

TOWN OF LITCHFIELD, CONNECTICUT

ANNUAL FINANCIAL REPORT

June 30, 2017

TOWN OF LITCHFIELD, CONNECTICUT

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INDEPENDENT AUDITOR'S REPORT

Board of Selectmen
Town of Litchfield, Connecticut
Litchfield, CT 06759

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Litchfield Connecticut, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Litchfield, Connecticut's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 3a through 3g and the required supplemental information on pages 55-64, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Litchfield, Connecticut's basic financial statements. The combining and individual nonmajor fund financial statements and schedules, the schedule of property taxes levied, collected and outstanding, and the schedule of debt limitation are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, the schedule of property taxes levied, collected and outstanding, and the schedule of debt limitation 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 nonmajor fund financial statements and schedules described in the above paragraph are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The statistical tables 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 December 30, 2017 on our consideration of the Town of Litchfield, Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Litchfield, Connecticut's internal control over financial reporting and compliance.

CLERMONT & ASSOCIATES, LLC
Prospect, Connecticut

December 30, 2017

TOWN OF LITCHFIELD, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

This discussion and analysis of the Town of Litchfield, Connecticut's (the "Town") financial performance is provided by management to provide an overview of the Town's financial activities for the fiscal year ended June 30, 2017. Please read this MD&A in conjunction with the Town's financial statements.

Financial Highlights

- Net position of our governmental activities increased by \$3.7 million.
- Net position of our business-type activities increased by \$302 thousand
- The General Fund reported a fund balance this year of \$5.5 million; \$792 thousand more than the general fund balance reported in the prior year;
- The resources available for appropriation in the general fund were \$5.0 million.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (Exhibits A and B, respectively) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements are presented in Exhibits C and D. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. In addition, beginning this fiscal year, the Town maintains the water pollution control authority as a proprietary fund (Exhibit G, H and I). The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

Government Wide Financial Statements

The analysis of the Town as a whole begins on Exhibits A and B. The statement of net position and the statement of activities reports information about the Town as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net position and related changes. The Town's net position, the difference between assets and liabilities, is one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other nonfinancial factors, such as changes in the Town's property tax base and the condition of the Town's capital assets, to assess the overall health of the Town.

In the statement of net position and the statement of activities, the Town reports its activities as follows:

- *Governmental activities* - The Town's basic services are reported here, including general government, public safety, community services, public works, education, public library and municipal facilities. Property taxes, charges for services and state and federal grants finance most of these activities.
- *Business-type activities* – The Water Pollution Control Authority's activity is reported here.

Fund Financial Statements

The fund financial statements begin with Exhibit C and provide detailed information about the most significant funds - not the Town as a whole. Some funds are required to be established by Charter. However, the Board of Selectman establishes many other funds to help control and manage financial activities for particular purposes or to show that it is meeting legal responsibilities for using grants and other money (like grants received for education from the State and Federal governments). The Town's funds are divided into three categories: governmental, proprietary and fiduciary.

- *Governmental funds (Exhibits C and D)* - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.
- *Proprietary funds (Exhibits G, H and I)* - When the Town charges customers for the services it provides, whether to outside customers or to other units of the Town, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. Internal service funds (the component of proprietary funds) are used to report activities that provide supplies and services for the Town's other programs and activities, such as the Town's self medical insurance Internal Service Fund.
- *Fiduciary funds (Exhibits J and K)* - The Town is the trustee, or fiduciary, for its employees' pension plans. All of the Town's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net position. These activities are excluded from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Government-Wide Financial Analysis

The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental activities and business-type activities. The Town's net position for governmental activities increased \$4.8 million from \$54.1 million in 2016 to \$58.9 million in 2017.

The net operating income and net investment income increased the business-type activities by \$302 thousand for the fiscal year ending June 30, 2017. The net position ended at \$4.1 million.

TABLE 1 NET POSITION: (in Thousands)

		Governmental Activities	
		2017	2016
Current and other assets	\$	18,212	14,362
Capital assets		73,673	70,189
Deferred inflows		127	1,209
Total assets & deferred inflows	\$	92,012	85,760
Current and other liabilities	\$	2,434	2,617
Deferred outflows		699	55
Long-term liabilities		30,976	28,924
Total liabilities & deferred outflows	\$	34,109	31,596
Net position:			
Investment in capital assets	\$	47,384	48,048
Restricted		10	10
Unrestricted		10,509	6,106
Total net position	\$	57,903	54,164

TABLE 2
CHANGE IN NET ASSETS (In Thousands)

	Governmental Activities	
	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 1,763	1,185
Operating grants and contributions	5,972	3,142
Capital grants and contributions	1,381	816
General revenues:		
Property taxes	27,743	27,218
Grants and contributions not restricted to specific purposes	340	153
Unrestricted investment earnings and other revenues	102	87
Other general revenues (and transfers)	217	(3,401)
Total revenues	<u>\$ 37,518</u>	<u>29,200</u>
Program expenses:		
General government	\$ 2,693	1,812
Public safety	1,075	1,127
Public works	4,237	5,136
Health and welfare	48	137
Culture and recreation	744	750
Education	24,429	20,277
Interest and fiscal charges	553	638
Total program expenses	<u>\$ 33,779</u>	<u>29,877</u>
Increase (Decrease) in Net Position	<u>\$ 3,739</u>	<u>3,745</u>

Town Funds Financial Analysis

Governmental Funds

As the Town completed the year, its governmental funds (as presented in the balance sheet - Exhibit C) reported a combined fund balance of \$11.6 million which is a \$4 million increase from the previous year. Included in this year's total change in fund balance is a increase of \$2.7 million in the Capital Projects Fund. This is mainly due to the ongoing capital projects bonding of capital expenditures and related premium on issuance.

Proprietary Funds

The Town reports the Water Pollution Control Authority as a proprietary fund (Exhibit G, H, and I). Under this presentation, the operating income was \$302 thousand, which included depreciation expense of \$91 thousand. Net fund position at year end included \$3,134 thousand of net capital investment and \$985 thousand unrestricted.

The Internal Service Fund recorded a negative change in net fund position. Operating revenues were less than operating expenses by \$114 thousand with a net fund position of \$2,681

General Fund Budgetary Highlights

Exhibit F shows the summary information of budget to actual revenues, expenditures and changes in undesignated, unreserved fund balance (funds available to be appropriated).

- Property tax collections were slightly more than expected as well as total revenues
- All departments expended less than the budgeted amounts with the largest savings in the public works department.

The fund balance was \$5.5 million of which \$5.0 million was without restrictions or assignments and available to appropriate.

Capital Assets

At June 30, 2017, the Town had \$78 million invested in a broad range of capital assets, including land, buildings, park facilities, vehicles and equipment, roads, bridges, and water and sewer lines. In separating the Water Pollution Control Authority from the government funds, \$4.6 million in capital assets, which mainly includes sewers and the newly constructed facility. The total Town's amount represents a net increase (including additions and deductions) of \$3 million, net of depreciation expenses.

TABLE 3**CAPITAL ASSETS (Net of Depreciation)**

		Governmental Activities	
		2017	2016
Land	\$	1,679	1,679
Buildings and improvements		43,311	42,435
Furniture, fixtures and equipment		3,587	2,920
Infrastructure		21,403	19,462
Construction in progress		3,692	3,692
Totals	\$	73,672	70,188

		Business-type Activities	
		2017	2016
Buildings and improvements	\$	2,794	2,817
Equipment		42	51
Infrastructure		1,791	1,850
Totals	\$	4,627	4,718

TABLE 4
OUTSTANDING DEBT (In Thousands)

Long-Term Liabilities

At June 30, 2017 the Town had \$32.6 million in long term liabilities versus \$30.6 million last year, a increase of 6.5% - as shown in Table 4.

	2017	2016
\$	<u>32,594,251</u>	<u>30,641,098</u>

General obligation bonds (backed by the Town) were reduced by \$2.4 million in payments with no new issues doing the fiscal year.

Other obligations include accrued vacation pay and sick leave, and net pension and other post retirement benefit obligations. More detailed information about the Town's long-term liabilities is presented in Note 8 to the financial statements. Included in the Business-type activities is \$1.6 million in notes payable, which was Clean Water Notes for the construction of the new water pollution control facilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2018 budget tax rates. One of those factors is the economy and the benefits of continual development within the Town.

These indicators along with a projected modest inflationary increase were taken into account when adopting the General Fund budget for 2017-18.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's Finance Department at 74 West Main Street, P.O. Box 488, Litchfield, Connecticut, 06759.

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business-type Activities	Total*
Assets:			
Cash and cash equivalents	\$ 16,569,194	50	16,569,244
Investments	735,227		735,227
Receivables, net	1,525,661	252,971	1,778,632
Prepaid expenses	424,205		424,205
Notes receivable		126,324	126,324
Inventory	85,313		85,313
Internal balances	(749,963)	749,963	-
External balances	(376,984)		(376,984)
Capital assets:			
Capital assets, not being depreciated	5,371,560		5,371,560
Capital assets, being depreciated, net	68,301,198	4,626,797	72,927,995
Total assets	\$ 91,885,411	5,756,105	97,641,516
Deferred outflows on resources			
Deferred outflows on pension resources	\$ 127,000		127,000
	127,000	-	127,000
Liabilities:			
Accounts payable and other current liabilities	\$ 1,838,932	16,162	1,855,094
Accrued interest	234,000		234,000
Unearned revenues	99,560	1,771	101,331
Claims incurred, but not reported	261,517		261,517
Noncurrent liabilities:			
Due within one year	2,995,625	280,864	3,276,489
Due in more than one year	27,980,178	1,337,584	29,317,762
Total liabilities	\$ 33,409,812	1,636,381	35,046,193
Deferred Inflows on Resources			
Advance tax collections	\$ 57,660		57,660
Deferred Inflows on pension resources	641,227		641,227
Total deferred inflow on resources	\$ 698,887	-	698,887
Net Position:			
Invested in capital assets, net of related debt	\$ 47,383,954	3,134,673	50,518,627
Restricted for:			
Donor's Intentions	10,398		10,398
Unrestricted	10,509,360	985,051	11,494,411
Total net position	\$ 57,903,712	4,119,724	62,023,436

* After internal balances have been eliminated

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

TOWN OF LITCHFIELD, CONNECTICUT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

		Program Revenues
Functions/programs	Expenses	Charges for Services
Primary Government:		
Governmental activities:		
General government	\$ 2,692,832	1,215,997
Public safety	1,074,665	19,049
Public works	4,237,369	140,635
Community service	47,696	946
Cultural and recreation	744,427	64,775
Education	24,428,728	321,851
Interest on long-term debt	553,086	
Total governmental activities	\$ 33,778,803	1,763,253
Business-type activities:		
Water Pollution Control Authority	\$ 934,112	1,159,044
Interest on long-term debt	35,571	
Total business-type activities	\$ 969,683	1,159,044
Total primary government	\$ 34,748,486	2,922,297

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

EXHIBIT B

Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-type Activities	Total
		(1,476,835)		(1,476,835)
4,074		(1,051,542)		(1,051,542)
383,652	1,380,602	(2,332,480)		(2,332,480)
		(46,750)		(46,750)
		(679,652)		(679,652)
5,583,949		(18,522,928)		(18,522,928)
		(553,086)		(553,086)
<u>5,971,675</u>	<u>1,380,602</u>	<u>(24,663,273)</u>	<u>-</u>	<u>(24,663,273)</u>
			224,932	224,932
			(35,571)	(35,571)
<u>-</u>	<u>-</u>	<u>-</u>	<u>189,361</u>	<u>189,361</u>
<u>5,971,675</u>	<u>1,380,602</u>	<u>(24,663,273)</u>	<u>189,361</u>	<u>(24,473,912)</u>
General revenues:				
Property taxes		\$ 27,743,031		27,743,031
Grants and contributions not restricted for specific programs		340,290		340,290
Unrestricted investment earnings		102,218	8,509	110,727
Other unrestricted income		321,353		321,353
Transfers		(104,013)	104,013	-
Total general revenues and transfers		<u>\$ 28,402,879</u>	<u>112,522</u>	<u>28,515,401</u>
Change in net position		<u>\$ 3,739,606</u>	<u>301,883</u>	<u>4,041,489</u>
Net position, beginning		<u>54,164,106</u>	<u>3,817,841</u>	<u>57,981,947</u>
Net position, ended		<u>\$ 57,903,712</u>	<u>4,119,724</u>	<u>62,023,436</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 16,173,810		126,306	16,300,116
Investments	735,227			735,227
Receivables, net	740,192	47,656	737,813	1,525,661
Due from other funds		3,855,895	2,509,160	6,365,055
Inventories	85,313			85,313
Total assets	\$ 17,734,542	3,903,551	3,373,279	25,011,372
Liabilities and Fund Balances				
Liabilities:				
Accounts and other payables	\$ 1,369,459	317,869	151,604	1,838,932
Due to other funds	10,165,082			10,165,082
Unearned revenues			99,560	99,560
Total liabilities	\$ 11,534,541	317,869	251,164	12,103,574
Deferred inflows of resources:				
Unavailable receipts	620,264		663,657	1,283,921
Payment in advance	57,660			57,660
Total deferred inflows of resources	677,924	-	663,657	1,341,581
Fund balances:				
Nonspendable	\$ 85,313			85,313
Restricted for:				
Donor's intentions			10,398	10,398
Committed for:				
Capital Outlays				-
Specified use	311,373		744,130	1,055,503
Assigned	45,386	3,585,682	1,706,741	5,337,809
Unassigned	5,080,005		(2,811)	5,077,194
Total fund balances	\$ 5,522,077	3,585,682	2,458,458	11,566,217
Total liabilities, deferred inflows of resources and fund balances	\$ 17,734,542	3,903,551	3,373,279	

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

Capital assets used in the governmental activities are not financial resources and therefore, are not reported in the funds.	73,672,758
Other long-term assets are not available to pay for current period expenditures, and, therefore, are deferred in the funds.	769,694
Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities column in the statement of net position.	2,680,641
Long-term liabilities , including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(30,785,598)
Net position of governmental activities (Exhibit A)	<u>\$ 57,903,712</u>

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes and assessments	\$ 27,879,012			27,879,012
Intergovernmental	5,135,647	1,380,602	1,176,318	7,692,567
Charges for services	567,891		1,195,362	1,763,253
Investment income	99,144		3,074	102,218
Miscellaneous	27,178		333,929	361,107
Total revenues	<u>\$ 33,708,872</u>	<u>1,380,602</u>	<u>2,708,683</u>	<u>37,798,157</u>
Expenditures:				
Current:				
General government	\$ 1,426,358		1,105,107	2,531,465
Public safety	875,941			875,941
Public works	3,003,261			3,003,261
Public health	45,411			45,411
Culture and recreation	635,369		62,258	697,627
Education	22,078,393		1,049,794	23,128,187
Other	1,793,704		25,725	1,819,429
Capital outlay		5,050,052		5,050,052
Debt service	3,631,294			3,631,294
Total expenditures	<u>\$ 33,489,731</u>	<u>5,050,052</u>	<u>2,242,884</u>	<u>40,782,667</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 219,141</u>	<u>(3,669,450)</u>	<u>465,799</u>	<u>(2,984,510)</u>
Other financing sources (uses)				
Transfer from other funds	\$	25,000		25,000
Transfer to other funds	(25,000)			(25,000)
Premium on bond issuance	597,975			597,975
Proceeds from sale of bonds		6,438,000		6,438,000
Total other financing sources (uses)	<u>\$ 572,975</u>	<u>6,463,000</u>	<u>-</u>	<u>7,035,975</u>
Net changes in fund balances	<u>\$ 792,116</u>	<u>2,793,550</u>	<u>465,799</u>	<u>4,051,465</u>
Fund balances (deficits) - beginning	<u>4,729,961</u>	<u>792,132</u>	<u>1,992,659</u>	<u>7,514,752</u>
Fund balances (deficits) - ended	<u>\$ 5,522,077</u>	<u>3,585,682</u>	<u>2,458,458</u>	<u>11,566,217</u>

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017**

Differences in amounts reported for government wide activities in the Statement of Activities are due to:

Net change in fund balances - total governmental funds (Exhibit D)	\$ 4,051,465
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.	3,484,014
Long lived assets previously recognized in the statement of activities that provided current financial resources in the current year.	(1,422,019)
The issuance of long-term debt (e.g., bonds, leases) provide 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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,260,352)
The net expense of certain activities of internal service funds is reported with governmental activities.	<u>(113,502)</u>
Change in net position of governmental activities (Exhibit B)	<u>\$ 3,739,606</u>

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Positive/ (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 27,612,885	27,612,885	27,879,012	266,127
Intergovernmental	1,857,977	1,857,977	1,790,609	(67,368)
Charges for services	466,910	466,910	567,891	100,981
Investment income	25,000	25,000	99,144	74,144
Other revenues	5,000	5,000	27,178	22,178
Total revenues	\$ 29,967,772	29,967,772	30,363,834	396,062
Expenditures:				
Current:				
General government	\$ 1,366,062	1,493,271	1,426,358	66,913
Public safety	910,854	900,780	870,941	29,839
Public works	3,115,456	3,156,407	3,021,206	135,201
Health and welfare	40,752	44,754	43,411	1,343
Cultural and recreation	646,731	646,731	635,368	11,363
Education	18,583,463	18,583,463	18,540,991	42,472
Capital Improvement	90,000	90,000	90,000	-
Other	1,947,287	1,785,199	1,755,704	29,495
Debt service:				
Principal retirements	2,876,684	2,876,684	2,913,496	(36,812)
Interest and other charges	679,374	679,374	711,600	(32,226)
Bond anticipation notes	111,197	111,197	6,198	104,999
Total expenditures	\$ 30,367,860	30,367,860	30,015,273	352,587
Revenues over (under) expenditures	\$ (400,088)	(400,088)	348,561	748,649
Other financing sources (uses):				
Premium on debt issuance	\$ 400,088	400,088	427,944	427,944
Debt reimbursement			170,031	170,031
Other financing sources (uses):				
Total other financing sources (uses)	\$ 400,088	400,088	597,975	597,975
Revenues Over Expenditures and Other Financing Sources (Uses)	\$ -	-	946,536	1,346,624
Less:				
Change in nonspendable			(24,707)	
Changes in assigned fund balance			(45,387)	
Net Change in unassigned fund balance			\$ 876,442	
Unassigned fund balance, July 1, 2016			4,203,563	
Unassigned fund balance, June 30, 2017			\$ 5,080,005	

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

STATEMENT OF NET FUND POSITION
PROPRIETARY FUNDS
June 30, 2017

	Business-type Activities Water Pollution Control	Governmental Activities Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 50	269,078
Investments		
Receivables, net of allowance	252,971	
Notes receivable, current portion	19,727	
Due from other funds	749,963	2,673,080
Total current assets	\$ 1,022,711	2,942,158
Noncurrent assets:		
Notes receivable, less current portion	\$ 106,597	
Capital assets, net of accumulated depreciation	4,626,797	
Total noncurrent assets	\$ 4,733,394	-
Total assets	\$ 5,756,105	2,942,158
Liabilities		
Current liabilities:		
Accounts payable & accrued liabilities	\$ 16,162	
Payments in advance	1,771	
Notes payable - current	280,864	
Total current liabilities	\$ 298,797	-
Noncurrent liabilities:		
Incurred, but not reported claims	\$	261,517
Notes payable, less current portion	1,337,584	
Total noncurrent liabilities	\$ 1,337,584	261,517
Total liabilities	\$ 1,636,381	261,517
Net Fund Position		
Invested in capital assets, net of related debt	\$ 3,134,673	
Unrestricted	985,051	2,680,641
Total net fund position	\$ 4,119,724	2,680,641

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET FUND POSITION (DEFICIT)

PROPRIETARY FUNDS

For the Year Ended June 30, 2017

	Business-type Activities Water Pollution Control	Governmental Activities Internal Service Funds
Operating revenues:		
Charges for services and other revenues	\$ 1,151,747	3,423,305
Other revenues	7,297	
Total operating revenues	<u>\$ 1,159,044</u>	<u>3,423,305</u>
Operating expenses:		
Salaries and benefits	\$ 439,243	
Claims and administrative		3,553,500
Material and supplies	102,146	
Utilities	71,986	
Depreciation	90,929	
Administration and operation	229,808	
Total operating expenses	<u>\$ 934,112</u>	<u>3,553,500</u>
Operating income (loss)	<u>\$ 224,932</u>	<u>(130,195)</u>
Nonoperating revenues (expenses):		
Interest income	\$ 8,509	16,693
Interest expense	(35,571)	
Total nonoperating revenues (expenses)	<u>\$ (27,062)</u>	<u>16,693</u>
Transfer from other funds	<u>\$ 104,013</u>	
	<u>\$ 104,013</u>	<u>-</u>
Change in Net Fund Position	<u>\$ 301,883</u>	<u>(113,502)</u>
Net Fund Position, beginning	<u>\$ 3,817,841</u>	<u>2,794,143</u>
Net Fund Position, (Deficit), ended	<u>\$ 4,119,724</u>	<u>2,680,641</u>

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

	Business-type Activities Water Pollution Control	Governmental Activities Internal Service Funds
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 1,038,828	3,423,305
Payments to suppliers	(439,243)	(3,500,262)
Payments to employees	(393,021)	
Net cash flows from operating activities	\$ 206,564	(76,957)
Cash Flows From Noncapital and Related Financing Activities		
Transfer in and payments made through governmental activities	\$ 107,850	36,935
Net cash provided by (used in) noncapital and related financing activities	\$ 107,850	36,935
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	\$ -	
Receipts on notes related to capital debt	(306,682)	
Principal payments on capital debt	(35,571)	
Interest paid on capital debt	22,074	
Net cash provided by (used in) capital and related financing activities	\$ (320,179)	
Cash Flows From Investing Activities		
Interest received on investments	\$ 5,765	16,693
Net cash provided by investing activities	\$ 5,765	16,693
Net increase (decrease) in cash and cash equivalents	\$ -	(23,329)
Cash and Cash Equivalents, beginning	50	292,407
Cash and Cash Equivalents, ending	\$ 50	269,078
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In)		
Operating Activities:		
Operating Income (Loss)	\$ 224,932	(130,195)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	90,929	
Changes in assets and liabilities:		
Decrease (increase) in receivable accounts	(120,366)	
Increase (decrease) in accounts payable	10,919	
Increase (decrease) in payments in advance	150	
Increase (decrease) in claims incurred but not reported		53,238
Net cash flows from operating activities	\$ 206,564	(76,957)

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2017

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 413,623	169,793
Receivables other		376,984
Investments, at fair value:		
Equities	11,018,072	
Common Stock	5,613,380	
Mutual Funds	813,099	
U.S. government obligations	422,770	
Total assets	\$ 18,280,944	546,777
Liabilities		
Other liabilities	\$	
Held for deposit for others		
Total liabilities	\$ -	-
Net Position:		
Held in trust for benefits and other purposes	\$ 18,280,944	546,777

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2017

	Private Purpose Trust Funds
ADDITIONS	
Contributions:	
Contributions and donations	\$ 1,010,426
Total contributions	<u>\$ 1,010,426</u>
Investment earnings:	
Net increase in fair value of investments	\$ 1,436,274
Interest and dividends	366,650
Less: Investment expenses	(80,680)
Total investment earnings	<u>\$ 1,722,244</u>
Total additions	<u>\$ 2,732,670</u>
DEDUCTIONS	
Benefits	\$ 924,196
Total deductions	<u>\$ 924,196</u>
Change in net position	<u>\$ 1,808,474</u>
NET POSITION, beginning	<u>\$ 16,472,470</u>
NET POSITION, ending	<u><u>\$ 18,280,944</u></u>

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

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Town of Litchfield, Connecticut (the Town) was incorporated in 1719. It operates under a Selectmen/Town Meeting form of government with a Board of Finance and provides general government, public safety, public works, recreation, health and welfare, education services and sanitation services.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting board for governmental accounting financial reporting principles. These principles require that the Town report government-wide and fund financial statements, which are described below.

Government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. *Government activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately than *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment of, 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*.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are proprietary fund and fiduciary fund financial statements. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. 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.

As a general rule, the effect of inter-fund activity, or internal balances, has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the business-type funds and the various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Fund financial statements

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

The 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. Expenditures are generally recorded when a liability has occurred, as under accrual accounting. However expenditures related to long-term liabilities, such as debt service payments and compensated absences, are recorded only when payment is due.

Property taxes are levied on all taxable assessed property on the grand list of October 1 prior to the beginning of the fiscal year. Real estate taxes are payable in two installments (July 1 and January 1). Personal property taxes are payable annually (July 1) and motor vehicle taxes are due in one single payment on July 1. Liens are filed on delinquent real estate taxes within one year. Revenues from property taxes are recognized when they become available. Available means due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Town considers property tax revenue to be available if they are collected within 60 days of the end of the fiscal year.

Those revenues susceptible to accrual are property taxes, special assessments and interest revenue. Fines, permits and charges for services are not susceptible to accrual because generally they are not measurable until received in cash.

Intergovernmental revenues grants and similar items are recognized as soon as all eligible requirements imposed by the provider have been met and are collected soon enough to pay liabilities of the current period. For this purpose, grants may be recognized and received after 60 days of the fiscal year end.

The Town reports the following major governmental funds:

The **general fund** is the general operating fund of the Town's government. All unrestricted resources, except those required to be accounted for in another fund, are accounted for in this fund. From this fund are paid general operating expenditures, fixed charges, principal and interest on long-term debt and capital improvement costs of the Town, which were not paid through a special fund.

The **capital projects fund** is used to account for resources used for capital expenditures or for the acquisition or construction of capital facilities, improvements and equipment. Most of the capital outlays are financed by the issuance of general obligation bonds and capital grants. Other sources include current tax revenues and low interest state loans.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

The Town reports the following major proprietary funds:

The ***Water Pollution Control Authority (W.P.C.A.)*** accounts for the operations of the Town's wastewater treatment system. The Town operates its own sewage treatment plant, sewage pumping stations and collection system. Its operations are financed from direct charges to the users of the service.

Additionally, the Town reports the following fund types:

The ***internal service fund*** account for employee heart and hypertension and workers' compensation insurance provided to departments of the Town.

The ***private-purpose trust fund*** is used to account for assets held by the Town in a trustee capacity or as an agent on behalf of others. An example includes the Plumb Memorial Library, which maintains the assets received through contributions, fees and charges of the library.

The ***agency funds*** account for monies held as a custodian for outside groups and agencies such as student activity funds, senior trip funds and performance bonds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and the enterprise funds reported in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their government-wide and propriety fund financial statements subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for enterprise and internal service funds include the cost of operations and maintenance, provisions for doubtful accounts, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Cash and cash equivalents

The Town considers cash on hand, deposits and short-term investments, with an original maturity of three months or less from the date of acquisition

Investments

Investments are stated at the fair value using quoted market prices.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued

June 30, 2017

Inventories

Inventories are stated at the lower of cost or market using the consumption method on the first-in, first-out basis for governmental fund types.

Receivables and payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (current portion of interfund loans) or "advances to/from other funds" (noncurrent portion of interfund loans). Any residual balances outstanding between governmental activities and business type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable funds to indicate that they are not available for appropriation and are not expendable as financial resources.

All trade and property tax receivables, including those for W.P.C.A. funds, are shown net of an allowance for uncollectible accounts. Trade account receivables allowance for uncollectible accounts is estimated based on the inherent risk associated with the accounts.

Capital assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$20,000 and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the net assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed.

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

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

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued **June 30, 2017**

Capital assets are reported as expenditures and no depreciation expense is reported in the governmental fund financial statements.

Deferred outflows/inflows of resources

The Statement of net position (Exhibit A) reports a separate section for deferred outflows of resources. This separate financial element represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources until a future period. The Town reports borrowing costs as well as a deferred charge on refunding as a result from the differences in the carrying value of refunded debt and its reacquisition price. These amounts are deferred and amortized over the shorter of the life of the related debt. A deferred outflow of resources related to pension results from net difference between projected and actual earnings on plan investments. These amounts are deferred and will be included as pension expense in a systematic and rational manner.

The statement of net position (Exhibit A) and the Balance Sheet for the government funds (Exhibit C) report a separate section for deferred inflows of resources. This separate financial element represents the addition of net position or fund balance that applies to future period and will not be recognized as revenue until that time. The Town reports advance tax collections in the statement of net position and the balance sheet for the government funds. The Town reports a deferred inflow of resources related to pensions in the statement of net position.

A deferred inflow of resources related to pension results from differences between expected and actual experience. These amounts are deferred and included in pension expense in a systematic and rational manner. The government funds report unavailable revenue, which arises only under the modified accrual basis of accounting because it does not meet the measurable and available criteria for the recognition in the current period.

Compensated absences

Under the terms of its various union contracts, Town and Board of Education employees are granted vacation and sick time in varying amounts based on length of service. Certain employees may also carry over a limited number of unused vacation days to subsequent years based on the terms of an employment or union contract. In the event of termination, these employees are reimbursed for accumulated vacation. The Town recognizes a liability in the government-wide financial statements for the vested portion, as well as the unvested portion to the extent expected to be paid, as compensated absences.

Net pension liability

The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Net OPEB assets/obligations

The net OPEB asset/obligation represents the cumulative difference between the annual pension/OPEB cost and the Town's contributions to the plans. The amounts are calculated on an actuarial basis and are recorded as noncurrent assets and/or noncurrent liabilities in the government-wide financial statements.

Long-term obligations

In the government-wide financial statements and proprietary fund types in fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the terms of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financial 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.

Fund equity and net position

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

Investment in capital assets, net of related debt - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

The ***restricted net position*** represent amounts of external restrictions imposed by creditors, grantors, contributors and laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

The ***unrestricted net position*** represents the net position of the Town which are not restricted for any project or other purpose.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

In the fund financial statements, fund balances of governmental funds are classified into two separate categories. The five categories and their general meanings are as follows:

The **nonspendable** are those net assets that are not in expendable form or are legally or contractually required to be maintained.

The **restricted fund balances** are defined in the same manner as for the restricted government-wide net assets.

Committed fund balances are those balances that can only be used for a specific purpose as a result of constraints imposed by formal action of the government's highest level of decision-making authority. For the *Town of Litchfield*, that was considered to be the Board of Selectmen.

Assigned fund balances are amounts that are contained by the government's intent to be used as a specific purpose.

Unassigned fund balance is defined as the residual classification for the general fund and includes those remaining balances that cannot be categorized in the four categories.

Note 2 - Budgets and Budgetary Accounting

General Fund

The Statement of Revenues and Expenditures, and Change in Fund Balance – Budgetary Basis - Budget to Actual presented in the financial statements for the General Fund is on the budgetary basis of accounting which is a basis of accounting other than the accrual basis and the modified basis of accounting. The budgetary basis of accounting and the Town's general budget policies are as follows:

- A. Prior to July 1 of each year, the budget is legally enacted through passage of a resolution.
- B. The Board of Finance is authorized to transfer budgeted amounts between appropriations and can approve additional these estimates and may revise them as he deems advisable, except that in the case of the department of education, he has the authority to revise only the total estimated expenditures.
- C. The formal budgetary integration is employed as a management control device during the year.
- D. Legal level of control (the level at which expenditures may not legally exceed appropriations) is at the department level.
- E. Other than the Department of Education, all transfers \$20,000 or greater require approval from the Board of Finance and the approval of the Town Meeting.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

A reconciliation of General Fund operations and fund balance presented on a budgetary basis to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP) is as follows:

	<u>Revenues</u>	<u>Expenditures and Encumbrances</u>
Balance, budgetary basis	\$ 30,363,834	30,015,273
Encumbrances of June 30, 2016		207,359
Encumbrances of June 30, 2017		(53,945)
Net difference – canine fund expenses		1,006
Reclassify capital appropriation		(25,000)
State Teachers' Retirement “on-behalf” payment, not recognized for budgetary purposes	<u>3,345,038</u>	<u>3,345,038</u>
Balance, GAAP basis	\$ <u>33,708,872</u>	<u>33,489,731</u>

The other financial sources (uses) were adjusted as follows:

Balance, budgetary basis	\$ 597,975
Reclassify capital appropriation	<u>(25,000)</u>
Balance, GAAP basis	\$ <u>572,975</u>

Special Revenue Funds

The Town does not have legally adopted annual budgets for the Special Revenue Funds. Budgets for the various special revenue funds which are utilized to account for specific grant programs are established in accordance with the requirements of the grantor agencies. Such budgets carry over until completion of the grants and, therefore, may comprise more than one fiscal year.

Capital Projects Funds

Legal authorization for expenditures of the Capital Projects Funds is provided by the related bond ordinances and/or intergovernmental grant agreements or Connecticut State Statutes. Capital appropriations do not lapse until the purpose for which the appropriation was made has been accomplished or abandoned.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Note 3 - Reconciliation of Government-wide and Fund Financial Statements

Explanation of Certain Differences Between the Government Fund Balance Sheet and the Government-wide Statement of Net Position

The details of the components included in Exhibit C are as follows:

Capitalized assets are expensed in the fund financial statements in the period the expense is incurred while the expense is incurred over the useful life of the related asset in the government-wide financial statements:

Land	\$	1,679,473
Construction in progress		3,692,087
Net capital assets being depreciated		<u>68,301,198</u>
Net adjustment to increase fund balance to arrive at net position of government activities	\$	<u>73,672,758</u>

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. The detail of this difference is as follows:

Net long-term debt	\$	(25,223,000)
Premium on bond issuances		(1,065,804)
Deferred portion on refunding		424,205
Compensated absences		(247,955)
Net pension obligation		(3,392,626)
Net OPEB obligation		(1,023,793)
Claims and judgments		(17,125)
Accrued interest on debt		(234,000)
Liabilities related to the landfill		<u>(5,500)</u>
Net adjustment to reduce fund balance to arrive at net position of government activities	\$	<u>(30,785,598)</u>

Other long-term assets are not available to pay for current period expenditures, and, therefore, are deferred in the funds. This amount includes the following:

Delinquent property tax and interest	\$	459,636
Delinquent accounts receivable		160,628
Deferred outflow/ inflows included in pension		(90,022)
Notes receivable – assessments		<u>663,657</u>
Net adjustment to increase fund balance to arrive at net position of government activities	\$	<u>1,193,899</u>

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued

June 30, 2017

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this difference are as follows:

Acquisitions	\$ 4,676,000
Depreciation	<u>(1,191,986)</u>
Net adjustment to increase net changes in fund balances to arrive at changes in net position of governmental activities	\$ <u>3,484,014</u>

Another element of that reconciliation states that "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 issuance costs, 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 this difference are as follows:

Payments of debt	\$ 2,570,000
New Issuances	(6,438,000)
Deferred portion on refunding	(53,026)
Premium new issuances	(89,250)
Net change in compensated absences	36,558
Net change in claims and judgment estimates	2,875
Net change in OPEB obligation	24,342
Net change in pension obligation	1,630,890
Net change in other long-term liabilities	2,750
Accrued interest	<u>52,509</u>
Net adjustment to reduce net changes in fund balances to arrive at changes in net position of governmental activities	\$ <u>2,260,352</u>

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Note 4 - Deposits and Investments

The Town's deposits and investments are presented in the accompanying balance sheets as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash and cash equivalents:			
Governmental activities	\$ 16,569,194		16,569,194
Business-type activities	50		50
Fiduciary funds	413,623		413,623
Investments:			
Governmental activities		735,227	735,227
Fiduciary funds		17,867,321	17,867,321
Total Deposits and Investments	\$ 16,982,867	18,602,548	35,585,415

Deposits

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

The carrying amounts of the Town's deposits at June 30, 2017 consist of the following:

Bank Deposit Accounts	\$ 16,982,817
Cash on Hand	<u>50</u>
Total Deposits	\$ <u>16,982,867</u>

Custodial Credit Risk

As of June 30, 2017, the carrying amount of the Town's deposits had bank balances of approximately \$17,018,738. The amount of the bank balance covered under federal depository insurance was approximately \$1,250,000. The remaining deposits were uninsured, however, provisions of the Connecticut General Statutes provide for protection against loss in excess of deposit insurance by requiring all qualified public depositories to maintain segregated collateral for public deposits. As of June 30, 2017 approximately \$1,702,000 of uninsured deposits were collateralized under the provision.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Investments

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

As of June 30, 2017, the Town held the following investments:

<u>Investment Type</u>	<u>Fund</u>	<u>Fair Value</u>	<u>Weighted Average to Maturity (years)</u>	<u>Risk</u>
State Investment Fund	General Fund	\$ 735,227	.02	-
U.S. government obligations	Trust Funds	422,770	2.64	AA+
Mutual Funds	Trust Funds	813,099	n/a	-
Common Stock	Trust Funds	5,613,380	n/a	A-/AA+
Equities	Trust Funds	11,018,072	n/a	-
Total Investments		\$ <u>18,602,548</u>		

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates which will adversely affect the fair value of an investment. The Town has, for the Pension Trust Funds, an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the Town's policy to invest only in securities that meet the ratings requirements set by General State Statute Chapter 112, Section 7-400.

Investment Policies

The Pension Commissions Investment Policy requires its fixed income portion to be high quality bonds managed consistent with Union Savings Bank's forecast of interest rates, inflation and valuation levels. The benchmark is the Lehman Brothers Aggregate Index for high quality and the J.P. Morgan Developed B/B Index for high yield.

The Pension Commission's benchmark for large capitalization companies is the S&P 500 Index, and for small capitalization companies uses the Russell 2000. The benchmark for international equities is the Morgan Stanley EAFE Index. The Policy uses these asset allocation targets; Equities 50%-70%; Fixed Income 30%-50%; Cash 0-20%.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued

June 30, 2017

Other than the private purpose trust funds, State Statutes limit the investment options of cities and towns. The Investment Policy (described in the preceding paragraph) further limits its investment choices. The Town's interest-bearing investments are not subject to rating.

Note 5 - Receivables, Deferred Revenue and Payables

Receivables

The receivables as of June 30, 2017 for the Town's individual major funds and non-major, internal service and fiduciary funds in the aggregate, including the applicable allowance for uncollectible accounts are as follows:

	Governmental Funds			Total
	General Fund	Capital Projects	Non-major Funds	
Property taxes	\$ 740,172			740,172
Intergovernmental		47,656		47,656
Accounts	20		74,157	74,177
Assessments			663,656	663,656
Net Total Receivables	\$ 740,192	47,656	737,813	1,525,661

The receivables as of June 30, 2017 for the Town's business-type activities are as follows:

	W.P.C.A.
Accounts	\$ 252,971
Notes	126,324
Total Net Receivables	\$ 379,295

Note Receivable – Business-Type Activity

Pursuant to a 1984 agreement between the Towns of Litchfield and Morris, the Town of Litchfield receives and treats sanitary sewage from the Town of Morris at the Litchfield Sewage Treatment Plant. The agreement required the Town of Morris to finance Sewage Treatment Plant capital costs that benefit the Town of Morris. In a prior year, the Town of Litchfield Water Pollution Control Authority assessed the Town of Morris Sewer Authority for costs incurred to upgrade the Sewage Treatment Plant. Details of the assessment required the Town of Morris Sewer Authority to finance project costs incurred to date of \$214,583, and future General Obligation Debt principal, and interest at 2%, costs of the Town of Litchfield totaling \$244,649. Terms of the assessment include annual payments of \$22,074, including principal and interest. A final payment of \$1,825 will be due in October 2023.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note Receivable – Town of Morris	\$ 145,654		19,330	126,324	19,727

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Deferred payments and unavailable receipts

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the fiscal year the components of deferred revenue and unearned revenues reported in the governmental fund were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund:			
Delinquent property taxes	\$ 459,636		459,636
Delinquent receivable	160,628		160,628
Advanced tax collections		57,660	57,660
Other Governmental Funds:			
Intergovernmental		99,560	99,560
Assessments	663,657		663,657
Total deferred portion	\$ 1,283,921	157,220	1,441,141

Payables

Payables as of June 30, 2017 for the Town's individual major funds and non-major funds were as follows:

	<u>Vendors</u>	<u>Payroll</u>	<u>Total</u>
General Fund	\$ 799,252	570,207	1,369,459
Capital Projects Fund	317,869		317,869
Non-major Funds	151,604		151,604
Total governmental funds	\$ 1,268,725	570,207	1,838,932
W.P.C.A.	\$ 16,162		16,162
Total Payables	\$ 1,284,887	570,207	1,855,094

TOWN OF LITCHFIELD, CONNECTICUT**NOTES TO THE FINANCIAL STATEMENTS, Continued**
June 30, 2017Temporary Notes Payables**Bond anticipation notes**

The Town uses short-term notes payable in anticipation of bond-issuances to provide interim funding for various capital projects. Activity for the current fiscal year was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Payments</u>	<u>Ending Balance</u>
Bond anticipation notes:				
Capital Improvements	\$ <u>1,193,000</u>	<u> </u>	<u>1,193,000</u>	<u>-</u>
Total governmental funds	\$ <u>1,193,000</u>	<u>-</u>	<u>1,193,000</u>	<u>-</u>

Note 6 - Inter-fund Receivables, Payables and TransfersInter-funds Receivables and Payables

Inter-fund receivables and payables at June 30, 2017 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	General Fund	\$ 3,855,895
Internal Service	General Fund	2,673,080
Nonmajor	General Fund	2,509,160
Agency fund	General Fund	376,983
W.P.C.A.	General Fund	<u>749,964</u>
	Total	\$ <u>10,165,082</u>

Inter-fund Transfers

Inter-fund receivables and payables at June 30, 2017 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Projects	General Fund	\$ <u>25,000</u>
	Total	\$ <u>25,000</u>

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Note 7 - Capital Assets

Capital assets activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,679,473			1,679,473
Construction in progress	3,692,087			3,692,087
Total capital assets, not being deprec.	<u>\$ 5,371,560</u>	<u>-</u>	<u>-</u>	<u>5,371,560</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 51,635,914	1,265,206		52,901,120
Machinery and equipment	9,576,445	938,911		10,515,356
Infrastructure	30,710,890	2,471,883		33,182,773
Total capital assets being depreciated	<u>\$ 91,923,249</u>	<u>4,676,000</u>	<u>-</u>	<u>96,599,249</u>
Less: Accumulated depreciation:				
Buildings and improvements	\$ 9,200,907	389,172		9,590,079
Machinery and equipment	6,656,383	271,860		6,928,243
Infrastructure	11,248,775	530,954		11,779,729
Total accumulated depreciation	<u>\$ 27,106,065</u>	<u>1,191,986</u>	<u>-</u>	<u>28,298,051</u>
Net capital assets, being depreciated	<u>\$ 64,817,184</u>	<u>3,484,014</u>	<u>-</u>	<u>68,301,198</u>
Total capital assets, governmental	<u>\$ 70,188,744</u>	<u>3,484,014</u>	<u>-</u>	<u>73,672,758</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:	
General government	\$ 36,842
Public safety	154,641
Public works	815,675
Recreation	11,691
Education	<u>173,137</u>
Total depreciation expense	<u>\$ 1,191,986</u>

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type Activities				
Capital assets being depreciated:				
Buildings and improvements	\$ 3,853,887			3,853,887
Machinery and equipment	77,603			77,603
Sewers	4,412,899			4,412,899
Total capital assets being depreciated	\$ 8,344,389			8,344,389
Less: Accumulated depreciation:				
Buildings and improvements	\$ 1,036,744	23,087		1,059,831
Machinery and equipment	27,000	8,524		35,524
Sewers	2,562,919	59,318		2,622,237
Total accumulated depreciation	\$ 3,626,663	90,929		3,717,592
Net capital assets being depreciated	\$ 4,717,726	(90,929)		4,626,797
Total capital assets, business-type	\$ 4,717,726	(90,929)		4,626,797

Note 8 - Long-Term Liabilities

Long-term debt liabilities activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ended Balance</u>	<u>Due In One Year</u>
Governmental Activities:					
Long-Term Debt:					
General obligation bonds	\$ 5,625,000	6,438,000	720,000	11,343,000	1,175,000
G.O.B refunding bonds	15,730,000		1,850,000	13,880,000	1,815,000
Total long-term debt	\$ 21,355,000	6,438,000	2,570,000	25,223,000	2,990,000
Deferred amount on:					
Issuance premium	976,554	170,031	80,781	1,065,804	
Net long-term debt	\$ 22,331,554	6,608,031	2,650,781	26,288,804	2,990,000
Other Long-Term Liabilities:					
Compensated absence	284,513		36,558	247,955	
Net pension liability	5,023,516		1,630,890	3,392,626	
Net OPEB obligation	1,048,135		24,342	1,023,793	
Landfill closure	8,250		2,750	5,500	2,750
Claims and judgments	20,000		2,875	17,125	2,875
Total governmental activities long-term liabilities	\$ 28,715,968	6,608,031	4,348,196	30,975,803	2,995,625
Business-type Activities:					
Clean water fund notes	\$ 1,925,130		306,682	1,618,448	280,864
Total business-type activities long-term liabilities	\$ 1,925,130		306,682	1,618,448	2,995,625
Total long-term liabilities	\$ 30,641,098	6,608,031	4,654,878	32,594,251	3,276,489

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business type activities and are direct obligations and pledge the good faith and credit of the government. Certain general obligation bonds are to be repaid by revenues of the enterprise funds. These bonds generally are issued as 5 year and 10 year serial bonds with equal amounts of principal maturing each year. As of June 30, 2017, the outstanding general obligation bonded indebtedness of the Town was as follows:

	<u>General</u>	<u>Refunding</u>
\$2,655,000 GOB 2010, refunding, Series B issue of 2010, due 8/1/2022, interest at 2.0% to 3.75%, annual principal payments of \$825,000.	\$	625,000
\$8,405,000 GOB 2010, refunding issue of 2010, due 8/1/2020, interest at 2.0% to 4.0% annual principal payments of \$1,775,000 to \$2,625,000		4,725,000
\$1,355,000 GOB 2011 , issue of 8/1/2011, due 8/1/2019, interest at 2.0 to 3.125%, annual principal payments of \$445,000	480,000	
\$7,555,000 GOB 2012, refunding issue of 8/1/2012, due 8/1/2024, interest at 3.0% to 4.0%, annual principal payments of approximately \$890,000		4,960,000
\$2,900,000 GOB 2013 , issue of, due 8/1/2028, interest at 2.0% to 4%, annual principal payments of approximately \$890,000	1,950,000	
\$4,555,000 GOB 2014, refunding issue of 8/1/2014, due 8/1/2025, interest at 2.0% to 4.0%, annual principal payments of approximately \$380,000		3,570,000
\$2,130,000 GOB 2011 , issue of 2012, due 2022, interest at 1.5% to 2.0%, annual principal payments of \$225,000	1,350,000	
\$1,270,000 GOB 2015 , issue of 2016, due 2022, interest at 2.0% to 4.0%, annual principal payments of \$175,000 to \$200,000	1,125,000	
\$6,438,000 GOB 2016 , issue of 2016, due 8/24/2032, interest at 2.0% to 4.0%, annual principal payments of \$425,000 to \$430,000	<u>6,438,000</u>	
Total general obligation bonds	<u>\$ 11,343,000</u>	<u>13,880,000</u>

TOWN OF LITCHFIELD, CONNECTICUT**NOTES TO THE FINANCIAL STATEMENTS, Continued**
June 30, 2017

Annual debt service requirements for government funds to maturity for general obligation bonds are as follows:

Year Ended, June 30		Governmental Activity	
		Principal	Interest
2018	\$	2,990,000	701,999
2019		2,900,000	607,299
2020		2,923,000	513,304
2021		2,775,000	417,221
2022		2,750,000	329,816
2023-2027		8,735,000	663,694
2028-2032		2,150,000	109,435
Total	\$	<u>25,223,000</u>	<u>3,342,768</u>

Bonds authorized but unissued

Under regulations issued by the Internal Revenue Service, effective March 2, 1992, in order for capital projects to be funded through tax-exempt debt, all projects must be appropriated and designated as being funded through debt prior to any expenditure on these projects.

The Town has authorized but unissued bonds relating to capital projects at June 30, 2017, as follows:

	Authorized	Authorized and Unissued
2007-08 Capital Improvements	\$ 1,099,000	732
2008-09 Capital Improvements	1,650,000	30,000
2009-10 Capital Improvements	1,355,000	56,099
2010-11 Capital Improvements	1,800,000	84,354
2012-13 Capital Improvements	5,100,000	1,167,156
2013-14 Capital Improvements	2,965,000	414,247
2014-15 Capital Improvements	3,020,000	1,035,309
2015-16 Capital Improvements	5,745,000	<u>3,323,427</u>
Total		\$ <u>6,111,324</u>

A portion of bonds authorized and unissued will be reduced by grants received.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Clean Water Fund Loans Payable

The Town has an outstanding balance on loans payable to the State of Connecticut's Department of Environmental Protection, under its Clean Water Fund Program, for sanitary sewer projects. The individual loans were as follows:

<u>Note</u>	<u>Date of Issue</u>	<u>Original Amount</u>		<u>Balance</u>
CWF PLO 181-C	07/29/1999	570,427	\$	36,734
CWF PLO 499-C	7/31/2004	4,595,198		<u>1,581,712</u>
Total Clean Water Fund Loans			\$	<u><u>1,618,446</u></u>

These loans bear interest at 2% per annum and the annual debt service requirements to maturity are as follows:

<u>Year Ended June 30,</u>	<u>Business-type Activity</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 280,864	29,804
2019	254,822	24,399
2020	257,054	19,307
2021	262,243	14,119
2022	267,536	8,826
2023-2026	<u>295,927</u>	<u>3,464</u>
	<u>\$ 1,618,446</u>	<u>99,919</u>

Landfill Closure and Postclosure Care Costs

The Town's estimated costs to monitor the landfill for the next two years are \$5,500 at June 30, 2017. This amount is based on estimates that are subject to change due to inflation, technology or applicable laws and regulations.

Claims and Judgments

In connection with the settlement of claims brought against the Town by a neighborhood alleging that the Town's landfill contaminated their drinking water, the Town agreed to pay to connect the residents to the Town water supply and pay their water bills for 20 years. The properties were connected during 2001, and, at June 30, 2017, \$20,000 has been accrued as an estimate of the cost to provide water for the remaining 7 years of the agreement.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Note 9 - Commitments and Contingencies

Lawsuits

There were several personal injury, negligence and personnel related lawsuits pending against the Town. The outcome and eventual liability of the Town, if any in these cases, is not known at this time. Based upon consultation with counsel, the Town's management estimates that potential claims against the Town not covered by insurance resulting from such litigation would not materially affect the financial position of the Town.

Risk Management and Self-Insurance

The Town is exposed to various risks of loss including torts, theft of, damage to, and destruction of assets; error and omissions; injuries to employees; employee health; and natural disasters. The Town generally obtains commercial insurance for these risks, but has chosen to retain the risks for employee health and medical claims. For all types of commercial coverage, settled claims have not exceeded coverage in any of the past three years.

Under Public Act 9-342, health insurance for retired teachers, subsidy equal to the equivalents flat dollar premium amount of Blue Cross 65/Blue Shield 65 is paid by the State directly to the local school districts. Where it is applied to reduce premium payments of the retired members' 1% supplemental contributions, since July 1, 1989, have been directly to a dedicated health insurance fund. There is no cost to the Town.

The activities of the self insured employee medical are recorded in an internal service fund. Anthem Blue Cross/Blue Shield administers the plan. The Town and Board of education contribute to the plan through the general fund and the W.P.C.A contributes through the enterprise fund based on the administrators best estimates based on historical data. The Town covers all claims up to \$100,000 per participant per year with an individual stop-loss policy that would cover claims exceeding 120% of the total estimated claims for the plan year.

Claims transactions for the last two years were as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Claims Payable Beginning</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>Claims Payable Ending</u>
2016	154,000	3,372,888	3,318,609	208,279
2017	208,279	3,606,738	3,553,500	261,517

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Note 10 - Employee Retirement Plans

Plan Description and Benefits Provided

Town Retirement Plan

The Town has a defined benefit retirement plan (the Town Plan) covering substantially all employees of the Town and Board of Education except certified staff of the Board of Education covered by the State Teachers' Retirement Board Plan. The Town is the administrator of this single-employer public employee retirement system (PERS) established and administered to provide pension benefits for its employees. The Town Plan provides retirement, disability and death benefits to plan members and beneficiaries.

Employees are eligible to participate in the Town Plan when they complete 1 year of eligible service, have completed 1,000 hours during the first 12 months of employment and have attained the age of 18. For employees who do not complete 1,000 hours of service during the first 12 months of employment, eligibility begins on the first day of the year during which 1,000 hours were completed. Employees are 100% vested after 5 years of credited service.

Management of the plans rests with the PERS Board, which consists of five voting members and two alternate members. Members of the Board are appointed by the Board of Selectmen. The First Selectman serves as an ex-officio member.

All employees hired after July 1, 2012 will only be eligible to participate in the defined contribution plan for which the Town will contribute a sum equal to 3% of the employee's bi-weekly wages to a 401A account commencing the first payroll after the employee's one year anniversary.

Merit Service Plan

This single-employer defined benefit retirement plan (the Merit Service Plan) covers all volunteer firemen who belong to the volunteer fire departments and, as of July 1, 1992, the members of the volunteer ambulance corps. Volunteer firemen and ambulance corps members are eligible to participate in the Merit Service Plan on July 1 following the date on which one year of eligible service has been completed and age 18 has been attained. Employees are 100% vested after 5 years of credited service.

The Town's pension plans do not use issue stand-alone financial statements.

Membership in the plans consisted of the following at July 1, 2016 the date of the last actuarial valuation:

	<u>Town Plan</u>	<u>Merit Service Plan</u>
Retirees and beneficiaries currently receiving benefits	66	64
Terminated plan members entitled to, but not yet receiving benefits	39	59
Active plan members	68	147
Total	<u>173</u>	<u>270</u>

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued **June 30, 2017**

Summary of Significant Accounting Policies

Basis of Accounting

Financial statements are prepared using the accrual basis of accounting for the two defined benefit pension plans. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income is recognized as earned.

Funding Policy

For the Town Plan, effective July 1, 2015 all active employees will be required to contribute 1% of their salary to the defined benefit plan. Effective July 1, 2016 active employees in the Highway and Sewer departments contribute 2% of pay. The Town is required to contribute amounts necessary to fund the Plan. State of Connecticut Statutes assign the authority to establish and amend the contribution provisions of the plan to the Town of Litchfield.

Investments

Investment Policy

The pension plan's policy in regard to allocation of invested assets is established and may be amended by the PERS Board by a majority vote of its members. It is the policy of the PERS 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 pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans.

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on the pension plan investments, net of pension plan investment expense, was 10.50% for the Town Plan and 10.52% for the Merit Plan. The dollar-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Town

The Town's 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 July 1, 2016.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

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

	Town Plan	Merit Service	Total
Total pension liability	\$ 16,268,788	4,115,774	20,384,562
Plan fiduciary net position	13,298,567	3,693,369	16,991,936
Net pension liability	\$ 2,970,221	422,405	3,392,626
Plan fiduciary net position as a percentage of the total pension liability	81.74%	89.74%	83.36%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	2.75%
Salary increase	4.00%, average, including inflation (n/a for Merit Plan)
Investment rate of return	7.00%, net of investment and administrative expense

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table combined version for small plans – separate male and female rates.

The actuarial assumptions used in the July 1, 2016 valuation were based on standard tables modified for certain plan features such as eligibility for full and early retirement where applicable and input from the plan sponsor. A full experience study has not been completed.

Long Term Rate of Return

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. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class include in both pension plan's as of June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US equities	46.00%	5.60%
REIT	3.00%	4.50%
International developed economies	6.00%	5.90%
International emerging economies	5.00%	7.20%
High quality bond	33.00%	2.10%
High yield bond	5.00%	4.00%
Cash equivalents	2.00%	0.80%
	100.00%	

TOWN OF LITCHFIELD, CONNECTICUT**NOTES TO THE FINANCIAL STATEMENTS, Continued**
June 30, 2017**Discount Rate**

The discount rate used to measure the total pension liability was 7.0% for both plans. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Town contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. 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.

Changes in the Net Pension LiabilityTown Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 30, 2016	\$ 16,343,434	12,004,230	4,339,204
Changes for the year:			
Service cost	372,872		372,872
Interest on total pension liability	1,144,711		1,144,711
Difference between expected and actual Experience	(853,171)		(853,171)
Employer contributions		719,626	(719,626)
Employee contributions		60,322	(60,322)
Net investment income		1,253,447	(1,253,447)
Benefit payments, including refund of employee contributions	(739,058)	(739,058)	-
Net changes	\$ (74,646)	1,294,337	(1,368,983)
Balances as of June 30, 2017	\$ 16,268,788	13,298,567	2,970,221

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Merit Service Plan

		Increase (Decrease)	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 30, 2016	\$ 4,053,725	3,369,413	684,312
Changes for the year:			
Service cost	59,412		59,412
Interest on total pension liability	281,563		281,563
Difference between expected and actual Experience	(94,174)		(94,174)
Employer contributions		158,488	(158,488)
Net investment income		350,606	(350,606)
Benefit payments, including refund of employee contributions	\$ (184,752)	(185,138)	386
Net changes	62,049	323,956	(261,907)
Balances as of June 30, 2017	\$ 4,115,774	3,693,369	422,405

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Town, calculated using the discount rate of 7.00%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1 percent point lower (6.00%) or 1 percent higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Town Plan net pension liability	\$ 4,636,667	2,970,221	1,534,008
Merit Service Plan net pension liability	926,682	422,405	557

Pension Trust Funds

The Town maintains two pension trust funds (Town Employees Retirement Plan and Merit Service Plan) to account for its fiduciary responsibility. The following schedules present the net position held in trust for pension benefits at June 30, 2017 and the changes in net position for the year then ended.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued
June 30, 2017

Schedule of Net Position

	Town Retirement Plan	Merit Service Retirement Plan	Total
Assets:			
Cash and cash equivalents	\$ 291,290	81,752	373,042
Investments	13,006,609	3,612,018	16,618,627
Net Assets Held in Trust for Pension Benefits	\$ 13,297,899	3,693,770	16,991,669

Schedule of Changes in Net Position

	Town Retirement Plan	Merit Service Retirement Plan	Total
Additions:			
Contributions:			
Employer	\$ 719,626	158,488	878,114
Employee	60,322		60,322
Total	\$ 779,948	158,488	938,436
Investment Income:			
Net appreciation(depreciation) in fair value of Investments	\$ 1,044,870	292,801	1,337,671
Interest and dividends	266,561	74,611	341,172
Total	\$ 1,311,431	367,412	1,678,843
Less investment expense			
Investment management fees	58,652	16,405	75,057
Net investment income	\$ 1,252,779	351,007	1,603,786
Total additions	\$ 2,032,727	509,495	2,542,222
Deductions:			
Benefits	739,058	185,138	924,196
Net increase	\$ 1,293,669	324,357	1,618,026
Net position and beginning of year	\$ 12,004,230	3,369,413	15,373,643
Net position at end of year	\$ 13,297,899	3,693,770	16,991,669

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued
June 30, 2017

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Town recognized pension expense of \$382,045 and \$111,077 for the Town Plan and Merit Plan, respectively.

		Town Plan Deferred Outflows of Resources	Merit Service Plan Deferred Outflows of Resources	Total Deferred Outflows
Net difference between projected and actual earnings on pension plan investments	\$	99,432	27,568	127,000
Total	\$	99,432	27,568	127,000

		Town Plan Deferred Inflows of Resources	Merit Service Plan Deferred Inflows of Resources	Total Deferred Inflows
Differences between expected and actual experience	\$	558,974	82,253	641,227
Total	\$	558,974	82,253	641,227

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as an increase/decrease in pension expenses as follows:

Year Ended June 30,		Town Retirement Plan	Merit Service Retirement Plan	Total
2018	\$	(233,627)	5,012	(228,615)
2019		(204,207)	5,012	(199,195)
2020		60,570	5,013	65,583
2021		(82,278)	(33,153)	(117,431)
2022		-	(11,921)	(11,921)
Thereafter		-	(22,648)	(22,648)
Total	\$	(459,542)	(54,685)	(514,227)

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Teachers' Retirement

All Town of Litchfield Board of Education certified employees participate in the State of Connecticut Teachers' Retirement System under Section 10.183 of the General Statutes of the State of Connecticut.

Plan Description

Teachers, principals, superintendents or supervisors engaged in service of public schools, and professional employees at State schools of higher education are provided with pensions through the Connecticut State Teachers' Retirement System – a cost sharing, multiemployer, defined benefit pension plan administered by the Teachers' Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the State Teachers' Retirement Board.

The Teachers' Retirement System is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106, by calling 860-702-3480, or by visiting the State's website www.ct.gov.

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 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. Benefits are reduced for those retiring before normal retirement age.

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.

Contributions

State of Connecticut

Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut is 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 earning, is expected to finance the costs

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

Employer (School Districts)

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

Employees

Participants are required to contribute 6.00% of their annual salary to the System as required by CGS Section 10-183b (7). For the year ended June 30, 2017, \$513,521 mandatory contributions were deducted from the salaries of teachers who were participants in the System. The estimated covered payroll for the Town was \$8,558,683.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The State has a statutory requirement to pay 100% of the required plan contribution, therefore as of June 30, 2017; the Town reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows. The amount recognized by the Town as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability associated with the Town were as follows:

Town's proportionate share of the net pension liability	\$	-
State's proportionate share of the net pension liability associated with the Town		<u>30,673,339</u>
Total net pension liability	\$	<u><u>30,673,339</u></u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The 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.

For the year ended June 30, 2017 the Town has recognized, in the General Fund, intergovernmental revenue and education expenditures in the amount of \$3,345,038 as payments made by the State of Connecticut on behalf of the Town.

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%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Mortality rates were based on the RPH-2014 White Collar Table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale, and further adjusted to grade in increases (5% for females and 8% for males) to rates over age 80 for the period after service retirement and for dependent beneficiaries as well as for active members. The PRH-2014 Disabled Mortality Table projected to 2017 with Scale BB is used for the period after disability retirement.

Future Cost-of-Living increases for members who retire on or after September 1, 1992 and were hired prior to July 1, 2007 are assumed to receive an annual cost-of-living adjustment (COLA) of 2%. Members who retired on or after September 1, 1992 and were hired on or after July 1, 2007 are assumed to receive an annual COLA of 1.75%.

Long Term Rate of Return

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 asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that State contributions will be made at the actuarially determined rates in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The Town's proportionate share of the net pension liability is \$0. Any change in the discount rate would only have an effect on the amount recorded by the State of Connecticut.

Defined Contribution Retirement Plan

On July 1, 2012 the Town established a defined contribution retirement plan that covers employees of the Town and Board of Education hired on or after July 1, 2012. This plan was adopted and can be amended by the Board of Selectmen. Under this plan, the Town contributes an amount equal to 3% each year of an eligible employee's wages into a 401(k) on the employee behalf. In addition, eligible employees may make an additional contribution up to the amount allowed by law. There are currently seven participants in the plan as of June 30, 2017, and contributions of \$11,343 have been made.

Note 11 – Other Postemployment Benefits Plan

Plan Description

The Retiree Health Plan (RHP) is a single-employer defined benefit healthcare plan administered by the Board of Education (BOE). The RHP provides medical and dental insurance benefits to eligible retirees and their spouses. All employees of the BOE are eligible to participate in the plan.

A trust was officially established on March 29, 2011 between the Town of Litchfield and the Litchfield Board of Education and the Town's Pension Commission. The monies in the OPEB special revenue fund were transferred to the OPEB trust fund at that date. As in prior years, all expenses for postemployment benefits were paid out of the General Fund during the fiscal year ended June 30, 2017. The plan does not issue a stand-alone financial report.

At July 1, 2016, plan participation consisted of the following (not rounded):

Actives	103
Retirees or continuing spouses	19
Total participants	<u>122</u>

Funding Policy

The BOE's contributions are actuarially determined on an annual basis using the entry age normal actuarial cost method, level dollar.

Benefits

The BOE provides certain retirees with health care and lump-sum benefits, in accordance with Teacher and Administrators union contracts. Provisions of the benefits are as follows:

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued **June 30, 2017**

Litchfield Education Association OPEB Contract Provisions

Upon retirement under the Connecticut State Teachers' Retirement System, teachers will be provided at BOE expense:

Amount of Benefit:

1. For those who retire either fiscal year 2008 or 2009:
 - a. \$5,000 on date of retirement and the BOE shall pay the cost of single health and dental insurance coverage under one of the plans (excluding the high deductible/health savings account option) offered by the BOE to actively employed teachers, less the contribution from the State of Connecticut Teachers' Retirement Board, for a period of 5 years immediately following retirement; or,
 - b. Teachers who do not elect the option set forth in (a) above shall receive ten thousand dollars at the time of retirement and no other compensation or benefits.
2. For those who retire in fiscal year 2010 or before 2014:
 - a. \$5,000 at the time of retirement; or,
 - b. The BOE shall pay the cost of single health and dental insurance coverage under one of the plans (excluding the high, deductible/health savings account option) offered by the BOE to actively employed teachers, less the contribution from the State of Connecticut Teachers' Retirement Board, for a period of 4 years immediately following retirement.
3. For those who retire after June 2013 or after the 4 or 5 year periods in (1) and (2) above the retiree must pay 100% of the cost for medical coverage.

Litchfield Administrators Association OPEB Contract Provisions

Upon retirement under the Connecticut State Teachers' Retirement System, qualified administrators employed on or prior to June 30, 2005 and whose employment with the Litchfield Public Schools is at least 10 years will be provided at BOE expense:

1. The cost of health and dental insurance coverage for the retiree and eligible dependents under one of the plans (excluding the high deductible/health savings account option) offered by the BOE to actively employed administrators, less contribution from the State of Connecticut Teachers' Retirement Board, until eligible for Medicare; or,
2. \$5,000 annual payment until eligible for Medicare, age 65, or for 5 years immediately following retirement, whichever is less.

Investments

Investment Policy

The pension plan's policy in regard to allocation of invested assets is established and may be amended by the Board of Education. It is the policy of the 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 pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on the pension plan investments, net of pension plan investment expense, was 10.85%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

During the year, the Town implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* (OPEB). This statement requires the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position.

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

Total OPEB liability	\$	2,346,310
Plan fiduciary net position		<u>1,289,275</u>
Net OPEB liability	\$	<u>1,057,035</u>
Plan fiduciary net position as a percentage of the total OPEB liability		54.95%

The Town's net OPEB liability will be required to be recorded in the government-wide financial statement of net position as of June 30, 2018.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	2.75%
Salary increase	4.00%, average, including inflation
Investment rate of return	7.00%, net of investment and administrative expense
Healthcare cost trend rates	7.75% in 2016, reducing by .5% each year to a final 4.75% per year rate for 2022 and later

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table combined version for small plans – separate male and female rates, with no collar adjustment, combined table for non-annuitants and annuitants, projected to the valuation date with Scale AA.

The actuarial assumptions used in the July 1, 2016 valuation were based on standard tables modified for certain plan features such as eligibility for full and early retirement where applicable and input from the plan sponsor. A full experience study has not been completed.

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Long Term Rate of Return

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 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 most recent best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US equities	46.00%	5.90%
REIT	3.00%	4.10%
International developed economies	6.00%	6.80%
International emerging economies	5.00%	8.40%
High quality bond	33.00%	3.10%
High yield bond	5.00%	4.10%
Cash equivalents	2.00%	2.00%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rate and that Town contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Town, calculated using the discount rate of 7.00%, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1 percent point lower (6.00%) or 1 percent higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$ 1,314,068	1,057,035	834,540

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Town, calculated using the healthcare trend rate of 7.75% decreasing to 4.75%, as well as what the Town's net OPEB liability would be if it were calculated using a healthcare trend rate that is 1 percent point lower (6.75% decreasing to 3.75%) or 1 percent higher (8.75% decreasing to 5.75%) than the current healthcare trend rates:

		1% Decrease (6.75% decreasing to 3.75%)	Current Healthcare Trend Rate (7.75% decreasing to 4.75%)	1% Increase (8.75% decreasing to 5.75%)
Net OPEB liability	\$	789,383	1,057,035	1,374,707

Annual OPEB Cost and Net OPEB Obligations

The BOE's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 15 years. The following table shows the components of the BOE's annual OPEB cost for the year ended June 30, 2017, the amount actually contributed to the plan and changes in the Town's net OPEB obligation (asset):

Annual required contribution (ARC)	\$	210,274
Interest on OPEB obligation		73,369
Adjustment to annual required contribution		(92,464)
Annual OPEB cost	\$	191,179
Contributions made		(215,521)
Increase in net OPEB obligation	\$	(24,342)
Net OPEB obligation – beginning of year		1,048,135
Net OPEB obligation – end of year	\$	1,023,793

The BOE's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended are presented below.

Fiscal Year Ended		Annual OPEB Cost (AOC)		Actual Contribution		Percentage of AOC Contributed		NET OPEB Obligation
6/30/2017	\$	191,179	\$	215,521		112.7%	\$	1,023,793
6/30/2016		188,913		131,123		69.4%		1,048,135
6/30/2015		279,618		100,242		35.8%		990,345
6/30/2014		275,916		270,642		98.1%		810,969
6/30/2013		274,735		144,492		52.6%		805,695

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2016	\$ 1,023,827	\$ 2,299,857	\$ 1,276,030	45%	\$ 7,889,369	16.2%
7/1/2014	886,171	2,570,923	1,684,752	34%	12,218,837	13.8%
7/1/2012	620,872	3,124,371	2,503,499	20%	7,985,774	31.4%
7/1/2010	-	5,373,000	5,373,000	- %	8,077,489	66.5%

Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage of ARC Contributed
2017	\$ 210,274	\$ 215,521	102.5%
2016	206,921	131,123	63.8%
2015	294,364	100,242	34.1%
2014	290,566	270,642	93.1%
2013	287,017	144,492	50.3%

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

In the July 1, 2016 actuarial valuation, the entry age normal actuarial cost method is used. The actuarial assumptions include a 7% investment rate of return, which is the rate of the expected long-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date. The annual healthcare cost trend rate is 7.75% for 2016, decreasing 0.5% per year to an ultimate rate of 4.75% for 2022 and later. The actuarial value of assets was determined using the open group method. The UAAL is being amortized each year over a constant 20 year period, as a level dollar amount.

TOWN OF LITCHFIELD, CONNECTICUT**NOTES TO THE FINANCIAL STATEMENTS, Continued**
June 30, 2017

The following schedule presents the net position held in trust for OPEB benefits at June 30, 2017 and the changes in net position for the year ended June 30, 2017:

Schedule of Net Position

	<u>OPEB Trust</u>
Assets:	
Cash and cash equivalents	\$ 40,581
Investments	<u>1,248,694</u>
Net position restricted for other post employment benefits	\$ <u>1,289,275</u>

Schedule of Changes in Net Position

	<u>OPEB Trust</u>
Additions:	
Contributions:	
Employer	\$ 71,990
Employee	<u>-</u>
Total	\$ <u>71,990</u>
Investment Income:	
Net appreciation(depreciation) in fair value of investments	\$ 98,603
Interest and dividends	<u>25,478</u>
Total	\$ 124,081
Less investment expense	
Investment management fees	<u>5,623</u>
Net investment income	\$ <u>118,458</u>
Total additions	\$
Deductions:	
Benefits	<u>-</u>
Net increase	\$ 190,448
Net position and beginning of year	\$ <u>1,098,827</u>
Net position at end of year	\$ <u>1,289,275</u>

TOWN OF LITCHFIELD, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2017

Note 12 - Fund Deficits and Restrictions to Fund Position

Fund Deficits

The Town has the following Fund Deficits at June 30, 2017 and expects to eliminate the deficits in the future as follows:

<u>Fund</u>	<u>Deficit</u>	<u>Plan For Elimination</u>
Cafeteria Fund	\$ 13,901	Future grant receipts

Restricted Fund Position

<u>Fund</u>	<u>Restricted Net Position</u>	<u>Restriction</u>
Cemetery Trust	\$ 10,398	For donor intentions

Note 13 - Subsequent Events

General Obligation Bond

On August 1, 2017, the Town issued a general obligation bond in the amount of \$2,535,000. The Bond will be paid over a 15 year period with an interest rate ranging from 2.0% - 3.0%. The bond will fund the Town's capital improvement program.

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - TOWN PLAN

Last Four Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:				
Service cost	\$ 372,872	358,531	344,741	396,238
Interest	1,144,711	1,092,779	1,023,014	976,938
Differences between expected and actual experience	(853,171)		318,394	
Benefit payments, including refunds of member contributions	(739,058)	(708,980)	(697,793)	(630,245)
Net change in total pension liability	\$ (74,646)	742,330	988,356	742,931
Total pension liability - beginning	16,343,434	15,601,104	14,612,748	13,869,817
Total pension liability - ending	\$ 16,268,788	16,343,434	15,601,104	14,612,748
Plan fiduciary net position:				
Contributions - employer	\$ 719,626	682,350	1,093,734	1,067,885
Contributions - employee	60,322	20,527		
Net investment income	1,255,077	114,893	304,997	1,289,448
Benefit payments, including refunds of member contributions	(739,058)	(718,919)	(697,793)	(630,245)
Net change in plan fiduciary net position	\$ 1,295,967	98,851	700,938	1,727,088
Plan fiduciary net position - beginning	12,002,600	11,903,749	11,202,811	9,475,723
Plan fiduciary net position - ending	\$ 13,298,567	12,002,600	11,903,749	11,202,811
Net pension liability - ending	\$ 2,970,221	4,340,834	3,697,355	3,409,937
Plan fiduciary net position as a percentage of total pension liability	81.74%	73.44%	76.30%	76.66%
Covered-employee payroll	3,684,550	4,272,039	4,107,730	4,397,899
Net pension liability as a percentage of its covered-employee payroll	80.61%	101.61%	90.01%	77.54%

This schedule is intended to show information for ten years. Additional information will be added as it becomes available.

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - MERIT SERVICE PLAN

Last Four Fiscal Years

	2017	2016	2015	2014
Total pension liability:				
Service cost	\$ 59,412	59,412	59,412	65,858
Interest	281,563	271,181	258,709	247,891
Differences between expected and actual experience	(94,174)		33,529	
Benefit payments, including refunds of member contributions	(184,752)	(179,891)	(167,268)	(138,757)
Net change in total pension liability	\$ 62,049	150,702	184,382	174,992
Total pension liability - beginning	4,053,725	3,903,023	3,718,641	3,543,649
Total pension liability - ending	\$ 4,115,774	4,053,725	3,903,023	3,718,641
Plan fiduciary net position:				
Contributions - employer	\$ 158,102	154,100	150,102	150,102
Contributions - employee				
Net investment income	351,066	32,649	97,690	395,941
Benefit payments, including refunds of member contributions	(184,752)	(180,389)	(167,268)	(138,757)
Net change in plan fiduciary net position	\$ 324,416	6,360	80,524	407,286
Plan fiduciary net position - beginning	3,368,953	3,362,593	3,282,069	2,874,783
Plan fiduciary net position - ending	\$ 3,693,369	3,368,953	3,362,593	3,282,069
Net pension liability - ending	\$ 422,405	684,772	540,430	436,572
Plan fiduciary net position as a percentage of total pension liability	89.74%	83.11%	86.15%	88.26%
Covered-employee payroll	N/A	N/A	N/A	N/A
Net pension liability as a percentage of its covered-employee payroll	N/A	N/A	N/A	N/A

This schedule is intended to show information for ten years. Additional information will be added as it becomes available.

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS - OPEB FOR THE BOARD OF EDUCATION

Last Fiscal Year

	<u>2017</u>
Total OPEB liability:	
Service cost	\$ 51,501
Interest	158,952
Differences between expected and actual experience	(68,299)
Benefit payments, including refunds of member contributions	(95,701)
Net change in total OPEB liability	\$ 46,453
Total OPEB liability - beginning	2,299,857
Total OPEB liability - ending	<u>\$ 2,346,310</u>
Plan fiduciary net position:	
Contributions - employer	\$ 215,521
Contributions - employee	-
Contributions - TRB subsidy	27,170
Net investment income	124,083
Benefit payments, including refunds of member contributions	(95,701)
Administrative and other costs	(5,625)
Net change in plan fiduciary net position	\$ 265,448
Plan fiduciary net position - beginning	1,023,827
Plan fiduciary net position - ending	<u>\$ 1,289,275</u>
Net OPEB liability - ending	<u>\$ 1,057,035</u>
Plan fiduciary net position as a percentage of total OPEB liability	54.95%
Covered-employee payroll	8,165,000
Net OPEB liability as a percentage of its covered-employee payroll	12.95%

This schedule is intended to show information for ten years. Additional information will be added as it becomes available.

Notes to Schedule

Changes in assumptions In 2016 the healthcare trend rates were decreased to 7.75% decreasing 0.5% per year to an ultimate rate of 4.75% for 2022 and later, from 8.00% in 2014 decreasing 0.5% per year to an ultimate rate of 4.00% for 2022 and later.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - TOWN PLAN
LAST TEN FISCAL YEARS
(In Thousands)

	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered- employee Payroll	Contribution as a Percentage of Covered- employee Payroll
2017	682	720	(38)	3,685	19.54%
2016	669	672	(3)	4,272	15.73%
2015	844	1,094	(250)	4,108	26.63%
2014	828	1,068	(240)	4,398	24.28%
2013	838	838	-	N/A	N/A
2012	824	824	-	N/A	N/A
2011	726	726	-	N/A	N/A
2010	773	921	(148)	N/A	N/A
2009	609	530	79	N/A	N/A
2008	509	677	(168)	N/A	N/A

Notes to Schedule

Valuation Date: July 1, 2016
Measurement Date: June 30, 2017

Changes in benefit terms: none
Changes in assumptions: none

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age
Amortization method: Level dollar
Remaining amortization period: 16 years
Asset valuation method: Market value of assets
Inflation: 2.75%
Salary increases: 4.00%, including inflation
Investment rate of return: 7.00%, net of pension plan investment expense

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS - MERIT SERVICE PLAN
LAST TEN FISCAL YEARS
(In Thousands)

	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered- employee Payroll	Contribution as a Percentage of Covered- employee Payroll
2017	107	158	(51)	N/A	N/A
2016	107	154	(47)	N/A	N/A
2015	150	150	-	N/A	N/A
2014	150	150	-	N/A	N/A
2013	188	188	-	N/A	N/A
2012	188	188	-	N/A	N/A
2011	212	212	-	N/A	N/A
2010	224	198	26	N/A	N/A
2009	160	145	15	N/A	N/A
2008	115	126	(11)	N/A	N/A

Notes to Schedule

Valuation Date: July 1, 2016
Measurement Date: June 30, 2017

Changes in benefit terms: none
Changes in assumptions: none

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age
Amortization method: Level dollar
Remaining amortization period: 15 years
Asset valuation method: Market value of assets
Inflation: 2.75%
Salary increases: N/A
Investment rate of return: 7.00%, net of pension plan investment expense

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
LAST TEN FISCAL YEARS
(In Thousands)

	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered- employee Payroll	Contribution as a Percentage of Covered- employee Payroll
2017	210	215	(5)	8,165	2.63%
2016	N/A	N/A	N/A	N/A	N/A
2015	N/A	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A	N/A

Notes to Schedule

Valuation Date: July 1, 2016
Measurement Date: June 30, 2017

Changes in benefits: none
Changes in Assumptions: In 2016 the healthcare trend rates were decreased to 7.75% decreasing 0.5% per year to an ultimate rate of 4.75% for 2022 and later, from 8.00% in 2014 decreasing 0.5% per year to an ultimate rate of 4.00% for 2022 and later.

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry Age
Asset valuation method: Market value of assets
Healthcare cost trend: 7.75% in 2016, reduced by 0.5% year year to final 4.75% per year rate for 2022 and later.
Inflation: 2.75%
Investment rate of return: 7.00%, net of investment related and administrative expenses

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

SCHEDULE OF INVESTMENT RETURNS - TOWN PLAN
Last Four Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	10.50%	1.01%	2.91%	13.76%

This schedule is intended to show information for ten years. Additional information will be added as it becomes available.

SCHEDULE OF INVESTMENT RETURNS - MERIT SERVICE PLAN
Last Four Fiscal Years

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	10.52%	1.02%	2.97%	14.01%

This schedule is intended to show information for ten years. Additional information will be added as it becomes available.

SCHEDULE OF INVESTMENT RETURNS - OTHER POST EMPLOYMENT BENEFITS (OPEB)
Last Four Fiscal Years

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	10.52%	NA	NA	NA

This schedule is intended to show information for ten years. Additional information will be added as it becomes available.

*Note: This schedule is intended to show information for ten years however information prior to 2017 is not available.

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
TEACHERS' RETIREMENT PLAN**

For the Year Ended June 30, 2017

	2017	2016	2015
City's proportion of the net pension liability	0.00%	0.00%	0.00%
City's proportionate share of the net pension liability	\$ -	-	-
State's proportionate share of the net pension liability associated with the City	\$ 30,673,339	22,686,851	20,969,447
Total	\$ 30,673,339	22,686,851	20,969,447
City's covered-employee payroll	8,558,683	8,440,514	8,041,000
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of total pension liability	52.26%	59.50%	61.51%

This schedule is intended to show information for ten years. Additional information will be added as it becomes available.

Notes to Schedule

Changes in benefit terms	None
Changes in assumptions	In 2016, rates of withdrawal, disability, retirement, mortality and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five year period ended June 30, 2015.
Actuarial cost method	Entry age
Amortization method	Level percent of salary, closed
Single Equivalent amortization period	20.4 years
Asset valuation method	4-year smoothed market
Inflation	2.75%
Salary increase	3.25-6.50%, including inflation
Investment rate of return	8.00%, net of investment related expense

GENERAL FUND REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Variance With Final Budget Positive/ (Negative)
	Original	Final		
PROPERTY TAXES				
Current years' levy	\$ 27,137,885	27,137,885	27,377,345	239,460
Prior years' levies	300,000	300,000	302,065	2,065
Interest and penalties	175,000	175,000	199,602	24,602
Total property taxes	<u>\$ 27,612,885</u>	<u>27,612,885</u>	<u>27,879,012</u>	<u>266,127</u>
INTERGOVERNMENTAL				
State grants for education	\$ 1,489,415	1,489,415	1,450,319	(39,096)
Other state grants	368,562	368,562	340,290	(28,272)
Total intergovernmental	<u>\$ 1,857,977</u>	<u>1,857,977</u>	<u>1,790,609</u>	<u>(67,368)</u>
CHARGES FOR SERVICES				
Licenses and permits	\$ 5,600	5,600	10,337	4,737
Charges for services	452,310	452,310	551,945	99,635
Fines and forfeits	9,000	9,000	5,609	(3,391)
Total charges for services	<u>\$ 466,910</u>	<u>466,910</u>	<u>567,891</u>	<u>100,981</u>
INVESTMENT INCOME	<u>\$ 25,000</u>	<u>25,000</u>	<u>99,144</u>	<u>74,144</u>
MISCELLANEOUS REVENUES	<u>\$ 5,000</u>	<u>5,000</u>	<u>27,178</u>	<u>22,178</u>
OTHER FINANCING SOURCES				
Debt Reimbursement	\$ 400,088	400,088	427,944	27,856
Proceeds from bond			170,031	170,031
Total other financing sources	<u>\$ 400,088</u>	<u>400,088</u>	<u>597,975</u>	<u>197,887</u>
Total revenue & other financing sources	<u>\$ 30,367,860</u>	<u>30,367,860</u>	<u>30,961,809</u>	<u>593,949</u>

TOWN OF LITCHFIELD, CONNECTICUT

SCHEDULE 2

Page 1 of 2

GENERAL FUND EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES -
BUDGETARY BASIS - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Variance With Final Budget Positive/ (Negative)
	Original	Final		
GENERAL GOVERNMENT				
Board of Finance	\$ 31,327	31,327	25,594	5,733
Treasurer	7,829	7,829	7,468	361
Vital statistics	400	400	314	86
Registrars	31,519	32,750	31,111	1,639
Elections	39,875	39,875	20,018	19,857
Inland wetlands	5,500	22,600	22,064	536
Economic development commission	500	500	473	27
Board of tax review	800	800	79	721
Planning and zoning	8,000	23,000	21,327	1,673
Probate Court	7,904	7,904	7,904	-
Finance department	163,075	163,075	162,500	575
Land use administration	111,145	111,145	109,699	1,446
Town clerk	121,765	121,991	121,522	469
Computer equipment	79,500	79,500	68,280	11,220
Zoning appeals board	4,000	4,000	2,309	1,691
Legal services corporate counsel	84,100	135,400	135,320	80
Central services	34,425	34,425	25,228	9,197
Assessor	162,026	169,286	167,698	1,588
Tax collector	117,637	117,645	110,285	7,360
Municipal Management	192,117	226,888	226,145	743
Building inspector	134,316	134,316	132,855	1,461
Board of selectmen	28,302	28,615	28,165	450
Total general government	\$ 1,366,062	1,493,271	1,426,358	66,913
PUBLIC SAFETY				
Litchfield emergency management	\$ 5,763	5,763	3,347	2,416
Ambulance	55,487	55,487	55,487	-
Fire marshal	82,074	61,622	59,556	2,066
E911 Emergency	89,732	89,732	87,764	1,968
Fire protection	370,643	370,643	361,584	9,059
Patrol services	143,415	147,175	133,492	13,683
Police department	163,740	170,358	169,711	647
Total public safety	\$ 910,854	900,780	870,941	29,839
PUBLIC WORKS				
Building & ground maintenance	\$ 256,250	316,250	302,285	13,965
Highways and bridges	802,450	802,450	797,615	4,835
Supervision	11,950	11,950	10,543	1,407
Operations	1,117,682	1,198,427	1,129,074	69,353
Engineering	120,999	121,805	106,804	15,001
Equipment Maintenance	253,660	237,360	223,119	14,241
Solid Waste & Recycling	552,465	468,165	451,766	16,399
Total public works	\$ 3,115,456	3,156,407	3,021,206	135,201

(Continued)

**GENERAL FUND EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES -
BUDGETARY BASIS - BUDGET AND ACTUAL
For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
HEALTH AND WELFARE				
OSHA mandated health	\$ 1,800	1,800	828	972
Social Services	38,952	42,954	42,583	371
Total health and welfare	\$ 40,752	44,754	43,411	1,343
CULTURE AND RECREATION				
Recreation	\$ 113,129	113,129	101,771	11,358
Co-op Programs	161,633	161,633	161,628	5
Library	371,969	371,969	371,969	-
Total cultural and recreation	\$ 646,731	646,731	635,368	11,363
EDUCATION				
Board of education	\$ 18,583,463	18,583,463	18,540,991	42,472
Total education	\$ 18,583,463	18,583,463	18,540,991	42,472
OTHER				
Contingency	\$ 97,500	-	-	-
Fringe Benefits	1,724,197	1,659,609	1,639,021	20,588
Beautification commission	2,000	2,000	412	1,588
Cemetery Services	22,550	22,550	22,550	-
Municipal Insurance	101,040	101,040	93,721	7,319
Total other	\$ 1,947,287	1,785,199	1,755,704	29,495
DEBT SERVICE				
Principal	\$ 2,876,684	2,876,684	2,913,496	(36,812)
Interest	679,374	679,374	711,600	(32,226)
Bond anticipation notes	111,197	111,197	6,198	104,999
Total debt service	\$ 3,667,255	3,667,255	3,631,294	35,961
OTHER FINANCING USES				
Capital Improvements	\$ 90,000	90,000	90,000	-
Other	-	-	-	-
Total debt service	\$ 90,000	90,000	90,000	-
Total Encumbrances and Financial Uses	\$ 30,367,860	30,367,860	30,015,273	352,587

COMBINING BALANCE SHEETS
CAPITAL PROJECT FUND
For the Year Ended June 30, 2017

	Capital Improvements	Capital and Nonrecurring	Renovation of Schools	Construction In Progress	Total
ASSETS					
Cash and cash equivalents	\$				-
Receivables, net	47,656				47,656
Due from other funds	1,174,225	35,139		2,646,531	3,855,895
Inventory					-
Total assets	\$ 1,221,881	35,139	-	2,646,531	3,903,551
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities					
Accounts payable and accrued liabilities	\$ 250			317,619	317,869
Due to other funds					-
Bond anticipation notes					-
Total liabilities	\$ 250	-	-	317,619	317,869
Fund Balance (Deficit)					
Nonspendable	\$				
Restricted for:					
Donor's intentions					
Debt service					
Committed for:					
Open spaces					
Assigned	1,221,631	35,139		2,328,912	3,585,682
Unassigned					-
Total fund balance (deficit)	\$ 1,221,631	35,139	-	2,328,912	3,585,682
Total liabilities and fund balances	\$ 1,221,881	35,139	-	2,646,531	3,903,551

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICITS) - CAPITAL PROJECT FUND
For the Year Ended June 30, 2017**

	<u>Capital Improvements</u>	<u>Capital and Nonrecurring</u>	<u>Renovation of Schools</u>	<u>Construction in Progress</u>	<u>Total</u>
Revenues					
Intergovernmental	\$ 284,100			1,096,502	1,380,602
Charges for services					-
Investment income					-
Other					-
Total revenues	<u>\$ 284,100</u>	<u>-</u>	<u>-</u>	<u>1,096,502</u>	<u>1,380,602</u>
Expenditures					
Public safety	\$				
Public works					
Culture and recreation					
Education					
Other	<u>1,225,284</u>	<u>122,066</u>		<u>3,702,702</u>	<u>5,050,052</u>
Total expenditures	<u>\$ 1,225,284</u>	<u>122,066</u>	<u>-</u>	<u>3,702,702</u>	<u>5,050,052</u>
Revenue Over (Under) Expenditures	<u>\$ (941,184)</u>	<u>(122,066)</u>	<u>-</u>	<u>(2,606,200)</u>	<u>(3,669,450)</u>
Other Financing Sources					
Transfers in	\$			25,000	25,000
Transfers (out)	(1,022,346)		134,066	888,280	-
Proceeds from bonds	<u>1,463,361</u>			<u>4,974,639</u>	<u>6,438,000</u>
Total other financing sources	<u>\$ 441,015</u>	<u>-</u>	<u>134,066</u>	<u>5,887,919</u>	<u>6,463,000</u>
Changes in Fund Balances (Deficits)	<u>\$ (500,169)</u>	<u>(122,066)</u>	<u>134,066</u>	<u>3,281,719</u>	<u>2,793,550</u>
Fund Balances (Deficits) - beginning	<u>1,721,800</u>	<u>157,205</u>	<u>(134,066)</u>	<u>(952,807)</u>	<u>792,132</u>
Fund Balances (Deficits) - ending	<u><u>\$ 1,221,631</u></u>	<u><u>35,139</u></u>	<u><u>-</u></u>	<u><u>2,328,912</u></u>	<u><u>3,585,682</u></u>

TOWN OF LITCHFIELD, CONNECTICUT

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	Special Revenue			
	Town Hall Annex	Special Education Grants	Cafeteria	Parks and Recreation
ASSETS				
Cash and cash equivalents	\$			
Receivables, net				
Due from other funds	817,843	100,483	1,544	77,336
Total assets	\$ 817,843	100,483	1,544	77,336
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities				
Accounts payable and accrued liabilities	\$ 73,713	77,891		
Unearned revenues		25,403		
Due to other funds				
Total liabilities	\$ 73,713	103,294	-	-
Deferred inflows of resources:				
Unavailable receipts	\$			
Fund Balance (Deficit)				
Nonspendable	\$			
Restricted for:				
Donor's intentions				
Committed	744,130			
Assigned			1,544	77,336
Unassigned		(2,811)		
Total fund balance (deficit)	\$ 744,130	(2,811)	1,544	77,336
Total liabilities, deferred inflows of resources, and fund balances (deficit)	\$ 817,843	100,483	1,544	77,336

Special Revenue					
<u>Road Ordinance</u>	<u>Sewer Assessment</u>	<u>Infrastructure</u>	<u>Small Cities Grant</u>	<u>Miscellaneous Special Revenue</u>	<u>Town Road Aid</u>
	663,656		49,850	26,092	
3,133	456,209	11,592	74,157	-	881,924
<u>3,133</u>	<u>1,119,865</u>	<u>11,592</u>	<u>124,007</u>	<u>175,952</u>	<u>881,924</u>
			74,157		
-	-	-	74,157	-	-
	663,656			1	
3,133	456,209	11,592	49,850	175,951	881,924
<u>3,133</u>	<u>456,209</u>	<u>11,592</u>	<u>49,850</u>	<u>175,951</u>	<u>881,924</u>
<u>3,133</u>	<u>1,119,865</u>	<u>11,592</u>	<u>124,007</u>	<u>175,952</u>	<u>881,924</u>

(Continued)

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS, Continued
For the Year Ended June 30, 2017

	Special Revenue		Permanent Fund	
	Scholarships	Total Special Revenue	Cemetery Trust	Total Nonmajor Funds
ASSETS				
Cash and cash equivalents	\$ 39,966	115,908	10,398	126,306
Receivables, net		737,813		737,813
Due from other funds	9,236	2,509,160		2,509,160
Total assets	<u>\$ 49,202</u>	<u>3,362,881</u>	<u>10,398</u>	<u>3,373,279</u>
LIABILITIES AND FUND BALANCE (DEFICITS)				
Liabilities				
Accounts payable and accrued liabilities	\$	151,604		151,604
Unearned revenues		99,560		99,560
Due to other funds		-		-
Total liabilities	<u>\$ -</u>	<u>251,164</u>	<u>-</u>	<u>251,164</u>
Deferred inflows of resources:				
Unavailable receipts	\$	663,657		663,657
Fund Balance (Deficit)				
Nonspendable	\$	-		-
Restricted for:		-		-
Donor's intentions		-	10,398	10,398
Specific uses		744,130		744,130
Assigned	49,202	1,706,741		1,706,741
Unassigned		(2,811)		(2,811)
Total fund balance (deficit)	<u>\$ 49,202</u>	<u>2,448,060</u>	<u>10,398</u>	<u>2,458,458</u>
Total liabilities, deferred inflows of resources, and fund balances (deficit)	<u>\$ 49,202</u>	<u>3,362,881</u>	<u>10,398</u>	<u>3,373,279</u>

TOWN OF LITCHFIELD, CONNECTICUT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICITS) - NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	Special Revenue			
	<u>Town Hall Annex</u>	<u>Special Education Grants</u>	<u>Cafeteria</u>	<u>Parks and Recreation</u>
Revenues				
Intergovernmental	\$	725,080	63,512	
Charges for services			266,909	52,551
Investment income				468
Other	<u>245,515</u>			
Total revenues	<u>\$ 245,515</u>	<u>725,080</u>	<u>330,421</u>	<u>53,019</u>
Expenditures				
General	\$ 179,474			
Culture and recreation				62,258
Education		727,891	314,976	
Other				
Total expenditures	<u>\$ 179,474</u>	<u>727,891</u>	<u>314,976</u>	<u>62,258</u>
Revenue Over (Under) Expenditures	<u>\$ 66,041</u>	<u>(2,811)</u>	<u>15,445</u>	<u>(9,239)</u>
Other Financing Sources				
Transfers in	\$			
Transfers (out)				
Total other financing sources	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Fund Balances (Deficits)	<u>\$ 66,041</u>	<u>(2,811)</u>	<u>15,445</u>	<u>(9,239)</u>
Fund Balances (Deficits) - beginning	<u>678,089</u>	<u>-</u>	<u>(13,901)</u>	<u>86,575</u>
Fund Balances (Deficits) - ending	<u><u>\$ 744,130</u></u>	<u><u>(2,811)</u></u>	<u><u>1,544</u></u>	<u><u>77,336</u></u>

Special Revenue					
<u>Road Ordinance</u>	<u>Sewer Assessment</u>	<u>Infrastructure</u>	<u>Small Cities Grant</u>	<u>Miscellaneous Special Revenue</u>	<u>Town Road Aid</u>
		4,074			383,652
-	113,470 2,606		761,486	946 *	
			21,260	67,154	
-	116,076	4,074	782,746	68,100	383,652
	161,847		763,786		
				25,725	
-	161,847	-	763,786	25,725	-
-	(45,771)	4,074	18,960	42,375	383,652
-	-	-	-	-	-
-	(45,771)	4,074	18,960	42,375	383,652
3,133	501,980	7,518	30,890	133,576	498,272
3,133	456,209	11,592	49,850	175,951	881,924

(Continued)

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICITS) - NON-MAJOR GOVERNMENTAL FUNDS, (Continued)**
For the Year Ended June 30, 2017

	<u>Special Revenue</u>		<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Scholarships</u>	<u>Total</u>	<u>Cemetery Trust</u>	
Revenues				
Intergovernmental	\$	1,176,318		1,176,318
Charges for services		1,195,362		1,195,362
Investment income		3,074	-	3,074
Other		333,929		333,929
Total revenues	\$ -	2,708,683	-	2,708,683
Expenditures				
General	\$	1,105,107		1,105,107
Culture and recreation		62,258		62,258
Education	6,927	1,049,794		1,049,794
Other		25,725		25,725
Total expenditures	\$ 6,927	2,242,884	-	2,242,884
Revenue Over (Under) Expenditures	\$ (6,927)	465,799	-	465,799
Other Financing Sources				
Transfers in	\$	-		-
Transfers (out)		-		-
Total other financing sources	\$ -	-	-	-
Changes in Fund Balances (Deficits)	\$ (6,927)	465,799	-	465,799
Fund Balances (Deficits) - beginning	56,129	1,982,261	10,398	1,992,659
Fund Balances (Deficits) - ending	\$ 49,202	2,448,060	10,398	2,458,458

PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2017

Taxpayer	Nature of Operations	Taxable Assessed Value as of 10/1/16
Eversource	Power Company	\$ 15,137,530
CRP/BWN LLC *	Health Care Facility	6,279,650
City of Waterbury	Watershed	5,818,050
C.A. Litchfield Land LLC	Vacant Land	3,793,480
White Memorial Foundation	Leased Land for	3,523,640
Aquarion Water Company of CT	Water Supply	3,459,710
Union Savings	Banking	2,452,370
Arethusa Farm LLC	Farming	2,441,850
Litchfield Developers LLC	Real Estate	2,176,850
Daddario, Raymond F.	Real Estate	1,832,220
Total	Commercial Real Estate	\$ <u>46,915,350</u>

*DBA Brandywine Assisted Living at Litchfield (Sarah Pierce Community)

Source: Town of Litchfield, Office of Tax Assessor

TAXABLE GRAND LIST
JUNE 30, 2017

<u>Grand List</u>	<u>Real Estate</u>	<u>Personal</u>	<u>Motor Vehicle</u>	<u>Gross Taxable Grand List</u>	<u>Less Exemptions</u>	<u>Net Taxable Grand List</u>
10/1/2016 \$	931,177,091 \$	3,760,980 \$	73,957,401 \$	1,042,744,293 \$	2,032,210 \$	1,040,712,083

Source: Town of Litchfield, Office of Tax Assessor

CALCULATION OF DIRECT DEBT AND NEW DIRECT DEBT
JUNE 30, 2017

Long-Term Indebtedness (1):		
Bonds:		
General Purpose	\$	13,533,400
Schools		11,139,600
Sewers		550,000
State of Connecticut PLO (Clean Water Fund)		<u>1,618,446</u>
Total Long-Term Indebtedness		26,841,446
Short-Term Indebtedness:		
Bond Anticipation Notes		<u>-</u>
Total Direct Debt		26,841,446
Exclusions (2):		
Sewer assessments receivable		(663,656)
Intergovernmental receivable - Town of Morris (PLO)		(126,324)
Sewer use charges receivable		<u>(252,971)</u>
Total Net Direct Debt	\$	<u><u>25,798,495</u></u>

(1) Does not include authorized but unissued debt

(2) Grants and receivables applicable to authorized and unissued debt are not included

Note: The Town has no overlapping or underlying indebtedness

CURRENT DEBT RATIOS
JUNE 30, 2017

Total Direct Indebtedness	\$	26,841,446
Total Net Direct Indebtedness	\$	25,798,495
Population (1)		8,306
Net Taxable Grand List (10/1/16)	\$	1,040,712,083
Estimated Full Value 10/1/16	\$	1,486,731,547
Equalized Net Taxable Grand List (2013) (2)	\$	1,467,022,228
Per Capita Income (2015) (3)	\$	45,766
Total Direct Indebtedness:		
Per Capita	\$	3,232
To Net Taxable Grand List		2.58%
To Estimated Full Value		1.81%
To Equalized Net Taxable Grand List		1.83%
Per Capita to Per Capita Income		7.06%
Total Net Indirect Indebtedness:		
Per Capita	\$	3,106
To Net Taxable Grand List		2.48%
To Estimated Full Value		1.74%
To Equalized Net Taxable Grand List		1.76%
Per Capita to Per Capita Income		6.79%

- (1) U.S. Department of Commerce, Bureau of Census 2015
(2) Office of Policy and Management, State of Connecticut
(3) U.S. Census Bureau, 2010-2014 American Community Survey

Source: Town of Litchfield, Office of the Director of Finance