

WATER WORKS DEPARTMENT - TOWN OF SOUTHTON, CONNECTICUT

BOARD MEMBERS' PACKAGE

JUNE 30, 2019

BUDWITZ & MEYERJACK P.C.

Certified Public Accountants

CHESHIRE • FARMINGTON
CONNECTICUT

WATER WORKS DEPARTMENT – TOWN OF SOUTHTON, CONNECTICUT
BOARD MEMBERS' PACKAGE
JUNE 30, 2019

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FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
AND REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2019

(With Independent Auditors' Report Thereon)

WATER WORKS DEPARTMENT - TOWN OF SOUTHBINGTON, CONNECTICUT

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INDEPENDENT AUDITORS' REPORT

To the Board of Water Commissioners
Town of Southington, Connecticut:

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Works Department, Town of Southington (the Department) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department'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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Department'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 Department'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Works Department, Town of Southington, as of June 30, 2019, and the respective changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Summarized Comparative Totals

We have previously audited the Department's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and schedules of the Department's proportionate share of the net pension liability and contributions on pages 36 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Works Department, Town of Southington's basic financial statements. The supplemental schedules listed in the table of contents 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2019, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Water Works Department-Town of Southington, CT, and do not purport to, and do not present fairly the financial position of the Town of Southington, CT as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Budwitz & Meyerjack, P.C.

December 23, 2019

BOARD OF WATER COMMISSIONERS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

The Water Works Department, Town of Southington provides quality affordable water to residents of the Town of Southington, Connecticut who request service.

The financial statements of the Department include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows, and related notes to the financial statements. The Statement of Net Position provides information about the nature and the amounts of investments and resources (assets) and the obligation to the Department's creditors (liabilities), with the difference between the two being reported as net position.

The Statement of Revenues, Expenses and Changes in Net Position, or income statement, shows how the Department's net position changes during the year. It accounts for all the year's revenues and expenses, measures the financial results of the Department's operations for the year and can be used to determine how the Department has funded its costs.

The Statement of Cash Flows provides information about the Department's cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, and investing activities.

The notes to the financial statements contain information that is essential to the understanding of the financial statements, such as the Department's accounting methods and policies.

Management provides the following discussion and analysis (MD&A) of the Department's financial position and activities. This overview is provided for the year ended June 30, 2019. The information contained in this analysis should be used by the reader in conjunction with the information contained in our audited financial statements and notes to those financial statements, all of which follow this narrative on the subsequent pages.

FINANCIAL HIGHLIGHTS

The Department's financial statements are prepared on the accrual basis of accounting promulgated by the Governmental Accounting Standards Board (GASB). The Department is a single-purpose entity and revenues are recognized when earned, not received. Expenses are recognized when incurred, not when they are paid.

The 2019 financial statements are presented with comparative totals from 2018.

- ❖ The Department's assets and deferred outflows of resources exceeded its liabilities as of June 30, 2019 by \$41,403,284 (net position). Of this amount, \$37,234,692 (unrestricted net position) may be used to meet the Department's ongoing obligations. The Department's net position increased by \$1,209,117 during the current fiscal year and by \$784,202 in the prior fiscal year.
- ❖ Total operating revenues increased by \$459,293 or 7% for the year ended June 30, 2019.
- ❖ Some of the major construction projects completed during the year increasing the Department's assets were as follows:

<u>Project Name/Location</u>	<u>Cost</u>
Ceella Drive	\$ 74,113
Flanders Road Main Design	69,323
West Main Street	17,892
	<u>\$ 161,328</u>

Summary of Operations and Changes in Net Position

<u>Revenues:</u>	<u>2019</u>	<u>2018</u>
<u>Operating Revenues:</u>		
Sale of Water	\$ 6,486,036	\$ 6,101,871
Jobbing and Contract Work, Net	106,209	68,752
Other Operating Revenues	193,498	155,827
	<u>6,785,743</u>	<u>6,326,450</u>
<u>Non Operating Revenues:</u>		
Other Miscellaneous Income	138,773	140,090
Investment Income	116,817	67,654
Total Revenues	<u>7,041,333</u>	<u>6,534,194</u>

Summary of Operations and Changes in Net Position (continued)

	<u>2019</u>	<u>2018</u>
<u>Expenses:</u>		
Utility Operating Expenses	4,094,735	3,902,899
Depreciation, Utility Plant Only	1,234,694	1,198,272
Taxes	181,651	179,006
CT Municipal Employee Pension Expense	370,604	279,133
Loss on Disposal of Assets	17,219	21,056
Interest on Long-Term Debt	322,016	414,521
Total Expenses	<u>6,220,919</u>	<u>5,994,887</u>
Income Before Contributions	820,414	539,307
Capital Contributions	<u>388,703</u>	<u>244,895</u>
Changes in Net Position	1,209,117	784,202
Total Net Position-beginning	<u>40,194,167</u>	<u>39,409,965</u>
Total Net Position-ending	<u>\$41,403,284</u>	<u>\$40,194,167</u>

Capital contributions are revenues from grants, developers and customers for capital water system improvements donated to the Department.

Financial Positions Summary

Net position is an indication of the Department's financial strength. The Department's net position as of June 30, 2019 and 2018 is \$41,403,284 and \$40,194,167, respectively. A summary of the Department's financial position is shown below:

	<u>2019</u>	<u>2018</u>
Current and Other Assets	\$ 7,734,286	\$ 7,127,182
Deferred Outflows of Resources	1,626,273	332,692
Capital Assets	<u>50,029,067</u>	<u>47,824,256</u>
Total Assets and Deferred Outflows of Resources	<u>59,389,626</u>	<u>55,284,130</u>
Current and Other Liabilities	3,607,598	2,141,975
Deferred Inflows of Resources	102,755	357
Noncurrent Liabilities	14,275,989	12,947,631
Total Liabilities and Deferred Inflows of Resources	<u>17,986,342</u>	<u>15,089,963</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	37,234,692	34,941,707
Restricted	-	-
Unrestricted	<u>4,168,592</u>	<u>5,252,460</u>
Total Net Position	<u>\$41,403,284</u>	<u>\$40,194,167</u>

Total assets remained fairly consistent from June 30, 2018 to June 30, 2019. Deferred outflows of resources increased by approximately \$1,300,000 in that same period of time due to actuarial calculations related to the municipal employees' pension plan.

Total liabilities increased by approximately \$2,800,000 from June 30, 2018 to June 30, 2019. This is due to an increase in the net pension liability and accounts payable at June 30, 2019. Deferred inflows of resources also increased due to actuarial calculations related to the municipal employees' pension plan.

As a water utility, the Department has a significant investment in infrastructure. The Department's infrastructure includes pipelines, pumping stations, storage tanks, reservoirs, water treatment plants, land and other facilities required in the treatment and distribution of potable water to its customers. The Department's net position also includes funds available to pay for ongoing and future construction or replacements, and/or additions, to this infrastructure. Deferred outflows and inflows of resources increased/decreased due to a change in the actuarial valuation of the Connecticut Municipal Employees' Retirement System in the current year. Long-term liabilities were recorded in both years as a result of a net pension liability related to the Authority's proportionate share of the Connecticut Municipal Employees' Retirement System.

Rates and Charges

Consumption in Hundred Cu. FT. (CCF)	<u>2019</u>	<u>2018</u>	<u>2017</u>
0-1000	\$ 3.04/CCF	\$ 3.04/CCF	\$ 3.04/CCF
over 1000	\$ 2.84/CCF	\$ 2.84/CCF	\$ 2.84/CCF

<u>Quarterly Service Charge Rates</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Meter Size</u>	<u>Service Charge</u>	<u>Service Charge</u>	<u>Service Charge</u>
5/8"	\$ 22.15	\$ 22.15	\$ 22.15
3/4"	\$ 22.15	\$ 22.15	\$ 22.15
1"	\$ 33.74	\$ 33.74	\$ 33.74
1-1/2"	\$ 61.46	\$ 61.46	\$ 61.46
2"	\$ 89.18	\$ 89.18	\$ 89.18
3"	\$ 156.66	\$ 156.66	\$ 156.66
4"	\$ 253.07	\$ 253.07	\$ 253.07
6"	\$ 450.71	\$ 450.71	\$ 450.71

The Department implemented a rate increase of approximately 5% effective July 1, 2019.

Budgetary Highlights

The Department annually adopts a budget in June to be effective July 1 for the ensuing year. The budget outlines estimated sources of revenues as well as anticipating expenditures for the upcoming year. Any surplus from the current year budget may be carried over to the succeeding fiscal year budget. Those budgetary accounts assist the Department in monitoring line item variances throughout the fiscal period.

Summary of Operating Revenues

	<u>2019</u>	<u>2019 Budget</u>	<u>2018</u>
Water Sales:			
Residential	\$ 4,902,488	\$ 5,133,826	\$ 4,593,807
Commercial	913,924	870,679	843,146
Industrial	187,253	158,804	165,789
Municipal	84,721	93,994	106,281
Private Fire Protection	176,452	173,464	173,402
Public Fire Protection	221,198	220,614	219,446
Total Water Sales	<u>6,486,036</u>	<u>6,651,381</u>	<u>6,101,871</u>
Other Water and Operating Revenue	<u>299,707</u>	<u>193,226</u>	<u>224,579</u>
Total Operating Revenue	<u>\$ 6,785,743</u>	<u>\$ 6,844,607</u>	<u>\$ 6,326,450</u>

Summary of Operating Expenses

The Department's expenses are budgeted and tracked functionally by operating department. The Department's expenses are functionally divided into the following six departments: Source of Supply, Pumping, Water Treatment, Transmission and Distribution, Customer Accounts and Administrative and General.

The following is a summary of the Department's functional expenses by operating department:

	<u>2019</u>	<u>2019</u> <u>Budget</u>	<u>2018</u>
Source of Supply	\$ 154,581	\$ 87,691	\$ 114,302
Pumping	510,312	459,556	518,137
Water Treatment	425,264	390,725	430,681
Transmission and Distribution	1,171,007	933,211	1,105,175
Custmoer Accounts	182,524	156,374	158,582
Administrative and General	1,651,047	1,928,966	1,576,022
Unallocated Overhead Expenses	-	421,101	-
Total Operating Revenue	<u>\$ 4,094,735</u>	<u>\$ 4,377,624</u>	<u>\$ 3,902,899</u>

Non-Operating Revenue (Expense)

The Department's non-operating revenue (expense) is composed of the following:

	<u>2019</u>	<u>2018</u>
Interest and Dividend Income	\$ 116,817	\$ 67,654
Rental Income	120,225	118,608
Other Miscellaneous Income	18,548	21,482
Losses on Disposal of Assets	(17,219)	(21,056)
CT Municipal Employees' Pension expense	(370,604)	(279,133)
Interest Expense	(322,016)	(414,521)
Total Non-Operating Revenue (Expense)	<u>\$ (454,249)</u>	<u>\$ (506,966)</u>

Capital Assets

The Department's investments in capital assets amounted to \$50,029,067 and \$47,824,256 net of accumulated depreciation as of June 30, 2019 and 2018, respectively. The increase in capital assets during the fiscal years amounted to \$2,204,811 in 2019 and \$658,722 in 2018, and is summarized as follows:

	<u>2019</u>	<u>2018</u>
Capital Expenditures	\$ 3,578,429	\$ 1,979,402
Less: Depreciation	(1,356,399)	(1,299,624)
Less: Scrapped Equipment, Net	(17,219)	(21,056)
	<u>\$ 2,204,811</u>	<u>\$ 658,722</u>

Debt Administration

Water Bond Debt

As of June 30, 2019 the Department has three water bond series outstanding as summarized below.

Bond Series	Outstanding as of June 2019	Outstanding as of June 2018	Principal due 2020
2011 Series	\$ 335,000	\$ 1,340,000	\$ 335,000
Bond premium-2011 Series	-	22,652	-
2014 Series	4,395,000	4,690,000	295,000
Bond premium-2014 Series	211,128	225,606	14,477
2019 Series	605,000	-	-
Total Bond Debt	\$ 5,546,128	\$ 6,278,258	\$ 644,477

Project Loans Payable

As of June 30, 2019, the Department has six project loans payable through the State of Connecticut Drinking Water Fund as summarized below.

Project	Payable as of June 2019	Payable as of June 2018	Principal due 2020
Wellhead Protection	\$ 931,650	\$ 1,055,870	\$ 124,220
Water Main Replacement	526,875	578,164	52,434
Wellhead Protection Phase II	889,470	996,808	109,855
East Side Pressure Zone	3,798,867	3,973,449	178,106
Well 2A	843,910	-	-
Mill Street Tank	257,474	-	-
Total Loans Payable	\$ 7,248,246	\$ 6,604,291	\$ 464,615

Economic Factors and Next Year's Goals

The Department continues to develop the necessary infrastructure and operational practices to meet its short and long-term plans while ensuring quality customer service is provided and competitive rates are being maintained.

In 2020, the Department intends to spend approximately \$1.6 million for capital improvements, including the following major projects:

- West Main Street/South Main Street
- Mill Street Tank Tower
- Mill Street Tank Engineering

Request for Information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, Water Works Department, Town of Southington, P.O. Box 111, Southington, CT 06489-0111.



William M. Casarella, Superintendent
Southington Water Department

WATER WORKS DEPARTMENT - TOWN OF SOUTHLINGTON, CONNECTICUT
STATEMENT OF NET POSITION
JUNE 30, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,369,155	\$ 5,823,452
Accounts receivable	94,183	71,683
Accrued unbilled revenue	988,740	965,070
Inventory - materials and supplies	222,694	207,463
Total Current Assets	<u>7,674,772</u>	<u>7,067,668</u>
NONCURRENT ASSETS:		
Capital assets-nondepreciable	5,990,314	3,133,901
Capital assets-depreciable	<u>70,980,759</u>	<u>70,388,211</u>
	76,971,073	73,522,112
Less accumulated depreciation	<u>(26,942,006)</u>	<u>(25,697,856)</u>
Net Capital Assets	<u>50,029,067</u>	<u>47,824,256</u>
OTHER ASSETS:		
Preliminary survey and investigation charges	<u>59,514</u>	<u>59,514</u>
Total Other Assets	<u>59,514</u>	<u>59,514</u>
Total Noncurrent Assets	<u>50,088,581</u>	<u>47,883,770</u>
Total Assets	<u>57,763,353</u>	<u>54,951,438</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Employer contributions subsequent to measurement date	214,655	211,061
Deferred actuarial amounts related to pensions	<u>1,411,618</u>	<u>121,631</u>
Total Deferred Outflows of Resources	<u>1,626,273</u>	<u>332,692</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Current maturities of bonds	644,477	652,028
Current maturities of notes payable	464,615	457,429
Accounts payable	1,664,766	196,723
Unearned revenue	189,975	237,023
Accrued expenses	643,013	597,832
Pension contribution payable	<u>752</u>	<u>940</u>
Total Current Liabilities	<u>3,607,598</u>	<u>2,141,975</u>
NONCURRENT LIABILITIES:		
Bonds payable	4,901,651	5,626,230
Notes payable	6,783,631	6,146,862
Net pension liability	<u>2,590,707</u>	<u>1,174,539</u>
Total Noncurrent Liabilities	<u>14,275,989</u>	<u>12,947,631</u>
Total Liabilities	<u>17,883,587</u>	<u>15,089,606</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred actuarial amounts related to pensions	33,334	357
Deferred amounts on refunding of water revenue bonds	<u>69,421</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>102,755</u>	<u>357</u>
NET POSITION:		
Net investment in capital assets	37,234,692	34,941,707
Unrestricted	<u>4,168,592</u>	<u>5,252,460</u>
Total Net Position	<u>\$ 41,403,284</u>	<u>\$ 40,194,167</u>

The accompanying notes are an integral part
of these financial statements.

WATER WORKS DEPARTMENT - TOWN OF SOUTHLINGTON, CONNECTICUT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
OPERATING REVENUE:		
Metered Sales to Customers:		
Water sales - residential	\$ 4,902,488	\$ 4,593,807
Water sales - commercial	913,924	843,146
Water sales - industrial	187,253	165,789
Water sales - municipal	<u>84,721</u>	<u>106,281</u>
	6,088,386	5,709,023
Private fire protection	176,452	173,402
Public fire protection	<u>221,198</u>	<u>219,446</u>
Total Sale of Water	6,486,036	6,101,871
OTHER WATER REVENUE:		
Revenue from jobbing and contracts	209,555	176,796
Jobbing and contract expenses	<u>(103,346)</u>	<u>(108,044)</u>
Net Jobbing Revenue	106,209	68,752
Finance charges	34,066	31,846
Line protection	125,587	123,981
Safe drinking water assessment	<u>33,845</u>	<u>-</u>
Net Other Water Revenue	<u>299,707</u>	<u>224,579</u>
TOTAL SALES AND REVENUE	<u>6,785,743</u>	<u>6,326,450</u>
OPERATING EXPENSES:		
Utility operating expenses	4,094,735	3,902,899
Taxes	181,651	179,006
Depreciation	<u>1,234,694</u>	<u>1,198,272</u>
Total Operating Expenses	<u>5,511,080</u>	<u>5,280,177</u>
UTILITY OPERATING INCOME	1,274,663	1,046,273
OTHER INCOME (EXPENSE):		
Interest and dividend income	116,817	67,654
Rental income	120,225	118,608
Other miscellaneous non-operating income	18,548	21,482
Loss on disposals of assets	(17,219)	(21,056)
Connecticut Municipal Employees' pension expense	(370,604)	(279,133)
Interest expense	<u>(322,016)</u>	<u>(414,521)</u>
Total Other Income (Expense)	<u>(454,249)</u>	<u>(506,966)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	820,414	539,307
CAPITAL CONTRIBUTIONS	<u>388,703</u>	<u>244,895</u>
INCREASE IN NET POSITION	1,209,117	784,202
TOTAL NET POSITION - BEGINNING	<u>40,194,167</u>	<u>39,409,965</u>
TOTAL NET POSITION - ENDING	<u>\$ 41,403,284</u>	<u>\$ 40,194,167</u>

The accompanying notes are an integral part
of these financial statements.

WATER WORKS DEPARTMENT - TOWN OF SOUTHLINGTON, CONNECTICUT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 6,795,871	\$ 6,438,371
Other miscellaneous receipts	138,773	140,090
Payments to vendors and others	(1,143,017)	(3,153,574)
Payments to employees	<u>(1,843,020)</u>	<u>(1,908,107)</u>
Net Cash Provided by Operating Activities	<u>3,948,607</u>	<u>1,516,780</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt	1,101,384	753,897
Payments on long-term debt	(1,109,457)	(1,041,537)
Interest paid	(321,922)	(423,750)
Acquisition of property and equipment	<u>(3,189,726)</u>	<u>(1,734,508)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(3,519,721)</u>	<u>(2,445,898)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	<u>116,817</u>	<u>67,654</u>
Net Cash Provided By Investing Activities	<u>116,817</u>	<u>67,654</u>
NET INCREASE (DECREASE) IN CASH	545,703	(861,464)
CASH AND EQUIVALENTS - beginning of year	<u>5,823,452</u>	<u>6,684,916</u>
CASH AND EQUIVALENTS - end of year	<u><u>\$ 6,369,155</u></u>	<u><u>\$ 5,823,452</u></u>

The accompanying notes are an integral part
of these financial statements.

WATER WORKS DEPARTMENT - TOWN OF SOUTHTON, CONNECTICUT
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 1,274,663	\$ 1,046,273
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,234,694	1,198,272
Depreciation - allocated to other expenses	121,705	101,353
Other miscellaneous income	138,773	140,090
Pension expense	(370,604)	(279,133)
Changes in:		
Accounts receivable	(46,170)	(76,432)
Inventories	(15,231)	61,503
Deferred outflows of resources	(1,293,581)	273,791
Accounts payable	1,468,043	(778,527)
Unearned revenue	(47,048)	80,309
Accrued expenses, excluding interest	34,406	(31,913)
Pension contribution payable	(188)	940
Net pension liability	1,416,168	(220,103)
Deferred inflows of resources related to pensions	<u>32,977</u>	<u>357</u>
Net Cash Provided By Operating Activities	<u>\$ 3,948,607</u>	<u>\$ 1,516,780</u>
 NON-CASH CAPITAL FINANCING ACTIVITY:		
Capital assets received directly from developers and customers	<u>\$ 388,703</u>	<u>\$ 244,895</u>
Deferred amount on refunding of water revenue bonds	<u>\$ 80,102</u>	<u>\$ -</u>

The accompanying notes are an integral part
of these financial statements.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION

The original Water Works in the Town of Southington was constructed by a private corporation in 1883-1884. In 1911, the Southington Water Department was purchased by the Town. The Department is governed by an elected board of water commissioners. A total of six commissioners comprise the board, three of whom are elected at each biennial Town election, for a term of four years.

The accompanying financial statements present Water Works Department-Town of Southington, CT and are not intended to present fairly the financial position of the Town of Southington, CT and the results of its operations and where applicable, cash flows thereof, in conformity with accounting principles generally accepted in the United States of America.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The Department's financial statements are presented on the accrual basis of accounting. In its accounting and financial reporting, the Department follows the pronouncements of the Governmental Accounting Standards Board ("GASB"). In addition, the Department follows the pronouncements of only applicable Financial Accounting Standards Board ("FASB") Statements and Interpretations, issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Basis of Presentation:

GASB requires the classification of net position into three categories as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent capital-related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted Net Position – This component of net position consists of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component consists of net position that does not meet the definition of "net investment in capital assets," or "restricted."

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash, Investments, and Accrued Interest:

Funds held by the Department are in accordance with Connecticut General Statutes. The following categories of investments are authorized by policy:

1. Repurchase Agreements – secured by collateral, which is delivered to a third-party safekeeping institution, with a market value equal to or greater than the value of the agreement.
2. U.S. Treasury Obligations – bills, notes, and bonds.
3. Obligations of Federal or State Agencies or Instrumentalities – interest bearing or discount form.
4. Municipal Bonds – rated in any of the three highest major rating categories by one or more nationally recognized rating agencies.

The following categories of deposits are authorized by policy:

1. Checking Accounts – at insured financial institutions.
2. Certificate of Deposits – at insured financial institutions.

Statement of Cash Flows:

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Examples are Treasury Bills, commercial paper, money market accounts that are not classified as cash, and other short-term investments that mature within three months of the statement of net position date.

Accounts Receivable:

Accounts receivable consists of fees for water charges due from individuals, businesses and municipalities. The carrying value of accounts receivable, net of the allowance for doubtful accounts, represents their estimated net realized value. The estimate for the allowance for doubtful accounts is based on historical collection trends, the age of the outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that a specific receivable balance may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past-due receivable balances are written off when the Department's internal collection efforts, including shutting off service and placing a lien on the property, have been unsuccessful in collecting the amount due.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

Accrued Unbilled Revenues:

Accrued unbilled revenues represent revenue earned in the current year but not billed to customers until future dates, usually within three months, and is an estimate made by management using historical trends.

Revenue Recognition:

The Department distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing services in connection with the Department's principal ongoing operations. Water service revenues are recognized based on actual customer water usage, including estimates for unbilled periods. Other operating revenues are recognized when service has been rendered and collection is reasonably assured. The Department's operating expenses include operations and maintenance expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Inventories:

Inventories of materials, supplies, and chemicals maintained by the Water Works Department for the Town of Southington, CT are stated at the lower of cost or market, determined on a first-in, first-out basis.

Capital Assets:

Capital assets are stated at cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation and amortization are provided using the straight-line method over the following estimated useful lives or lease term if shorter.

Depreciation on capital assets is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	10 - 100 years
Machinery and equipment	5 - 50 years
Vehicles	5 years
Furniture and fixtures	3 - 12.5 years
Water systems	5 - 100 years

Improvements and significant repairs over \$1,000 that extend the life of the asset are capitalized. Other repairs and maintenance costs are expensed as incurred. When assets are retired or otherwise disposed of, the related asset and accumulated depreciation is written off and any unrelated gains or losses are recorded.

Construction costs of water lines that are reimbursed by users or that are financed directly or indirectly by developers and property owners are capitalized and recorded as capital contributions.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

Accrued Vacation and Sick Leave Pay:

Vacation time is accrued immediately on January 1. If employees do not use their vacation time by December 31, they lose it. Vacation costs are recognized as a liability when earned by the employee. The liability for unpaid vacation time as of June 30, 2019 and 2018 is accrued because employees earn vacations on a calendar year, not a fiscal year.

The employees of the Department accumulate 1¼ sick days per month, for a total of 15 days each calendar year up to a maximum of 120 days. Accordingly, sick leave costs are recognized when vested or taken, whichever occurs first. Most employees do not get paid out for unused sick time when they terminate their employment. However, a few employees are grandfathered in and do receive a payout upon termination.

The liability for all compensated absences is combined with other accrued expenses in the current liability section of the statement of net position.

Long-Term Obligations:

Long-term obligations, consisting of bonds payable and notes payable to banks, have been used to finance capital acquisitions. Repayment of long-term obligations is made from the Department's revenues, and is recorded in the statement of net position.

Unamortized Bond Premium:

Bond premium related to the issuance of debt obligations is amortized over the term of the respective bond issues.

Deferred Outflows and Inflows of Resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows/inflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The Department reports deferred amounts on refunding of water revenue bonds, as well as amounts relating to the Connecticut Municipal Employees' Retirement Plan in this category.

Revenue Recognition:

Revenue from water sales are recognized at the time of service delivery based on actual or estimated water meter readings. Revenue from projects is recognized when projects are completed. Advance payments received on these projects are reported as unearned revenue until the project is completed.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

Operating and Non-Operating Revenues and Expenses:

Operating revenue consists of water revenue and other related revenue. The Department defines non-operating revenue as interest earnings on investments, rental income and sale of scrap metal and timber. Non-operating expenses are defined as interest expense on long-term debt and gains/losses on disposals of capital assets.

Capital Contributions from Developers and Customers:

Capital contributions from developers and customers represent amounts for betterments or additions to capital assets that have been contributed to the Department.

Income Tax Status:

As a public benefit corporation, the Department is exempt from Federal and State income taxes, as well as State and local property taxes.

Estimated Amounts Reported in Financial Statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Comparative Information:

The financial statements include certain prior-year summarized comparative information in total but not in the same detail used for the current year presentation. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Department's financial statements for the year ended June 30, 2018, from which the summarized information was obtained.

3. CASH, EQUIVALENTS AND FINANCIAL INSTITUTIONS

The deposits of the Water Works Department, Town of Southington, CT are controlled by the Connecticut General Statutes. The majority of Town deposits are maintained with financial institutions that have insurance to a maximum of \$250,000 per depositor by the FDIC.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019
 (With Comparative Totals for 2018)

Public Act 91-245, an Act Concerning the Protection of Public Deposits:

This Act replaces the statewide system of protecting public deposits, which required each bank to set aside collateral worth 3% of the amount of deposit losses, with a new system that makes each bank responsible only for its own public deposits. The Act sets higher collateral requirements ranging from 10% to 120% of the amount of public funds on deposit, depending on the bank’s financial strength as shown by its risk-based capital ratio. It specifies the types and amounts of collateral a bank can use to back public deposits and how the collateral must be segregated from other assets.

The Act makes the banking commissioner’s public deposit regulatory powers consistent with the new system and requires certain reports and disclosures from banks holding public deposits.

The Act replaces the 3% shared risk system with a tiered system where (1) each bank is liable only for its own public deposit losses and (2) the percent of public deposits that has to be backed by segregated collateral varies according to the bank’s financial strength. The Act determines a bank’s financial strength according to its “risk-based capital ratio”. The lower a bank’s risk-based capital ratio is, the higher the percent of public deposits it must back with collateral, ranging from 10% required collateral for the best capitalized banks up to 120% for the worst.

Bank's Minimum Risk-Based Capital Ratio	Collateral for Public Deposits to be Segregated
Over 10%	10%
8%-10%	25%
3%-8%	100%
Under 3%	120%

At June 30, 2019 and 2018, the carrying amounts of the Department’s deposits were \$6,369,155 and \$5,823,452, respectively. Of these balances, \$500,000 was covered by Federal Deposit Insurance in 2019 and 2018, respectively.

Section 36-386 of the Connecticut General Statutes requires that each depository maintain segregated collateral in an amount equal to a defined percentage based on the bank’s risk-based capital ratio.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

Risk Category 3 is defined as collateral held by the pledging financial institution, or by its trust department or agent, but not in the Town's name. The balance of deposits of \$40,216 in 2019 and \$39,312 in 2018 and invested in the State of Connecticut Short-Term Investment Fund (STIF) and Reich and Tang Funds are uninsured and uncollateralized.

As of June 30, 2019 and 2018, the cash and cash equivalents balances at the following institutions were as follows:

	June 30, 2019 Total	June 30, 2018 Total
People's United Bank	\$ 1,597,035	\$ 1,271,488
United Bank	4,731,554	4,512,302
Total Bank Deposits	6,328,589	5,783,790
Add:		
STIF-State of CT	40,216	39,312
Petty Cash	350	350
Total Cash	\$ 6,369,155	\$ 5,823,452

2019						
	Total Bank Deposits	Collateralization Percentage	Total Collateralized	Total Insured	Insured and Collateralized	Uninsured and Uncollateralized
People's United Bank	\$ 1,597,035	10%	\$ 159,704	\$ 250,000	\$ 409,704	\$ 1,187,332
United Bank	4,731,554	10%	473,155	250,000	723,155	4,008,399
	\$ 6,328,589		\$ 632,859	\$ 500,000	\$ 1,132,859	\$ 5,195,731

2018						
	Total Bank Deposits	Collateralization Percentage	Total Collateralized	Total Insured	Insured and Collateralized	Uninsured and Uncollateralized
People's United Bank	\$ 1,271,488	10%	\$ 127,149	\$ 250,000	\$ 377,149	\$ 894,339
United Bank	4,512,302	10%	451,230	250,000	701,230	3,811,072
	\$ 5,783,790		\$ 578,379	\$ 500,000	\$ 1,078,379	\$ 4,705,411

Interest Rate Risk – The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

Credit Risk-Investments – As indicated above, State Statutes limit the investment options of cities and towns, and the Department is subject to these statutory limits. The Department has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The Department’s investment policy does not allow for an investment in any one issuer that is in excess of 5% of the Department’s total investments.

Custodial Credit Risk – The custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department does not have a policy for custodial credit risk. At June 30, 2019, the Department did not have any uninsured and unregistered securities held by the counterparty or by its trust department or agent that were not in the Department’s name.

4. ACCOUNTS RECEIVABLE AND ACCRUED UNBILLED REVENUE

Accounts receivable and accrued unbilled revenue consists of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Trade accounts receivable	\$ 113,789	\$ 88,539
Finance charges receivable	7,358	7,314
Accrued unbilled revenue	<u>988,740</u>	<u>965,070</u>
	1,109,887	1,060,923
Less allowance for doubtful accounts	<u>(26,964)</u>	<u>(24,170)</u>
Total Accounts Receivable and Accrued Unbilled Revenue	<u>\$1,082,923</u>	<u>\$1,036,753</u>

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 was as follows:

	Balance				Balance
<u>Utility Plant</u>	<u>6/30/18</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>6/30/19</u>
<u>Capital Assets, Not Being Depreciated:</u>					
Land	\$ 2,292,861	\$ -	\$ -	\$ -	\$ 2,292,861
Construction in progress	454,073	3,022,448	-	(166,035)	3,310,486
Other non-depreciable assets	<u>386,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>386,967</u>
Total Capital Assets, Not Being Depreciated	<u>3,133,901</u>	<u>3,022,448</u>	<u>-</u>	<u>(166,035)</u>	<u>5,990,314</u>

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

5. CAPITAL ASSETS (continued)

<u>Utility Plant</u>					Balance
	<u>6/30/18</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>6/30/19</u>
<u>Capital Assets Being Depreciated:</u>					
Buildings and improvements	14,467,220	11,562	(332)	-	14,478,450
Machinery and equipment	973,761	95,244	-	-	1,069,005
Vehicles	940,055	61,883	(46,217)	-	955,721
Furniture, fixtures and office	1,809,173	15,478	(51,850)	-	1,772,801
Water systems	<u>52,198,002</u>	<u>371,815</u>	<u>(31,070)</u>	<u>166,035</u>	<u>52,704,782</u>
Total Capital Assets, Being Depreciated	<u>70,388,211</u>	<u>555,982</u>	<u>(129,469)</u>	<u>166,035</u>	<u>70,980,759</u>
<u>Less Accumulated Depreciation for:</u>					
Buildings and improvements	3,874,900	331,009	(118)	-	4,205,791
Machinery and equipment	613,974	35,902	-	-	649,876
Vehicles	678,742	89,051	(46,217)	-	721,576
Furniture, fixtures and office	1,762,230	25,379	(48,283)	-	1,739,326
Water systems	<u>18,768,010</u>	<u>875,058</u>	<u>(17,631)</u>	<u>-</u>	<u>19,625,437</u>
Total Accumulated Depreciation	<u>25,697,856</u>	<u>1,356,399</u>	<u>(112,249)</u>	<u>-</u>	<u>26,942,006</u>
Total Capital Assets, Being Depreciated, Net	<u>44,690,355</u>	<u>(800,417)</u>	<u>(17,220)</u>	<u>166,035</u>	<u>44,038,753</u>
Capital Assets, Net	<u>\$ 47,824,256</u>	<u>\$ 2,222,031</u>	<u>\$ (17,220)</u>	<u>\$ -</u>	<u>\$ 50,029,067</u>

Capital assets activity for the year ended June 30, 2018 was as follows:

<u>Utility Plant</u>					Balance
	<u>6/30/17</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>6/30/18</u>
<u>Capital Assets, Not Being Depreciated:</u>					
Land	\$ 2,292,861	\$ -	\$ -	\$ -	\$ 2,292,861
Construction in progress	5,759,739	1,447,314	-	(6,752,980)	454,073
Other non-depreciable assets	<u>386,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>386,967</u>
Total Capital Assets, Not Being Depreciated	<u>8,439,567</u>	<u>1,447,314</u>	<u>-</u>	<u>(6,752,980)</u>	<u>3,133,901</u>
<u>Capital Assets Being Depreciated:</u>					
Buildings and improvements	12,589,035	2,800	-	1,875,385	14,467,220
Machinery and equipment	921,940	51,821	-	-	973,761
Vehicles	842,560	116,192	(18,697)	-	940,055
Furniture, fixtures and office	1,816,454	3,837	(11,118)	-	1,809,173
Water systems	<u>47,015,203</u>	<u>357,439</u>	<u>(52,235)</u>	<u>4,877,595</u>	<u>52,198,002</u>
Total Capital Assets, Being Depreciated	<u>63,185,192</u>	<u>532,089</u>	<u>(82,050)</u>	<u>6,752,980</u>	<u>70,388,211</u>

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

5. CAPITAL ASSETS (continued)

<u>Utility Plant</u>					Balance
	<u>6/30/17</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>6/30/18</u>
<u>Less Accumulated Depreciation for:</u>					
Buildings and improvements	3,556,838	318,062	-	-	3,874,900
Machinery and equipment	582,403	31,571	-	-	613,974
Vehicles	623,926	73,513	(18,697)	-	678,742
Furniture, fixtures and office	1,740,757	32,591	(11,118)	-	1,762,230
Water systems	17,955,301	843,888	(31,179)	-	18,768,010
Total Accumulated Depreciation	<u>24,459,225</u>	<u>1,299,625</u>	<u>(60,994)</u>	<u>-</u>	<u>25,697,856</u>
Total Capital Assets, Being Depreciated, Net	<u>38,725,967</u>	<u>(767,536)</u>	<u>(21,056)</u>	<u>6,752,980</u>	<u>44,690,355</u>
Capital Assets, Net	<u>\$ 47,165,534</u>	<u>\$ 679,778</u>	<u>\$ (21,056)</u>	<u>\$ -</u>	<u>\$ 47,824,256</u>

6. WATER BONDS PAYABLE AND NOTES PAYABLE

Long-term obligations as of June 30, 2019, the increases and decreases in those obligations and the resulting ending balances as of June 30, 2019 are as follows:

	<u>Outstanding</u>				<u>Current Maturities</u>
	<u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>	
Water bonds, 2011 issue	\$ 1,340,000	\$ -	\$ (1,005,000)	\$ 335,000	\$ 335,000
Water bonds, 2014 issue	4,690,000	-	(295,000)	4,395,000	295,000
Water bonds, 2019 issue	-	605,000	-	605,000	-
Total Bonded Debt	<u>6,030,000</u>	<u>605,000</u>	<u>(1,300,000)</u>	<u>5,335,000</u>	<u>630,000</u>
Unamortized Premium, 2011 issue	22,651	-	(22,651)	-	-
Unamortized Premium, 2014 issue	225,607	-	(14,479)	211,128	14,477
Net Bonded Debt	<u>6,278,258</u>	<u>605,000</u>	<u>(1,337,130)</u>	<u>5,546,128</u>	<u>644,477</u>
State of CT-Project 200202-C	1,055,870	-	(124,220)	931,650	124,220
State of CT-Project 200201-C	578,164	-	(51,288)	526,876	52,433
State of CT-Project 200202-CD1	996,807	-	(107,337)	889,470	109,855
State of CT-Project 2016-7039	3,973,450	-	(174,584)	3,798,866	178,107
State of CT-Project 2019-7076	-	843,910	-	843,910	-
State of CT-Project 2019-7080	-	257,474	-	257,474	-
Total Notes Payable	<u>6,604,291</u>	<u>1,101,384</u>	<u>(457,429)</u>	<u>7,248,246</u>	<u>464,615</u>
Total Indebtedness	<u>12,882,549</u>	<u>\$ 1,706,384</u>	<u>\$ (1,794,559)</u>	<u>12,794,374</u>	<u>\$ 1,109,092</u>
Current Maturities	<u>(1,109,457)</u>			<u>(1,109,092)</u>	
Long-Term Debt	<u>\$ 11,773,092</u>			<u>\$ 11,685,282</u>	

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

Long-term obligations as of June 30, 2018, the increases and decreases in those obligations and the resulting ending balances as of June 30, 2018 are as follows:

	Outstanding				Current Maturities
	June 30, 2017	Increases	Decreases	June 30, 2018	
Water bonds, 2011 issue	\$ 1,685,000	\$ -	\$ (345,000)	\$ 1,340,000	\$ 335,000
Water bonds, 2014 issue	4,985,000	-	(295,000)	4,690,000	295,000
Total Bonded Debt	6,670,000	-	(640,000)	6,030,000	630,000
Unamortized Premium, 2011 issue	30,203	-	(7,552)	22,651	7,551
Unamortized Premium, 2014 issue	240,084	-	(14,477)	225,607	14,477
Net Bonded Debt	6,940,287	-	(662,029)	6,278,258	652,028
State of CT-Project 200202-C	1,180,090	-	(124,220)	1,055,870	124,220
State of CT-Project 200201-C	628,333	-	(50,169)	578,164	51,288
State of CT-Project 200202-CD1	1,101,686	-	(104,879)	996,807	107,338
State of CT-Project 2016-7039	3,319,793	753,897	(100,240)	3,973,450	174,583
Total Notes Payable	6,229,902	753,897	(379,508)	6,604,291	457,429
Total Indebtedness	13,170,189	\$ 753,897	\$ (1,041,537)	12,882,549	\$ 1,109,457
Current Maturities	(941,295)			(1,109,457)	
Long-Term Debt	\$ 12,228,894			\$ 11,773,092	

Water bonds are issued by the municipality of Southington, CT. The Town of Southington, CT considers water bonds to be “self-supporting”, that is payable by the Water Works by user fees charged to water customers.

During 2019, the Department issued \$605,000 in water bonds with interest rates ranging from 2.25% to 5.0%. The proceeds were used to refund \$670,000 of outstanding 2011 Series bonds which had interest rates ranging from 2.5% to 4.0%. The excess of the net carrying amount of the refunded bonds over the reacquisition price (including unamortized bond premium of \$15,102) in the amount of \$80,102 is being amortized over the term of the old bonds using the straight-line method through August 1, 2021. The unamortized amount of \$69,421 is reported as a deferred inflow of resources. After the refunding, the Series 2011 bonds had a balance remaining of \$335,000 as of June 30, 2019.

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

Water bonds outstanding as of June 30, 2019 are as follows:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>
2011	\$ 335,000	2.5 - 4.0	08/01/19
2014	4,395,000	3.0 - 4.0	06/30/34
2019	605,000	2.25 - 5.0	08/01/31
Total Outstanding	<u>\$ 5,335,000</u>		

The State of Connecticut project loan 200202-C (Wellhead Protection) provided for a maximum loan amount of \$4,643,030 with interest provided at 2.32% per annum from the date of the advances. Total advances on this obligation were \$2,484,399, and total principal payments through June 30, 2019 were \$1,552,749, leaving a balance of \$931,650 as of June 30, 2019.

The State of Connecticut project loan 200201-C (Water Mains) provided for a maximum loan amount of \$1,500,000 with interest provided at 2.32% per annum from the date of the advances. Total advances on this obligation were \$1,073,097, and total principal payments through June 30, 2019 were \$546,221, leaving a balance of \$526,876 as of June 30, 2019.

The State of Connecticut project loan 200202-CD1 (Wellhead Protection Phase II) provided for a maximum loan amount of \$2,158,631 with interest provided at 2.32% per annum from the date of the advances. Total advances under this obligation were \$1,872,517 and total repayments through June 30, 2019 amounted to \$983,047, leaving a balance of \$889,470 as of June 30, 2019.

The State of Connecticut project loan 2016-7039 (Drinking Water Program) provided for a maximum loan amount of \$4,073,690 with interest provided at 2% per annum from the date of the advances. Total advances under this obligation were \$4,073,690 and total repayments through June 30, 2019 amounted to \$274,824, leaving a balance of \$3,798,866 as of June 30, 2019.

The State of Connecticut project loan 2019-7076 (Drinking Water Program) provided for a maximum loan amount of \$2,131,879 with interest provided at 2% per annum from the date of the advances. Total advances to date under this obligation are \$843,910, and repayments are to begin no later than one year from the completion date of the project. The first payment is 1/20 of the total principal, followed by monthly installments over 20 years.

The State of Connecticut project loan 2019-7080 (Drinking Water Program) provided for a maximum loan amount of \$3,228,000 with interest provided at 2% per annum from the date of the advances. Total advances to date under this obligation are \$257,474, and repayments are to begin no later than one year from the completion date of the project. The first payment is 1/20 of the total principal, followed by monthly installments over 20 years.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

Summary of Annual Debt Service Requirements:

The annual debt service requirements on water bonds and commercial notes outstanding at June 30, 2019 are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance Remaining</u>
2020	\$ 1,109,092	\$ 311,280	\$ 1,420,372	\$ 11,685,282
2021	1,152,503	302,507	1,455,010	10,532,779
2022	1,133,004	261,137	1,394,141	9,399,775
2023	851,667	227,503	1,079,170	8,548,108
2024	859,496	203,881	1,063,377	7,688,612
2025-2029	3,719,493	705,400	4,424,893	3,969,119
2030-2034	2,924,016	287,636	3,211,652	1,045,103
2035-2039	990,035	43,875	1,033,910	55,068
2040-2044	55,068	1,112	56,180	-
Totals	<u>\$ 12,794,374</u>	<u>\$ 2,344,331</u>	<u>\$ 15,138,705</u>	

7. ACCRUED EXPENSES

The components of accrued expenses at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Accrued interest expense	\$ 107,977	\$ 97,202
Accrued payroll, taxes and benefits	45,478	37,485
Accrued vacation and sick leave	488,249	462,335
Other accrued expenses	1,309	810
Total Accrued Expenses	<u>\$ 643,013</u>	<u>\$ 597,832</u>

8. RETIREMENT COMMITMENTS

Plan Description:

Qualified employees of the Department are covered by a pension plan administered by the Connecticut Municipal Employees' Retirement Commission. The Connecticut Municipal Employees' Retirement System (CMERS) is a cost sharing multiple employer Public Employee Retirement System (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide pension benefits for the employees of participating municipalities. CMERS is considered to be a part of the State of Connecticut's financial reporting entity and is included in the State's financial report as a pension trust fund.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

Any local government authority in the State of Connecticut, including towns, cities, boroughs, regional school districts, housing authorities, or other special districts, may elect to participate for one or more of its departments, including elective officers; only teachers who are covered under the Connecticut State Teachers' Retirement System are ineligible.

Benefits Provided:

CMERS provides a retirement benefit determined by the employee's final average pay which is calculated using their three highest paid years of service, and their length of service. An employee is eligible for normal retirement once they have attained age 55 with at least 5 years of continuous active service or 15 years of non-continuous active service with a CMERS participating municipality or has a total of 25 years of service consisting of at least 5 years of continuous active service or 15 years of non-continuous active service with a CMERS participating municipality regardless of age. Employees are eligible for early retirement once completing at least 5 years of continuous active service with a CMERS participating municipality, but the retirement benefit is actuarially reduced.

Contributions:

Employees contribute 2¼% of the portion of their pay on which social security taxes are withheld and 5% of the portion on which social security taxes are not withheld. Each participating municipality is required to contribute the amounts necessary to finance the remaining costs of the plan. The Department is required by the State to pay an actuarially determined percentage of covered payroll to provide for benefits based on current service. The statute also requires the Department to pay an annual amount for benefits based on service prior to the unit's date of participation.

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

At June 30, 2019 and 2018, the Department reported liabilities of \$2,590,707 and \$1,174,539, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the net pension liability was based on a projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019 and 2018, the Department's proportion was 0.677382% and 0.710546%, respectively, based on the June 30, 2018 and 2017 measurement dates.

WATER WORKS DEPARTMENT-TOWN OF SOUTHINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

For the years ended June 30, 2019 and 2018, the Department recognized pension expense of \$370,604 and \$279,133, respectively. At June 30, 2019 and 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2019</u>		<u>2018</u>	
	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 155,975	\$ -	\$ 94,051	\$ -
Change of assumptions	882,633			
Department contributions subsequent to the measurement date	214,655	-	211,061	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,928	33,334	5,251	357
Differences between expected and actual experience	<u>369,082</u>	<u>-</u>	<u>22,329</u>	<u>-</u>
	<u>\$ 1,626,273</u>	<u>\$ 33,334</u>	<u>\$ 332,692</u>	<u>\$ 357</u>

Department contributions, subsequent to the measurement date, of \$214,655 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2019	\$ 422,217
2020	361,991
2021	275,582
2022	318,494
2023	-

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019
 (With Comparative Totals for 2018)

Payable to the Pension Plan:

At June 30, 2019 and 2018, the Department reported a payable of \$752 and \$940, respectively, for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019 and 2018.

Actuarial Assumptions:

The total pension liability as of June 30, 2019 was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Inflation	2.50%	3.25%
Long-Term Investment of Return, net of pension plan investment expense, including inflation	7.00%	8.00%
Salary increases	3.50% - 10.00%	4.25% - 11.00%

Mortality rates were based on the RP-2014 Combined Mortality Table.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2012 – June 30, 2017.

Future Cost-of-Living adjustments for members who retire on or after January 1, 2002 are 60% of the annual increase in the CPI up to 6%. The minimum annual COLA is 2.5%; the maximum is 6%.

The long-term expected rate of return on pension plan investments was determined using a statistical 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.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

The target asset allocations and best estimates of arithmetic real rates of return for each major asset class for 2019 are summarized in the following table:

<u>Asset Class:</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	20.0%	5.3%
Developed Market International	11.0%	5.1%
Emerging Market International	9.0%	7.4%
Core Fixed Income	16.0%	1.6%
Inflation Linked Bond	5.0%	1.3%
Emerging Market Debt	5.0%	2.9%
High Yield Bond	6.0%	3.4%
Real Estate	10.0%	4.7%
Private Equity	10.0%	7.3%
Alternative Investments	7.0%	3.2%
Liquidity Fund	<u>1.0%</u>	0.9%
	<u>100.0%</u>	

The target asset allocations and best estimates of arithmetic real rates of return for each major asset class for 2018 are summarized in the following table:

<u>Asset Class:</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap U.S. Equities	16.0%	5.8%
Developed Non-U.S. Equities	14.0%	6.6%
Emerging Markets (Non-U.S.)	7.0%	8.3%
Core Fixed Income	8.0%	1.3%
Inflation Linked Bond Fund	5.0%	1.0%
Emerging Market Bond	8.0%	3.7%
High Yield Bonds	14.0%	3.9%
Real Estate	7.0%	5.1%
Private Equity	10.0%	7.6%
Alternative Investments	8.0%	4.1%
Liquidity Fund	<u>3.0%</u>	0.4%
	<u>100.0%</u>	

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019
 (With Comparative Totals for 2018)

Discount Rate:

The discount rate used to measure the total pension liability was 7.00% in 2019 and 8.00% in 2018. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at 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.

Sensitivity of the Department's Proportionate Share of the Net Pension Liability:

The following presents the Department's proportionate share of the net pension liability calculated using the discount rates of 7.00% and 8.00% as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00% in 2019 and 7.00% in 2018) or 1 percentage point higher (8.00% in 2019 and 9.00% in 2018) than the current rate:

	2019		
	Decrease (6.00%)	Discount (7.00%)	Increase (8.00%)
Department's Proportionate Share of the Net Pension Liability	<u>\$ 3,494,919</u>	<u>\$ 2,590,707</u>	<u>\$ 1,542,971</u>
	2018		
	Decrease (7.00%)	Discount (8.00%)	Increase (9.00%)
Department's Proportionate Share of the Net Pension Liability	<u>\$ 2,007,451</u>	<u>\$ 1,174,539</u>	<u>\$ 468,074</u>

All amounts of compensation deferred under the plan are held in trust for the contributing employee and are not subject to the claims of the Department's general creditors. The plan is administered by the State of Connecticut State Employees' Retirement Commission.

9. LITIGATION

In the opinion of the Department counsel, there were no material unpaid judgments against the Water Works Department, Town of Southington, CT.

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019
(With Comparative Totals for 2018)

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 23, 2019, the date the financial statements were available to be issued, and has determined that there are no matters requiring disclosure in; or adjustment to these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WATER WORKS DEPARTMENT - TOWN OF SOUTHTON, CONNECTICUT
 SCHEDULE OF THE DEPARTMENT'S PROPORTIONATE SHARE OF
 THE NET PENSION LIABILITY
 AS OF JUNE 30, 2019

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years (only 5 years shown; periods prior to implementation of GASB 68 are unavailable and will be completed as they become available)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Department's proportion of the net pension liability	0.677382%	0.710546%	0.710546%	0.711024%	0.711024%
Department's proportionate share of the net pension liability	\$ 2,590,707	\$ 1,174,539	\$ 1,394,642	\$ 973,468	\$ 731,415
Department's covered-employee payroll	\$ 1,828,407	\$ 1,691,433	\$ 1,691,433	\$ 1,577,803	\$ 1,577,803
Department's proportionate share of the net pension liability as a percentage	141.69%	69.44%	82.45%	61.70%	46.36%
Plan fiduciary net position as a percentage of the total pension liability	73.60%	91.68%	88.29%	87.47%	90.48%

The accompanying notes are an integral part of these financial statements.

WATER WORKS DEPARTMENT - TOWN OF SOUTHLINGTON, CONNECTICUT
 SCHEDULE OF THE DEPARTMENT'S PENSION CONTRIBUTIONS
 AS OF JUNE 30, 2019

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years (only 5 years shown; periods prior to implementation of GASB 68 are unavailable and will be completed as they become available)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 370,604	\$ 279,133	\$ 334,550	\$ 179,962	\$ 132,089
Contributions in relation to the contractually required contribution	<u>(370,604)</u>	<u>(279,133)</u>	<u>(334,550)</u>	<u>(179,962)</u>	<u>(132,089)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Department's covered-employee payroll	\$ 1,828,407	\$ 1,691,433	\$ 1,691,433	\$ 1,577,803	\$ 1,577,803
Contributions as a percentage of covered-employee payroll	20.27%	16.50%	19.78%	11.41%	8.37%

The accompanying notes are an integral part
of these financial statements.

SUPPLEMENTAL SCHEDULES

AND

OTHER INFORMATION

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
 SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET VERSUS ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
<u>Operating Revenues:</u>			
Water sales	\$ 6,651,381	\$ 6,486,036	\$ (165,345)
Other water revenue	<u>193,226</u>	<u>299,707</u>	<u>106,481</u>
Total Operating Revenues	<u>6,844,607</u>	<u>6,785,743</u>	<u>(58,864)</u>
<u>Non-Operating Revenues:</u>			
Interest and dividend income	19,568	116,817	97,249
Other income	<u>119,115</u>	<u>138,773</u>	<u>19,658</u>
Total Non-Operating Revenues	<u>138,683</u>	<u>255,590</u>	<u>116,907</u>
Total Revenues	<u>6,983,290</u>	<u>7,041,333</u>	<u>58,043</u>
<u>Operating Expenses:</u>			
Utility operating expenses	4,377,624	4,094,735	282,889
Taxes	<u>199,897</u>	<u>181,651</u>	<u>18,246</u>
Total Operating Expenses	<u>4,577,521</u>	<u>4,276,386</u>	<u>301,135</u>
<u>Non-Operating Expenses:</u>			
Loss on disposals of assets	-	(17,219)	(17,219)
Interest expense	<u>(341,184)</u>	<u>(322,016)</u>	<u>19,168</u>
Total Non-Operating Expenditures	<u>(341,184)</u>	<u>(339,235)</u>	<u>1,949</u>
Income Before Capital Contributions and Depreciation Expense	<u>\$ 2,064,585</u>	<u>\$ 2,425,712</u>	<u>\$ 361,127</u>

WATER WORKS DEPARTMENT - TOWN OF SOUTHLINGTON, CONNECTICUT
STATEMENT OF CURRENT AND LONG-TERM DEBT
FOR THE YEAR ENDED JUNE 30, 2019

DEBT MATURING WITHIN ONE YEAR:

Water Bonds, Issue of 2011	\$	335,000
Water Bonds, Issue of 2014		295,000
Water Bonds, Issue of 2019		-
State of CT Project Loan 200202-C		124,220
State of CT Project Loan 200201-C		52,433
State of CT Project Loan 200202-CD1		109,855
State of CT Project Loan 2016-7039		178,107
Amortization of bond premium		14,477
Total Debt Maturing Within One Year	\$	<u>1,109,092</u>

LONG-TERM DEBT, NET OF CURRENT MATURITIES:

Water Bonds, Issue of 2011	\$	-
Water Bonds, Issue of 2014		4,100,000
Water Bonds, Issue of 2019		605,000
State of CT Project Loan 200202-C		807,430
State of CT Project Loan 200201-C		474,443
State of CT Project Loan 200202-CD1		779,615
State of CT Project Loan 2016-7039		3,620,759
State of CT Project Loan 2019-7076		843,910
State of CT Project Loan 2019-7080		257,474
Amortization of bond premium		196,651
Total Long-Term Debt		<u>11,685,282</u>
Total Current and Long-Term Debt	\$	<u><u>12,794,374</u></u>

SCHEDULE OF DEBT PAYMENTS ON LONG-TERM DEBT:

June 30, 2020	\$	1,109,092
June 30, 2021		1,152,503
June 30, 2022		1,133,004
June 30, 2023		851,667
June 30, 2024		859,496
Future Years		7,688,612
	\$	<u><u>12,794,374</u></u>

WATER WORKS DEPARTMENT - TOWN OF SOUTHTON, CONNECTICUT
STATEMENT OF UTILITY OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
<u>Source of Supply Expenses:</u>		
Operating labor and expenses	\$ 144,352	\$ 112,464
Maintenance of reservoirs and other source structures	10,229	1,838
Total Source of Supply Expenses	154,581	114,302
<u>Pumping Expenses:</u>		
Pumping labor and expenses	94,275	89,029
Maintenance of pumping equipment	25,896	43,729
Fuel or power purchased for pumping	390,141	385,379
Total Pumping Expenses	510,312	518,137
<u>Water Treatment Expenses:</u>		
Purification labor and expenses	268,490	259,421
Chemicals	58,056	67,516
Maintenance of water treatment equipment	98,718	103,744
Total Water Treatment Expenses	425,264	430,681
<u>Transmission and Distribution Expenses:</u>		
Storage facilities, labor and expenses	27,159	33,856
Transmission and distribution lines expenses	191,161	203,478
Meter expenses	18,421	22,444
Customer installation expenses	49,796	35,383
Maintenance of distribution mains, improvements, reservoirs & standpipes	158,800	152,218
Maintenance of services	102,205	116,422
Maintenance of meters	146,352	232,166
Maintenance of hydrants	144,116	56,286
Maintenance of mains	332,997	252,922
Total Transmission and Distribution Expenses	1,171,007	1,105,175
<u>Customer Accounts Expenses:</u>		
Meter reading	88,479	80,848
Customers' records and collection expenses	94,045	77,734
Total Customer Accounts and Collection Expenses	182,524	158,582
<u>Administrative and General Expenses:</u>		
Salaries of superintendent and general salaries	264,245	247,386
General office supplies and expenses	78,066	64,676
Outside services employed	130,779	113,339
Property insurance and other	204,707	185,716
Pensions and other employee benefits	816,657	817,107
Maintenance of structures and improvements, general	59,924	74,312
Miscellaneous general expenses	96,669	73,486
Total Administrative and General Expenses	1,651,047	1,576,022
Total Utility Operating Expenses	\$ 4,094,735	\$ 3,902,899

WATER WORKS DEPARTMENT, TOWN OF SOUTHLINGTON, CONNECTICUT
LIST OF OFFICERS
FOR THE YEAR ENDED JUNE 30, 2019

<u>Board of Water Commissioners:</u>	<u>Term Expires</u>
Thomas J. Murphy, President	2021
Erika Pocock, Vice President	2019
Roberty M. Berkmoes, Secretary & Treasurer	2019
Ralph Warner	2021
Michael S. Domian	2021
Rudolph Cabata	2021

Other:

William M. Casarella, Superintendent
Albert T. Fiorillo, Assistant Superintendent

BUDWITZ & MEYERJACK, P.C.
Certified Public Accountants

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FARMINGTON, CT 06034-0391

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FAX (860) 674-8196

CPA@budwitzmeyerjack.com

CHESHIRE OFFICE
1122 HIGHLAND AVE
CHESHIRE, CT 06410

WILLIAM P. MEYERJACK, CPA – RETIRED

DANIEL C. VOLLARO, CPA
MICHAEL A. ZIEBKA, CPA
DAVID A. PELLETIER, CPA
MICHAEL J. ALFIERI, CPA
SCOTT R. BURLEIGH, CPA

LESLEY A. NAPPI, CPA
JESSICA L. BRAGG, CPA
PETER M. WEED, III, CPA
STEPHANIE E. COLE, CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Water Commissioners
Town of Southington, Connecticut:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water Works Department, Town of Southington, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 23, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Budwitz & Meyerjack, P.C.
December 23, 2019

INDEPENDENT AUDITORS' COMMUNICATION
TO THOSE CHARGED WITH GOVERNANCE OF
WATER WORKS DEPARTMENT – TOWN OF SOUTHTON, CONNECTICUT

JUNE 30, 2019

BUDWITZ & MEYERJACK, P.C.
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PETER M. WEED, III, CPA
STEPHANIE E. COLE, CPA

December 23, 2019

To the Board of Water Commissioners
Town of Southington, Connecticut:

We have audited the financial statements of the Water Works Department, Town of Southington, CT for the year ended June 30, 2019 and have issued our report thereon dated December 23, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated June 15, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Water Works Department, Town of Southington, CT are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was depreciation.

Management's estimate of depreciation is based on the straight-line method. We evaluated the key factors and assumptions used to calculate depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 23, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Schedule of Revenues and Expenditures Budget Versus Actual, Schedule of the Department's Proportionate Share of the Net Pension Liability, and Schedule of the Department's Pension Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Current and Long-Term Debt, Schedule of Utility Operating Expenses and List of Officers, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This report is intended solely for the information and use of the Board of Water Commissioners and management of the Water Works Department, Town of Southington, Connecticut, and is not intended to be, and should not be, used by anyone of these specified parties.

Budwitz & Meyerjack, P.C.

Farmington, Connecticut



SOUTHINGTON WATER DEPARTMENT

JUNE 30, 2019 AUDIT

Board Presentation

February 13, 2020

Independent Auditors' Report

(Pages 1-3)

- Management is responsible for the presentation of the financial statements.
- Our responsibility is to express an opinion on the financial statements.
- Unqualified or “clean” opinion

Management's Discussion and Analysis

(Pages 4-11)

- Required supplementary information.
- Provides an analytical overview of financial activities.

Financial Statements

(Pages 12-34)

- Statement of Net Position (Page 12)
 - “Balance Sheet” – Provides a snapshot of the Department’s assets and liabilities as of June 30.
- Statement of Revenue, Expenses and Changes in Net Position (Page 13)
 - “Income Statement” – Reports the financial activities for the year.

Financial Statements

(Pages 12-34)

- Statement of Cash Flows (Pages 14-15)
 - Reports the inflows and outflows of cash.
 - Reconciles net income to net increase/decrease in cash.
- Notes to Financial Statements (Pages 16-34)
 - Additional information to help explain specific items in the financial statements.

Required Supplementary Information

(Pages 35-37)

- Schedule of the Department's Proportionate Share of the Net Pension Liability (GASB 68)
- Schedule of the Department's Pension Contributions (GASB 68)

Other Supplementary Information

(Pages 38-42)

- Schedule of Revenues and Expenditures – Budget Versus Actual
- Statement of Current and Long-Term Debt
- Statements of Utility Operating Expenses
- List of Officers

Other Reports

(Pages 43-44)

- Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
 - States that we considered the Department's internal control over financial reporting while determining audit procedures but we do NOT express an opinion on the effectiveness of the internal control.

Independent Auditors' Communication To Those Charged With Governance (Tab II)

- Required Communication from the Auditor to the Board.
- Standard verbiage.
- Any significant deficiencies in internal control are reported here.

Financial Position Summary

	<u>2019</u>	<u>2018</u>	<u>\$ change</u>	<u>% change</u>
Current and Other Assets	\$ 7,734,286	\$ 7,127,182	\$ 607,104	8.52%
Capital Assets	50,029,067	47,824,256	2,204,811	4.61%
Deferred Outflows of Resources	<u>1,626,273</u>	<u>332,692</u>	<u>1,293,581</u>	388.82%
Total Assets & Deferred Outflows of Resources	<u>59,389,626</u>	<u>55,284,130</u>	<u>4,105,496</u>	7.43%
Current and Other Liabilities	3,607,598	2,141,975	1,465,623	68.42%
Long-Term Debt, Net of Current Maturities	14,275,989	12,947,631	1,328,358	10.26%
Deferred Inflows of Resources	<u>102,755</u>	<u>357</u>	<u>102,398</u>	N/A
Total Liabilities & Deferred Inflows of Resources	<u>17,986,342</u>	<u>15,089,963</u>	<u>2,896,379</u>	19.19%
Net Position:				
Invested in Capital Assets, Net of Related Debt	37,234,692	34,941,706	2,292,986	6.56%
Unrestricted	<u>4,168,592</u>	<u>5,252,461</u>	<u>(1,083,869)</u>	-20.64%
Total Net Position	<u>\$ 41,403,284</u>	<u>\$ 40,194,167</u>	<u>\$ 1,209,117</u>	3.01%

Summary of Operations & Changes in Net Position

<u>Revenues:</u>	<u>2019</u>	<u>2018</u>	<u>\$ change</u>	<u>% change</u>
Operating Revenues:				
Sale of Water	\$ 6,486,036	\$ 6,101,871	\$ 384,165	6.30%
Jobbing and Contract Work, Net	106,209	68,752	37,457	54.48%
Other Operating Revenues	<u>193,498</u>	<u>155,827</u>	<u>37,671</u>	<u>24.17%</u>
	6,785,743	6,326,450	459,293	7.26%
Non Operating Revenues:				
Other Miscellaneous Income	138,773	140,090	(1,317)	-0.94%
Investment Income	<u>116,817</u>	<u>67,654</u>	<u>49,163</u>	<u>72.67%</u>
Total Revenues	<u>7,041,333</u>	<u>6,534,194</u>	<u>507,139</u>	<u>7.76%</u>
<u>Expenses:</u>				
Utility Operating Expenses	4,094,735	3,902,899	191,836	4.92%
Depreciation, Utility Plant Only	1,234,694	1,198,272	36,422	3.04%
Taxes	181,651	179,006	2,645	1.48%
Loss on Disposal of Assets	17,219	21,056	(3,837)	-18.22%
CMERS Pension Expense	370,604	279,133	91,471	32.77%
Interest on Long-Term Debt	<u>322,016</u>	<u>414,521</u>	<u>(92,505)</u>	<u>-22.32%</u>
Total Expenses	<u>6,220,919</u>	<u>5,994,887</u>	<u>226,032</u>	<u>3.77%</u>
Income Before Contributions	820,414	539,307	281,107	52.12%
Capital Contributions	<u>388,703</u>	<u>244,895</u>	<u>143,808</u>	<u>58.72%</u>
Changes in Net Position	1,209,117	784,202	424,915	54.18%
Total Net Position-beginning	<u>40,194,167</u>	<u>39,409,965</u>	<u>784,202</u>	<u>1.99%</u>
Total Net Position-ending	<u>\$ 41,403,284</u>	<u>\$ 40,194,167</u>	<u>\$ 1,209,117</u>	<u>3.01%</u>

Summary of Utility Operating Expenses

	<u>2019</u>	<u>2018</u>	<u>\$ change</u>	<u>% change</u>
Source of Supply Expenses	\$ 154,581	\$ 114,302	\$ 40,279	35.24%
Pumping Expenses	510,312	518,137	(7,825)	-1.51%
Water Treatment Expenses	425,264	430,681	(5,417)	-1.26%
Transmission and Distribution Expenses	1,171,007	1,105,175	65,832	5.96%
Customer Accounts Expense	182,524	158,582	23,942	15.10%
Administrative and General Expenses	1,651,047	1,576,022	75,025	4.76%
Total Utility Operating Expenses	<u>\$ 4,094,735</u>	<u>\$ 3,902,899</u>	<u>\$ 191,836</u>	<u>4.92%</u>

SCHEDULE OF ACTUAL RESULTS VS. BUDGET

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>Operating Revenues:</u>			
Water sales	\$ 6,651,381	\$ 6,486,036	\$ (165,345)
Other water revenue	193,226	299,707	106,481
Total Operating Revenues	<u>6,844,607</u>	<u>6,785,743</u>	<u>(58,864)</u>
<u>Non-Operating Revenues:</u>			
Interest income	19,568	116,817	97,249
Other income	119,115	138,773	19,658
Total Non-Operating Revenues	<u>138,683</u>	<u>255,590</u>	<u>116,907</u>
Total Revenues	<u>6,983,290</u>	<u>7,041,333</u>	<u>58,043</u>
<u>Operating Expenses:</u>			
Utility operating expenses	4,377,624	4,094,735	282,889
Taxes	199,897	181,651	18,246
Total Operating Expenses	<u>4,577,521</u>	<u>4,276,386</u>	<u>301,135</u>
<u>Non-Operating Expenses:</u>			
Loss on disposals of assets	-	(17,219)	(17,219)
Interest expense	(341,184)	(322,016)	19,168
Total Non-Operating Expenditures	<u>(341,184)</u>	<u>(339,235)</u>	<u>1,949</u>
Income Before Capital Contributions and Depreciation Expense	<u>\$ 2,064,585</u>	<u>\$ 2,425,712</u>	<u>\$ 361,127</u>

Summary of Cash Flows

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities	\$ 3,948,607	\$ 1,516,780
Cash Flows From Capital and Related Financing Activities:		
Debt proceeds	1,101,384	753,897
Principal and interest payments	(1,431,379)	(1,465,287)
Capital expenditures	(3,189,726)	(1,734,508)
	<u>(3,519,721)</u>	<u>(2,445,898)</u>
Cash Flows From Investing Activities:		
Interest received on investments	<u>116,817</u>	<u>67,654</u>
Net Increase (Decrease) in Cash	545,703	(861,464)
Cash and Equivalents-Beginning of year	<u>5,823,452</u>	<u>6,684,916</u>
Cash and Equivalents-End of year	<u>\$ 6,369,155</u>	<u>\$ 5,823,452</u>

Major Construction Projects Completed During the 2019 Fiscal Year

<u>Project Name/Location</u>	<u>Cost</u>
Celella Drive	\$ 74,113
Flanders Road Main Design	69,323
West Main Street	<u>17,892</u>
	<u>\$ 161,328</u>

Summary of Debt

	<u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>
Water bonds, 2011 issue	\$ 1,340,000	-	(1,005,000)	335,000
Water bonds, 2014 issue	\$ 4,690,000	-	(295,000)	4,395,000
Water bonds, 2019 issue	-	605,000	-	605,000
Total Bonded Debt	6,030,000	605,000	(1,300,000)	5,335,000
Unamortized Premium, 2011 issue	22,651	-	(22,651)	-
Unamortized Premium, 2014 issue	225,607	-	(14,479)	211,128
Net Bonded Debt	6,278,258	605,000	(1,337,130)	5,546,128
State of CT-Project 200202-C	1,055,870	-	(124,220)	931,650
State of CT-Project 200201-C	578,164	-	(51,288)	526,876
State of CT-Project 200202-CD1	996,807	-	(107,337)	889,470
State of CT-Project 2016-7039	3,973,450	-	(174,584)	3,798,866
State of CT-Project 2019-7076	-	843,910	-	843,910
State of CT-Project 2019-7080	-	257,474	-	257,474
Total Notes Payable	6,604,291	1,101,384	(457,429)	7,248,246
Total Indebtedness	12,882,549	\$ 1,706,384	\$ (1,794,559)	12,794,374
Current Maturities	(1,109,457)			(1,109,092)
Long-Term Debt	\$ 11,773,092			\$ 11,685,282

Debt Service Requirements

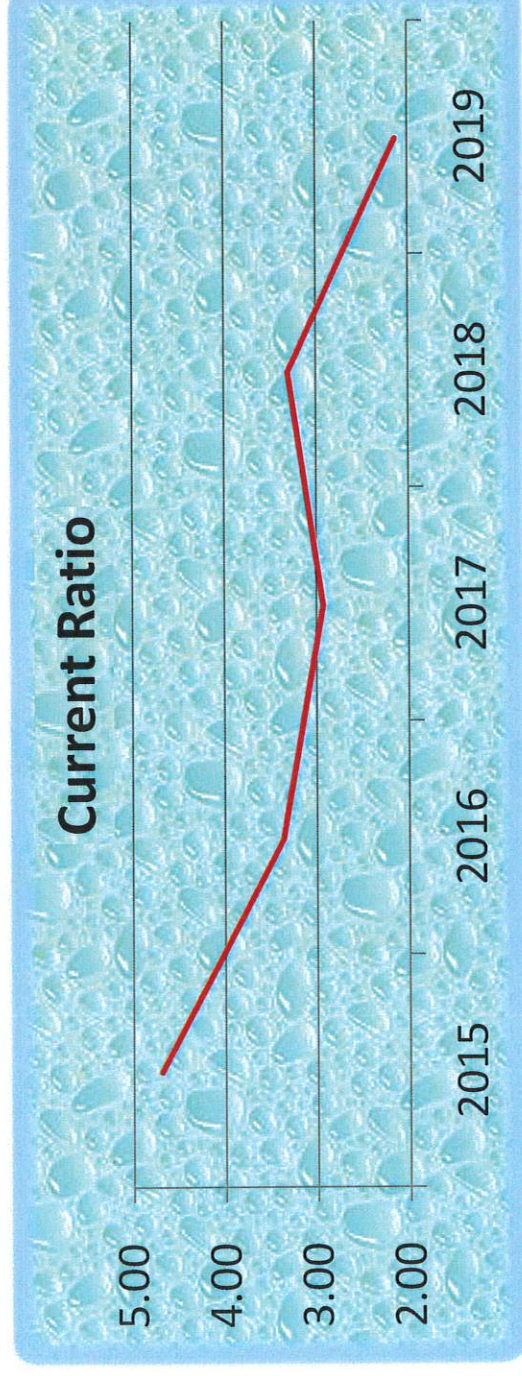
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	Balance <u>Remaining</u>
2020	\$ 1,109,092	\$ 311,280	\$ 1,420,372	\$ 11,685,282
2021	1,152,503	302,507	1,455,010	10,532,779
2022	1,133,004	261,137	1,394,141	9,399,775
2023	851,667	227,503	1,079,170	8,548,108
2024	859,496	203,881	1,063,377	7,688,612
2025-2029	3,719,493	705,400	4,424,893	3,969,119
2030-2034	2,924,016	287,636	3,211,652	1,045,103
2035-2039	990,035	43,875	1,033,910	55,068
2040-2044	55,068	1,112	56,180	-
Totals	<u>\$ 12,794,374</u>	<u>\$ 2,344,331</u>	<u>\$ 15,138,705</u>	

RATIOS

- The Current Ratio measures an organization's liquidity and its ability to pay short-term obligations. It is calculated by dividing current assets by current liabilities.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Current Assets	10,671,353	8,455,750	7,914,203	7,067,668	7,674,772
Current Liabilities	2,278,675	2,513,086	2,712,233	2,141,975	3,607,598

Current Ratio 4.68 3.36 2.92 3.30 2.13



RATIOS

- Accounts Receivable Turnover measures how efficiently an Organization collects its debts. It calculates how many times on average accounts receivable turns over during the year.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Net Credit Sales	6,217,899	6,541,774	6,876,105	6,434,494	6,889,089
Avg. Accts. Receivable	914,431	1,019,189	979,631	998,537	1,059,838
A/R Turnover	6.80	6.42	7.02	6.44	6.50

- Number of Days Sales in Accounts Receivable indicates the average number of days it takes to collect an account receivable.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Accounts Receivable	988,830	998,940	960,321	1,036,753	1,082,923
Avg. Daily Sales	17,035	17,874	18,839	17,629	18,874
# of Days Sales in A/R	58.05	55.89	50.98	58.81	57.38

RATIOS

- Debt to Equity Ratio is a measure of an organization's financial leverage.

	2015	2016	2017	2018	2019
Total Liabilities	13,981,865	14,341,376	16,335,769	15,089,606	17,883,587
Total Net Position	36,829,316	38,065,626	39,409,965	40,194,167	41,403,284
Debt to Equity Ratio	0.38	0.38	0.41	0.38	0.43

- Debt Service Coverage Ratio measures the amount of cash flow available to meet annual interest and principal payments on debt.

	2015	2016	2017	2018	2019
EBITDA*	2,164,297	2,313,838	2,549,168	2,152,100	2,377,124
Total Debt Service	1,168,370	1,250,551	1,258,515	1,456,058	1,431,379
Debt Service Coverage Ratio	1.85	1.85	2.03	1.48	1.66

*Earnings Before Interest, Taxes, Depreciation and Amortization

RATIOS

BASIC DEFENSE INTERVAL measures the number of days an Organization can continue paying for its cash expenses without any additional funding.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Cash and Net Receivables	10,479,381	8,246,481	7,645,237	6,860,205	7,452,078
Daily Cash expenses	12,401	12,523	13,115	13,380	13,897
Number of days	845	659	583	513	536



THANK YOU

We would like to thank the Board of Water Commissioners, Superintendent Bill Casarella, Assistant Superintendent Albert Fiorillo, Office Supervisor Maria Nason and the entire staff at the Southington Water Department for the courtesies extended to us during our audit.

SCOTT BURLEIGH, CPA
PARTNER

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