>87.52%</u>	<u>83.82%</u>	<u>94.74%</u>	<u>104.00%</u>
Covered payroll	<u>\$ 2,379,853</u>	<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>187.94%</u>	<u>225.38%</u>	<u>174.10%</u>	<u>55.58%</u>	<u>(37.36%)</u>

Schedule of Investment Returns

	2018	2017	2016	2015	2014
Annual money weighted rate of return, net of investment expense	<u>8.80%</u>	<u>14.81%</u>	<u>(2.83%)</u>	<u>2.86%</u>	<u>18.80%</u>

(1) 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 Five Years (1)

	2018	2017	2016	2015	2014
<u>Schedule of Net Pension Liability</u>					
Total pension liability	\$ 138,209,723	\$ 137,265,760	\$ 133,517,267	\$ 126,398,576	\$ 115,641,589
Plan fiduciary net position	109,023,272	103,872,582	94,246,825	99,988,205	100,008,818
Net pension liability (asset)	\$ 29,186,451	\$ 33,393,178	\$ 39,270,442	\$ 26,410,371	\$ 15,632,771
Plan fiduciary net position as a percentage of the total pension liability	78.88%	75.67%	70.59%	79.11%	86.48%
Covered payroll	\$ 18,862,747	\$ 18,137,256	\$ 17,439,670	\$ 16,768,913	\$ 18,579,111
Net pension liability (asset) as a percentage of covered payroll	154.73%	184.11%	225.18%	157.50%	84.14%
<u>Schedule of Investment Returns</u>					
	2018	2017	2016	2015	2014
Annual money weighted rate of return, net of investment expense	9.10%	14.02%	(2.38%)	2.74%	17.79%

(1) 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>
2018	\$ 878,174	\$ 952,351	\$ 74,177	\$ 2,379,853	40.02%
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

Borough of Naugatuck, Connecticut

Firemen's Pension Fund

Notes to Required Supplementary Information
Schedule of Contributions
Last Five Years (1)

Changes of Benefit Terms	None
	2017 - Discount rate was reduced from 7.50% to 7.25%
Changes of Assumptions	2016 - Discount rate was reduced from 7.75% to 7.50%
	2015 - Discount rate was reduced from 8.00% to 7.75%
	2015 - Salary increase was reduced from 4.50% to 4.00%
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, 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	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.

(1) 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 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>
2018	\$ 4,523,400	\$ 5,155,791	\$ 632,391	\$ 18,862,747	27.33%
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

Borough of Naugatuck, Connecticut

Employee's Pension Fund

**Notes to Required Supplementary Information
Schedule of Contributions
Last Five Years (1)**

Changes of Benefit Terms	None
Changes of Assumptions	<p>2017 - Discount rate was reduced from 7.50% to 7.25%</p> <p>2016 - Discount rate was reduced from 7.75% to 7.50%</p> <p>2015 - Discount rate was reduced from 8.00% to 7.75%</p> <p>2015 - Salary increase changed from 4.50% to 4.00%</p> <p>2015 - Mortality table change from no collar to blue collar adjustment</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, 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	2.75%
Salary Increases	4.0%, 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 no collar adjustment, combined table for non-annuitants and annuitants, projected to the valuation date with Scale BB.

(1) 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 Four Years (3)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Schedule of Proportionate Share of the Net Pension Liability</u>				
Borough's proportion of the net pension liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Borough's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State of Connecticut's proportionate share of the net pension liability associated with Borough	<u>88,718,563</u>	<u>93,598,763</u>	<u>80,183,428</u>	<u>74,113,510</u>
Total	<u>\$ 88,718,563</u>	<u>\$ 93,598,763</u>	<u>\$ 80,183,428</u>	<u>\$ 74,113,510</u>
Borough's covered payroll	(2) <u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Borough's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>55.93%</u>	<u>52.26%</u>	<u>59.50%</u>	<u>61.51%</u>

Schedule of Contributions

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	(1) \$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Borough's covered payroll	(2) <u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Contributions as a percentage of covered payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

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

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

(3) 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
Schedule of Contributions
Last Four Years (1)

Changes of benefit terms	None
Changes of assumptions	2016: 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 prorable 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
Mortality	RP-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80. For the disabled retirees, the RPH-2014 Disabled Mortality table projected to 2017 using the BB improvement scale.

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

Borough of Naugatuck, Connecticut

Other Post-Employment Benefit (OPEB) Plan

Required Supplementary Information
Last Two Years (1)Schedule of Changes in Net OPEB Liability

	<u>2018</u>	<u>2017</u>
Total OPEB liability:		
Service cost	\$ 4,605,763	\$ 5,908,859
Interest	8,517,397	7,482,937
Differences between expected and actual experience	11,825	468,243
Changes of assumptions	(5,752,320)	(32,399,364)
Benefit payments, including refunds of member contributions	<u>(7,025,378)</u>	<u>(7,160,727)</u>
Net Change in total OPEB liability	357,287	(25,700,052)
Total OPEB liability - July 1	<u>193,330,406</u>	<u>219,030,458</u>
Total OPEB liability - June 30 (a)	<u><u>\$ 193,687,693</u></u>	<u><u>\$ 193,330,406</u></u>
Plan fiduciary net position:		
Contributions - employer	\$ 7,350,378	\$ 7,585,727
Net investment income	394,011	698,742
Benefit payments, including refunds of member contributions	(7,025,378)	(7,160,727)
Administration expenses	<u>(5,186)</u>	<u>-</u>
Net change in plan fiduciary net position	713,825	1,123,742
Plan fiduciary net position - July 1	<u>8,424,921</u>	<u>7,301,179</u>
Plan fiduciary net position - June 30 (b)	<u><u>\$ 9,138,746</u></u>	<u><u>\$ 8,424,921</u></u>
Net OPEB liability - June 30 (a)-(b)	<u><u>\$ 184,548,947</u></u>	<u><u>\$ 184,905,485</u></u>

(1) 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 Two Years (1)Schedule of Net OPEB Liability

	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 193,687,693	\$ 193,330,406
Plan fiduciary net position	<u>9,138,746</u>	<u>8,424,921</u>
Net OPEB liability	<u>\$ 184,548,947</u>	<u>\$ 184,905,485</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>4.72%</u>	<u>4.36%</u>
Covered payroll	<u>\$ 49,189,795</u>	<u>\$ 47,873,280</u>
Net OPEB liability as a percentage of covered payroll	<u>375.18%</u>	<u>386.24%</u>

Schedule of Investment Returns

	<u>2018</u>	<u>2017</u>
Annual money weighted rate of return, net of investment expense	<u>6.16%</u>	<u>10.00%</u>

(1) 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 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>
2018	\$ 12,576,000	\$ 7,350,378	\$ (5,225,622)	\$ 49,189,795	15%
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

Borough of Naugatuck, Connecticut

Other Post-Employment Benefit (OPEB) Plan

Notes to Required Supplementary Information
Schedule of Contributions
Last Six Years (1)

Changes of Benefit Terms	None
Changes of Assumptions	<p>2013: The Board of Education will only provide a high deductible plan with a health savings account</p> <p>2016: 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, 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	Entry Age Normal
Amortization Method	Level percent
Amortization Period	30 years, open
Asset Valuation Method	Fair value
Investment Rate of Return	6.50%
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%
Mortality	RP-200 Mortality Table with separate male and female rates, with no collar adjustment (for Borough and Board of Education) and blue collar adjustment (for Police and Fire), combined table for non-annuitants and annuitants, projected to the valuation date with Scale BB (Prior Scale AA).

(1) 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 Board Retiree Health Insurance Plan

Required Supplementary Information
June 30, 2018 (3)Schedule of Proportionate Share of the Net OPEB Liability

Borough's proportionate share of the net OPEB liability		\$ -
State of Connecticut's proportionate share of the net OPEB liability associated with Borough		22,835,165
Total		<u>\$ 22,835,165</u>
Covered payroll	(2)	<u>N/A</u>
Borough's proportionate share of the net OPEB liability as a percentage of its covered payroll		<u>0.00%</u>
Plan fiduciary net position as a percentage of the total OPEB liability		<u>1.79%</u>

Schedule of Contributions

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

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

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

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

Borough of Naugatuck, Connecticut

Connecticut State Teachers' Retirement Board Retiree Health Insurance Plan

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

Changes of Benefit Terms	None
Changes of Assumptions	2016:
	The discount rate has been lowered from 4.50% to 4.25% to reflect the decrease in the rate of inflation
	The payroll growth rate assumption was decreased from 3.75% to 3.25% to reflect the decrease in the rate of inflation and the decrease in the rate of real wage increase
	The demographic assumptions of salary growth, payroll growth, the rates of withdrawal, the rates of retirement, the rates of mortality, and the rates of disability incidence were adjusted based upon the experience study's findings and their adoption by the Board
	The assumed initial per capita health care costs, the assumed rates of healthcare inflation used to project the per capita costs, and the participation assumptions have been revised
Actuarial Cost Method	Entry age
Amortization Method	Level percentage, open
Asset Valuation Method	Fair Value
Inflation	2.75%
Healthcare Inflation Rate	Initial 7.25% decreasing to 5.00% (ultimate) by 2022
Salary Increases	3.25% to 6.50%, including inflation
Investment Rate of Return	4.25%
Mortality Rate	RP-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80. For disabled retirees, the RPH-2014 Disabled Mortality table projected to 2017 using the BB improvement scale

(1) These schedules are intended to present information for 10 years.
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