

WATER WORKS DEPARTMENT - TOWN OF SOUTHTON, CONNECTICUT

BOARD MEMBERS' PACKAGE

JUNE 30, 2018

BUDWITZ & MEYERJACK P.C.
Certified Public Accountants
CHESHIRE • FARMINGTON
CONNECTICUT

WATER WORKS DEPARTMENT – TOWN OF SOUTHWINGTON, CONNECTICUT
BOARD MEMBERS' PACKAGE
JUNE 30, 2018

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FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
AND REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018 AND 2017
(With Independent Auditors' Report Thereon)

WATER WORKS DEPARTMENT - TOWN OF SOUTHLINGTON, 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 years ended June 30, 2018 and 2017, 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.

Opinions

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, 2018 and 2017, and the respective changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 10, budgetary comparison information on page 33, and schedules of the Department's proportionate share of the net pension liability and contributions on pages 34 and 35 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 14, 2018, 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 Authority'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, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years 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 14, 2018

BOARD OF WATER COMMISSIONERS
Thomas J. Murphy, PRESIDENT
Erika Pocock, VICE PRESIDENT
Robert M. Berkmoes, SECRETARY & TREASURER
Michael Domian
Rudy Cabata
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William M. Casarella, SUPERINTENDENT
Maria Nason, OFFICE SUPERVISOR
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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 Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows, and related notes to the financial statements. The Statements of Net Position provide 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 Statements of Revenues, Expenses and Changes in Net Position, or income statement, show 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 Statements of Cash Flows provide 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 Authority's accounting methods and policies.

Management provides the following discussion and analysis (MD&A) of the Authority's financial position and activities. This overview is provided for the year ended June 30, 2018. 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 Authority is a single-purpose entity and revenues are recognized when earned, not received. Expenses are recognized when incurred, not when they are paid.

The 2018 financial statements are presented with comparative totals from 2017.

- ❖ The Department's Statements of Net Position (page 11 of the financial statements) at June 30, 2018 shows the Department's total assets and deferred outflows to be \$55,284,130, net of accumulated depreciation and amortization. The Department had liabilities and deferred inflows at June 30, 2018 of \$15,089,963.
- ❖ The Department's net position increased by \$784,202 during the current fiscal year.
- ❖ Total operating revenues for the year ended June 30, 2018 decreased by \$421,413 from the prior year's revenues.
- ❖ 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>
East Side Pressure Zone	\$ 4,257,797
Well 7 Replacement	1,875,385
Regional Water Interconnect	325,454
Reservoir Dredging	226,835
	<u>\$ 6,685,471</u>

Summary of Operations and Changes in Net Position

<u>Revenues:</u>	<u>2018</u>	<u>2017</u>
<u>Operating Revenues:</u>		
Sale of Water	\$ 6,101,871	\$ 6,505,349
Jobbing and Contract Work, Net	68,752	92,502
Other Operating Revenues	155,827	150,012
	<u>6,326,450</u>	<u>6,747,863</u>
<u>Non Operating Revenues:</u>		
Other Miscellaneous Income	140,090	131,224
Investment Income	67,654	42,470
Total Revenues	<u>6,534,194</u>	<u>6,921,557</u>

Summary of Operations and Changes in Net Position (continued)

	<u>2018</u>	<u>2017</u>
<u>Expenses:</u>		
Utility Operating Expenses	3,902,899	3,834,068
Depreciation, Utility Plant Only	1,198,272	1,029,621
Taxes	179,006	178,634
Connecticut Municipal Employee Pension Expense	279,133	334,550
Loss on Disposal of Assets	21,056	25,137
Interest on Long-Term Debt	414,521	311,490
Total Expenses	<u>5,994,887</u>	<u>5,713,500</u>
Income Before Contributions	539,307	1,208,057
Capital Contributions	<u>244,895</u>	<u>136,282</u>
Changes in Net Position	784,202	1,344,339
Total Net Position-beginning	<u>39,409,965</u>	<u>38,065,626</u>
Total Net Position-ending	<u>\$ 40,194,167</u>	<u>\$ 39,409,965</u>

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

Financial Positions Summary

Net position is an indication of the Department's financial strength. The Department's net position as of June 30, 2018 is \$40,195,107. A summary of the Department's financial position is shown below:

	<u>2018</u>	<u>2017</u>
Current and Other Assets	\$ 7,127,182	\$ 7,973,717
Deferred Outflows of Resources	332,692	606,483
Capital Assets	<u>47,824,256</u>	<u>47,165,534</u>
Total Assets and Deferred Outflows of Resources	<u>55,284,130</u>	<u>55,745,734</u>
Current and Other Liabilities	2,141,975	2,712,233
Deferred Inflows of Resources	357	-
Noncurrent Liabilities	<u>12,947,631</u>	<u>13,623,536</u>
Total Liabilities and Deferred Inflows of Resources	<u>15,089,963</u>	<u>16,335,769</u>

Financial Positions Summary (continued)

	<u>2018</u>	<u>2017</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	34,941,706	33,995,345
Restricted	-	-
Unrestricted	5,252,461	5,414,620
Total Net Position	<u>\$ 40,194,167</u>	<u>\$ 39,409,965</u>

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

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

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

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>2018</u>	<u>2017</u>
Water Sales:		
Residential	\$ 4,593,807	\$ 4,954,504
Commercial	843,146	894,493
Industrial	165,789	171,809
Municipal	106,281	97,322
Private fire protection	173,402	171,352
Public fire protection	<u>219,446</u>	<u>215,869</u>
Total Water Sales	6,101,871	6,505,349
Other water and operating revenue	<u>224,579</u>	<u>242,514</u>
Total Operating Revenue	<u>\$ 6,326,450</u>	<u>\$ 6,747,863</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>2018</u>	<u>2017</u>
Source of Supply	\$ 114,302	\$ 119,488
Pumping	518,137	428,048
Water Treatment	430,681	462,902
Transmission and Distribution	1,105,175	1,007,663
Customer Accounts	158,582	169,612
Administrative and General	<u>1,576,022</u>	<u>1,646,355</u>
Total Functional Expenses	<u>\$ 3,902,899</u>	<u>\$ 3,834,068</u>

Non-Operating Revenue (Expense)

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

	<u>2018</u>	<u>2017</u>
Interest income	\$ 67,654	\$ 42,470
Rental income	118,608	115,950
Other miscellaneous income	21,482	15,274
Losses on disposal of assets	(21,056)	(25,137)
Connecticut Municipal Employees' Pension expense	(279,133)	(334,550)
Interest expense	(414,521)	(311,490)
Total Non-Operating Revenue (Expense)	<u>\$ (506,966)</u>	<u>\$ (497,483)</u>

Capital Assets

As of June 30, 2018, the Department's investments in capital assets amounted to \$47,824,256 net of accumulated depreciation. The increase in capital assets during the fiscal year amounted to \$658,722 and is summarized as follows:

Capital expenditures	\$ 1,979,402
Less: depreciation	(1,299,624)
Less: scrapped equipment, net	(21,056)
	<u>\$ 658,722</u>

Debt Administration

Water Bond Debt

As of June 30, 2018 the Department has two water bond series outstanding totaling \$6,278,258.

<u>Bond Series</u>	<u>Outstanding as of June 2018</u>	<u>Outstanding as of June 2017</u>	<u>Principal due 2019</u>
2011 Series	\$ 1,340,000	\$ 1,685,000	\$ 335,000
Bond premium-2011 Series	22,652	30,203	7,551
2014 Series	4,690,000	4,985,000	295,000
Bond premium-2014 Series	225,606	240,084	14,477
Total Bond Debt	<u>\$ 6,278,258</u>	<u>\$ 6,940,287</u>	<u>\$ 652,028</u>

Project Loans Payable

As of June 30, 2018, the Department has four project loans payable through the State of Connecticut Drinking Water Fund totaling \$6,604,291.

<u>Project</u>	<u>Payable as of June 2018</u>	<u>Payable as of June 2017</u>	<u>Principal due 2019</u>
Wellhead Protection	\$ 1,055,870	\$ 1,180,090	\$ 124,220
Water Main Replacement	578,164	628,332	51,288
Wellhead Protection Phase II	996,808	1,101,687	107,338
East Side Pressure Zone	3,973,449	3,319,793	174,583
Total Loans Payable	<u>\$ 6,604,291</u>	<u>\$ 6,229,902</u>	<u>\$ 457,429</u>

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 SOUTHTON, CONNECTICUT
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,823,452	\$ 6,684,916
Accounts receivable	71,683	111,838
Accrued unbilled revenue	965,070	848,483
Inventory - materials and supplies	207,463	268,966
Total Current Assets	<u>7,067,668</u>	<u>7,914,203</u>
NONCURRENT ASSETS:		
Capital assets-nondepreciable	3,133,901	8,439,566
Capital assets-depreciable	70,388,211	63,185,193
	<u>73,522,112</u>	<u>71,624,759</u>
Less accumulated depreciation	<u>(25,697,856)</u>	<u>(24,459,225)</u>
Net Capital Assets	<u>47,824,256</u>	<u>47,165,534</u>
OTHER ASSETS:		
Preliminary survey and investigation charges	59,514	59,514
Total Other Assets	<u>59,514</u>	<u>59,514</u>
Total Noncurrent Assets	<u>47,883,770</u>	<u>47,225,048</u>
Total Assets	<u>54,951,438</u>	<u>55,139,251</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Employer contributions subsequent to measurement date	211,061	201,133
Deferred actuarial amounts related to pensions	121,631	405,350
Total Deferred Outflows of Resources	<u>332,692</u>	<u>606,483</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Current maturities of bonds	652,028	662,028
Current maturities of notes payable	457,429	279,267
Accounts payable	196,723	975,250
Deferred revenue	237,023	156,714
Accrued expenses	597,832	638,974
Pension contribution payable	940	-
Total Current Liabilities	<u>2,141,975</u>	<u>2,712,233</u>
NONCURRENT LIABILITIES:		
Bonds payable	5,626,230	6,278,259
Notes payable	6,146,862	5,950,635
Net pension liability	1,174,539	1,394,642
Total Noncurrent Liabilities	<u>12,947,631</u>	<u>13,623,536</u>
Total Liabilities	<u>15,089,606</u>	<u>16,335,769</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred actuarial amounts related to pensions	357	-
Total Deferred Inflows of Resources	<u>357</u>	<u>-</u>
NET POSITION:		
Net investment in capital assets	34,941,706	33,995,345
Unrestricted	5,252,461	5,414,620
Total Net Position	<u>\$ 40,194,167</u>	<u>\$ 39,409,965</u>

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

WATER WORKS DEPARTMENT - TOWN OF SOUTHLINGTON, CONNECTICUT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE:		
Metered Sales to Customers:		
Water sales - residential	\$ 4,593,807	\$ 4,954,504
Water sales - commercial	843,146	894,493
Water sales - industrial	165,789	171,809
Water sales - municipal	<u>106,281</u>	<u>97,322</u>
	5,709,023	6,118,128
Private fire protection	173,402	171,352
Public fire protection	<u>219,446</u>	<u>215,869</u>
Total Sale of Water	6,101,871	6,505,349
OTHER WATER REVENUE:		
Revenue from jobbing and contracts	176,796	220,744
Jobbing and contract expenses	<u>(108,044)</u>	<u>(128,242)</u>
Net Jobbing Revenue	68,752	92,502
Finance charges	31,846	33,760
Line protection	<u>123,981</u>	<u>116,252</u>
Net Other Water Revenue	<u>224,579</u>	<u>242,514</u>
TOTAL SALES AND REVENUE	<u>6,326,450</u>	<u>6,747,863</u>
OPERATING EXPENSES:		
Utility operating expenses	3,902,899	3,834,068
Taxes	179,006	178,634
Depreciation	<u>1,198,272</u>	<u>1,029,621</u>
Total Operating Expenses	<u>5,280,177</u>	<u>5,042,323</u>
UTILITY OPERATING INCOME	1,046,273	1,705,540
OTHER INCOME (EXPENSE):		
Interest and dividend income	67,654	42,470
Rental income	118,608	115,950
Other miscellaneous non-operating income	21,482	15,274
Loss on disposals of assets	(21,056)	(25,137)
Connecticut Municipal Employees' pension expense	(279,133)	(334,550)
Interest expense	<u>(414,521)</u>	<u>(311,490)</u>
Total Other Income (Expense)	<u>(506,966)</u>	<u>(497,483)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	539,307	1,208,057
CAPITAL CONTRIBUTIONS	<u>244,895</u>	<u>136,282</u>
INCREASE IN NET POSITION	784,202	1,344,339
TOTAL NET POSITION - BEGINNING	<u>39,409,965</u>	<u>38,065,626</u>
TOTAL NET POSITION - ENDING	<u>\$ 40,194,167</u>	<u>\$ 39,409,965</u>

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

WATER WORKS DEPARTMENT - TOWN OF SOUTHTON, CONNECTICUT
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 6,438,371	\$ 6,897,018
Other miscellaneous receipts	140,090	131,224
Payments to vendors and others	(3,153,574)	(2,347,098)
Payments to employees	<u>(1,908,107)</u>	<u>(1,775,311)</u>
Net Cash Provided by Operating Activities	<u>1,516,780</u>	<u>2,905,833</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt	753,897	2,325,718
Payments on long-term debt	(1,041,537)	(915,768)
Interest paid	(423,750)	(342,747)
Acquisition of property and equipment	<u>(1,734,508)</u>	<u>(4,578,131)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(2,445,898)</u>	<u>(3,510,928)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	<u>67,654</u>	<u>42,470</u>
Net Cash Provided By Investing Activities	<u>67,654</u>	<u>42,470</u>
NET DECREASE IN CASH	(861,464)	(562,625)
CASH AND EQUIVALENTS - beginning of year	<u>6,684,916</u>	<u>7,247,541</u>
CASH AND EQUIVALENTS - end of year	<u>\$ 5,823,452</u>	<u>\$ 6,684,916</u>

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

WATER WORKS DEPARTMENT - TOWN OF SOUTHBINGTON, CONNECTICUT
 STATEMENTS OF CASH FLOWS (Continued)
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 1,046,273	\$ 1,705,540
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,198,272	1,029,621
Depreciation - allocated to other expenses	101,353	83,887
Other miscellaneous income	140,090	131,224
Pension expense	(279,133)	(334,550)
Changes in:		
Accounts receivable	(76,432)	38,619
Inventory	61,503	(59,697)
Deferred outflow of resources	273,791	(304,511)
Accounts payable	(778,527)	170,384
Deferred revenue	80,309	(17,706)
Accrued expenses, excluding interest	(31,913)	41,848
Pension contribution payable	940	-
Net pension liability	(220,103)	421,174
Deferred inflow of resources	<u>357</u>	<u>-</u>
 Net Cash Provided By Operating Activities	 <u>\$ 1,516,780</u>	 <u>\$ 2,905,833</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, 2018 AND 2017

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 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 Presentation and Method 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.

The Department’s financial statements are presented on the accrual basis of accounting. Revenues are recorded in the period earned, including fees upon assessment, and expenses are recorded at the time liabilities are incurred. Grant revenues are recognized once the eligibility requirements imposed by the grantor are satisfied. Bond payable premiums and discounts are amortized over the life of the bonds and netted against interest expense. In accordance with enterprise funds accounting guidelines, the Department distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses are typically charges for providing water and sewer services to customers and the related costs of performing those services to include depreciation.

The Statements of Net Position require the classification of net position into three components 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.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
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- 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.”

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 balance sheet date.

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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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.

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 and supplies 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 defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Software is capitalized when acquired. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings and improvements	15 - 50 years
Improvements other than buildings	15 - 67 years
Machinery and equipment	3 - 13 years

Interest expense is capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted. The amount of capitalized interest is determined using the interest cost of the borrowings less any interest earned on investments acquired with the proceeds of the related tax-exempt borrowings from the date of the borrowings until the assets are ready for their intended use.

Bond Premium:

Amortization of bond premium is on the straight-line basis over the life of the bonds and amounted to \$22,028 for the years ended June 30, 2018 and 2017.

Accrued Vacation and Sick Leave Pay:

The employees of the Department may accumulate limited amounts of vacation pay that is payable to them upon termination or retirement. Vacation costs are recognized as a liability when earned by the employee. The liability for unpaid vacation time as of June 30, 2018 and 2017 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.

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

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 assets.

Deferred Revenue:

Other liabilities consist of payments received from customers in advance of completion of the related construction. Revenue is recognized in the accounting period when projects are completed.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Operating and Non-Operating Revenues:

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 that developers and customers have contributed for betterments or additions to capital assets that have been contributed to the Department.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Reclassifications:

Certain prior year amounts have been reclassified to conform with the current year presentation.

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, 2018 AND 2017

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, 2018 and 2017, the carrying amounts of the Department's deposits were \$5,823,452 and \$6,684,916, respectively. Of these balances, \$500,000 was covered by Federal Deposit Insurance in 2018 and 2017, 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, 2018 AND 2017

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 \$39,312 in 2018 and \$38,774 in 2017 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, 2018 and 2017, the cash and cash equivalents balances at the following institutions were as follows:

	June 30, 2018 Total	June 30, 2017 Total
Farmington Bank	\$ 1,271,488	\$ 844,696
United Bank	<u>4,512,302</u>	<u>5,801,096</u>
Total Bank Deposits	5,783,790	6,645,792
Add:		
STIF-State of CT	39,312	38,774
Petty Cash	350	350
Total Cash	<u>\$ 5,823,452</u>	<u>\$ 6,684,916</u>

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

2017						
	Total Bank Deposits	Collateralization Percentage	Total Collateralized	Total Insured	Insured and Collateralized	Uninsured and Uncollateralized
Farmington Bank	\$ 844,696	10%	\$ 84,470	\$ 250,000	\$ 334,470	\$ 510,226
United Bank	<u>5,801,096</u>	10%	<u>580,110</u>	<u>250,000</u>	<u>830,110</u>	<u>4,970,986</u>
	<u>\$ 6,645,792</u>		<u>\$ 664,580</u>	<u>\$ 500,000</u>	<u>\$ 1,164,580</u>	<u>\$ 5,481,212</u>

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018 AND 2017

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.

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, 2018, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Trade accounts receivable	\$ 88,539	\$ 126,923
Finance charges receivable	7,314	9,476
Accrued unbilled revenue	<u>965,070</u>	<u>848,483</u>
	1,060,923	984,882
Less allowance for doubtful accounts	<u>(24,170)</u>	<u>(24,561)</u>
Total Accounts Receivable and Accrued Unbilled Revenue	<u>\$ 1,036,753</u>	<u>\$ 960,321</u>

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

5. CAPITAL ASSETS

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>	Balance <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	-	(4,942,842)	2,264,211
Other non-depreciable assets	386,967	-	-	-	386,967
Total Capital Assets, Not Being Depreciated	<u>8,439,567</u>	<u>1,447,314</u>	<u>-</u>	<u>(4,942,842)</u>	<u>4,944,039</u>
<u>Capital Assets Being Depreciated:</u>					
Buildings and improvements	12,589,035	2,800	-	435,383	13,027,218
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	47,015,203	357,439	(52,235)	4,507,459	51,827,866
Total Capital Assets, Being Depreciated	<u>63,185,192</u>	<u>532,089</u>	<u>(82,050)</u>	<u>4,942,842</u>	<u>68,578,073</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>4,942,842</u>	<u>42,880,217</u>
Capital Assets, Net	<u>\$ 47,165,534</u>	<u>\$ 679,778</u>	<u>\$ (21,056)</u>	<u>\$ -</u>	<u>\$ 47,824,256</u>

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

<u>Utility Plant</u>	Balance <u>6/30/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance <u>6/30/17</u>
<u>Capital Assets, Not Being Depreciated:</u>					
Land	\$ 2,192,861	\$ 100,000	\$ -	\$ -	\$ 2,292,861
Construction in progress	6,383,841	4,318,740	-	(4,942,842)	5,759,739
Other non-depreciable assets	386,967	-	-	-	386,967
Total Capital Assets, Not Being Depreciated	<u>8,963,669</u>	<u>4,418,740</u>	<u>-</u>	<u>(4,942,842)</u>	<u>8,439,567</u>
<u>Capital Assets Being Depreciated:</u>					
Buildings and improvements	12,153,652	-	-	435,383	12,589,035
Machinery and equipment	920,300	1,640	-	-	921,940
Vehicles	802,073	64,282	(23,795)	-	842,560
Furniture, fixtures and office	1,802,020	16,399	(1,965)	-	1,816,454
Water systems	42,353,287	213,353	(58,896)	4,507,459	47,015,203
Total Capital Assets, Being Depreciated	<u>58,031,332</u>	<u>295,674</u>	<u>(84,656)</u>	<u>4,942,842</u>	<u>63,185,192</u>

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

5. CAPITAL ASSETS (continued)

<u>Utility Plant</u>	Balance				Balance
	<u>6/30/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>6/30/17</u>
<u>Less Accumulated Depreciation for:</u>					
Buildings and improvements	3,284,098	272,740	-	-	3,556,838
Machinery and equipment	554,474	27,929	-	-	582,403
Vehicles	589,042	58,679	(23,795)	-	623,926
Furniture, fixtures and office	1,707,345	34,913	(1,501)	-	1,740,757
Water systems	<u>17,270,276</u>	<u>719,248</u>	<u>(34,223)</u>	<u>-</u>	<u>17,955,301</u>
Total Accumulated Depreciation	<u>23,405,235</u>	<u>1,113,509</u>	<u>(59,519)</u>	<u>-</u>	<u>24,459,225</u>
Total Capital Assets, Being Depreciated, Net	<u>34,626,097</u>	<u>(817,835)</u>	<u>(25,137)</u>	<u>4,942,842</u>	<u>38,725,967</u>
Capital Assets, Net	<u>\$ 43,589,766</u>	<u>\$ 3,600,905</u>	<u>\$ (25,137)</u>	<u>\$ -</u>	<u>\$ 47,165,534</u>

6. WATER BONDS PAYABLE AND NOTES PAYABLE

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
	<u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>	
Water bonds, 2011 issue	\$ 1,685,000	\$ -	\$ (345,000)	\$ 1,340,000	\$ 335,000
Water bonds, 2014 issue	<u>4,985,000</u>	<u>-</u>	<u>(295,000)</u>	<u>4,690,000</u>	<u>295,000</u>
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	<u>240,084</u>	<u>-</u>	<u>(14,477)</u>	<u>225,607</u>	<u>14,477</u>
Net Bonded Debt	<u>6,940,287</u>	<u>-</u>	<u>(662,029)</u>	<u>6,278,258</u>	<u>652,028</u>
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	<u>3,319,793</u>	<u>753,897</u>	<u>(100,240)</u>	<u>3,973,450</u>	<u>174,583</u>
Total Notes Payable	<u>6,229,902</u>	<u>753,897</u>	<u>(379,508)</u>	<u>6,604,291</u>	<u>457,429</u>
Total Indebtedness	13,170,189	<u>\$ 753,897</u>	<u>\$ (1,041,537)</u>	12,882,549	<u>\$ 1,109,457</u>
Current Maturities	<u>(941,295)</u>			<u>(1,109,457)</u>	
Long-Term Debt	<u>\$ 12,228,894</u>			<u>\$ 11,773,092</u>	

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
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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.

Water bonds outstanding as of June 30, 2018 are as follows:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>
2011	\$ 1,340,000	2.5 - 4.0	08/01/21
2014	4,690,000	3.0 - 4.0	06/30/34
Total Outstanding	<u>\$ 6,030,000</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, 2018 were \$1,428,529, leaving a balance of \$1,055,870 as of June 30, 2018.

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, 2018 were \$494,933, leaving a balance of \$578,164 as of June 30, 2018.

The State of Connecticut project loan 200202-CD1 (Wellhead Protection Phase II) provides 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, 2018 amounted to \$875,710, leaving a balance of \$996,807 as of June 30, 2018.

The State of Connecticut project loan 2016-7039 (Drinking Water Program) provides 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, 2018 amounted to \$100,240, leaving a balance of \$3,973,450 as of June 30, 2018.

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018 AND 2017

Summary of Annual Debt Service Requirements:

The annual debt service requirements on water bonds and commercial notes outstanding at June 30, 2018 are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance Remaining</u>
2019	\$ 1,109,457	\$ 263,309	\$ 1,372,766	\$ 11,773,093
2020	1,116,643	233,658	1,350,301	10,656,450
2021	1,123,985	199,720	1,323,705	9,532,465
2022	1,123,934	172,404	1,296,338	8,408,531
2023	796,597	144,149	940,746	7,611,934
2024-2028	3,720,335	719,982	4,440,317	3,891,599
2029-2033	2,642,861	310,204	2,953,065	1,248,738
2034-2038	1,248,738	41,652	1,290,390	-
Totals	<u>\$ 12,882,550</u>	<u>\$ 2,085,078</u>	<u>\$ 14,967,628</u>	

7. ACCRUED EXPENSES

The components of accrued expenses at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Accrued interest expense	\$ 97,202	\$ 106,431
Accrued payroll, taxes and benefits	37,485	39,071
Accrued vacation and sick leave	462,335	491,826
Other accrued expenses	810	1,646
Total Accrued Expenses	<u>\$ 597,832</u>	<u>\$ 638,974</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, 2018 AND 2017

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, 2018 and 2017, the Department reported liabilities of \$1,174,539 and \$1,394,642, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Department's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018 and 2017, the Department's proportion was 0.710546% based on the June 30, 2017 and 2016 measurement dates.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

For the years ended June 30, 2018 and 2017, the Authority recognized pension expense of \$279,133 and \$334,550, respectively. At June 30, 2018 and 2017, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 94,051	\$ -	\$ 405,350	\$ -
Department contributions subsequent to the measurement date	211,061	-	201,133	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,251	357	-	-
Differences between expected and actual experience	22,329	-	-	-
	\$ 332,692	\$ 357	\$ 606,483	\$ -

Department contributions, subsequent to the measurement date, of \$211,061 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 40,686
2019	99,194
2020	36,019
2021	(54,625)
2022	-

Payable to the Pension Plan:

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

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Actuarial Assumptions:

The total pension liability as of June 30, 2018 was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.25% - 11.00%
Long-Term Investment of Return, net of pension plan investment expense, including inflation	8.00%

Mortality rates were based on the RP-2000 Mortality Table for Annuitants and Non-Annuitants (set forward one year for males and set back one year for females).

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2007 – June 30, 2012.

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, 2018 AND 2017

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

<u>Asset Class:</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	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>	

Discount Rate:

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at 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 rate of 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 (7.00%) or 1 percentage point higher (9.00%) than the current rate:

	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>

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 14, 2018, 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 SOUTHLINGTON, CONNECTICUT
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET VERSUS ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
<u>Operating Revenues:</u>			
Water sales	\$ 6,600,572	\$ 6,101,871	\$ (498,701)
Other water revenue	<u>181,582</u>	<u>224,579</u>	<u>42,997</u>
Total Operating Revenues	<u>6,782,154</u>	<u>6,326,450</u>	<u>(455,704)</u>
<u>Non-Operating Revenues:</u>			
Interest income	41,000	67,654	26,654
Other income	<u>116,442</u>	<u>140,090</u>	<u>23,648</u>
Total Non-Operating Revenues	<u>157,442</u>	<u>207,744</u>	<u>50,302</u>
Total Revenues	<u>6,939,596</u>	<u>6,534,194</u>	<u>(405,402)</u>
<u>Operating Expenses:</u>			
Utility operating expenses	4,147,152	3,901,959	245,193
Taxes	<u>200,053</u>	<u>179,006</u>	<u>21,047</u>
Total Operating Expenses	<u>4,347,205</u>	<u>4,080,965</u>	<u>266,240</u>
<u>Non-Operating Expenses:</u>			
Loss on disposals of assets	-	(21,056)	(21,056)
Interest expense	<u>(369,396)</u>	<u>(414,521)</u>	<u>(45,125)</u>
Total Non-Operating Expenditures	<u>(369,396)</u>	<u>(435,577)</u>	<u>(66,181)</u>
Income Before Capital Contributions and Depreciation Expense	<u>\$ 2,222,995</u>	<u>\$ 2,017,652</u>	<u>\$ (205,343)</u>

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

WATER WORKS DEPARTMENT - TOWN OF SOUTHWINGTON, CONNECTICUT
 SCHEDULE OF THE DEPARTMENT'S PROPORTIONATE SHARE OF
 THE NET PENSION LIABILITY
 AS OF JUNE 30, 2018

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years (only 4 years shown; periods prior to implementation of GASB 68 are unavailable and will be completed as they become available)

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

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years (only 4 years shown; periods prior to implementation of GASB 68 are unavailable and will be completed as they become available)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 279,133	\$ 334,550	\$ 179,962	\$ 132,089
Contributions in relation to the contractually required contribution	<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>
Department's covered-employee payroll	\$ 1,691,433	\$ 1,691,433	\$ 1,577,803	\$ 1,577,803
Contributions as a percentage of covered-employee payroll	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 SOUTHTON, CONNECTICUT
STATEMENT OF CURRENT AND LONG-TERM DEBT
FOR THE YEAR ENDED JUNE 30, 2018

DEBT MATURING WITHIN ONE YEAR:

Water Bonds, Issue of 2011	\$	335,000
Water Bonds, Issue of 2014		295,000
State of CT Project Loan 200202-C		124,220
State of CT Project Loan 200201-C		51,289
State of CT Project Loan 200202-CD1		107,338
State of CT Project Loan 2016-7039		174,583
Amortization of bond premium		22,027
Total Debt Maturing Within One Year	\$	<u>1,109,457</u>

LONG-TERM DEBT, NET OF CURRENT MATURITIES:

Water Bonds, Issue of 2011	\$	1,005,000
Water Bonds, Issue of 2014		4,395,000
State of CT Project Loan 200202-C		931,650
State of CT Project Loan 200201-C		526,875
State of CT Project Loan 200202-CD1		889,470
State of CT Project Loan 2016-7039		3,798,867
Amortization of bond premium		226,230
Total Long-Term Debt		<u>11,773,092</u>

Total Short and Long-Term Debt	\$	<u><u>12,882,549</u></u>
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SCHEDULE OF DEBT PAYMENTS ON LONG-TERM DEBT:

June 30, 2019	\$	1,109,457
June 30, 2020		1,116,643
June 30, 2021		1,123,985
June 30, 2022		1,123,934
June 30, 2023		796,597
Future Years		7,611,933
	\$	<u><u>12,882,549</u></u>

WATER WORKS DEPARTMENT - TOWN OF SOUTHTON, CONNECTICUT
STATEMENTS OF UTILITY OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>Source of Supply Expenses:</u>		
Operating labor and expenses	\$ 112,464	\$ 118,597
Maintenance of reservoirs and other source structures	1,838	891
Total Source of Supply Expenses	114,302	119,488
<u>Pumping Expenses:</u>		
Pumping labor and expenses	89,029	74,545
Maintenance of pumping equipment	43,729	15,580
Fuel or power purchased for pumping	385,379	337,923
Total Pumping Expenses	518,137	428,048
<u>Water Treatment Expenses:</u>		
Purification labor and expenses	259,421	284,687
Chemicals	67,516	82,295
Maintenance of water treatment equipment	103,744	95,920
Total Water Treatment Expenses	430,681	462,902
<u>Transmission and Distribution Expenses:</u>		
Storage facilities, labor and expenses	33,856	21,355
Transmission and distribution lines expenses	203,478	202,369
Meter expenses	22,444	23,520
Customer installation expenses	35,383	37,779
Maintenance of distribution mains, improvements, reservoirs & standpipes	152,218	146,340
Maintenance of services	116,422	85,362
Maintenance of meters	232,166	230,843
Maintenance of hydrants	56,286	84,540
Maintenance of mains	252,922	175,555
Total Transmission and Distribution Expenses	1,105,175	1,007,663
<u>Customer Accounts Expenses:</u>		
Meter reading	80,848	82,573
Customers' records and collection expenses	77,734	87,039
Total Customer Accounts and Collection Expenses	158,582	169,612
<u>Administrative and General Expenses:</u>		
Salaries of superintendent and general salaries	247,386	326,288
General office supplies and expenses	64,676	77,439
Outside services employed	113,339	181,874
Property insurance and other	185,716	171,087
Pensions and other employee benefits	817,107	753,172
Maintenance of structures and improvements, general	74,312	61,994
Miscellaneous general expenses	73,486	74,501
Total Administrative and General Expenses	1,576,022	1,646,355
Total Utility Operating Expenses	\$ 3,902,899	\$ 3,834,068

WATER WORKS DEPARTMENT, TOWN OF SOUTHLINGTON, CONNECTICUT
LIST OF OFFICERS
FOR THE YEAR ENDED JUNE 30, 2018

<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	2019
Rudolph Cabata	2021

Other:

William M. Casarella, Superintendent

BUDWITZ & MEYERJACK, P.C.
Certified Public Accountants

322 MAIN STREET
P.O. BOX 391
FARMINGTON, CT 06034-0391

(860) 677-4697
FAX (860) 674-8196

CPA@budwitzmeyerjack.com

CHESHIRE OFFICE

1122 HIGHLAND AVE
CHESHIRE, CT 06410

PETER A. BUDWITZ, CPA – RETIRED
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, 2018, 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 14, 2018.

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 14, 2018

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

JUNE 30, 2018

BUDWITZ & MEYERJACK, P.C.
Certified Public Accountants

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STEPHANIE E. COLE, CPA

December 14, 2018

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, 2018 and have issued our report thereon dated December 14, 2018. 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, 2018. 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 2018. 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 14, 2018.

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, 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, 2018 AUDIT

Board Presentation

January 10, 2019

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 4-10)

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

Financial Statements

(Pages 11-31)

- Statement of Net Position (Page 11)
 - “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 12)
 - “Income Statement” – Reports the financial activities for the year.

Financial Statements

(Pages 11-31)

- Statement of Cash Flows (Pages 13-14)
 - Reports the inflows and outflows of cash.
 - Reconciles net income to net increase/decrease in cash.
- Notes to Financial Statements (Pages 15-31)
 - Additional information to help explain specific items in the financial statements.

Required Supplementary Information

(Pages 32-35)

- Schedule of Revenues and Expenditures-
Budget vs. Actual
- 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 36-39)

- Statement of Current and Long-Term Debt
- Statements of Utility Operating Expenses
- List of Officers

Other Reports

(Pages 40-41)

- 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>2018</u>	<u>2017</u>	<u>\$ change</u>	<u>% change</u>
Current and Other Assets	\$ 7,127,182	\$ 7,973,717	\$ (846,535)	-10.62%
Capital Assets	47,824,256	47,165,534	658,722	1.40%
Deferred Outflows of Resources	<u>332,692</u>	<u>606,483</u>	<u>(273,791)</u>	-45.14%
Total Assets & Deferred Outflows of Resources	<u>55,284,130</u>	<u>55,745,734</u>	<u>(461,604)</u>	-0.83%
Current and Other Liabilities	2,141,975	2,712,233	(570,258)	-21.03%
Long-Term Debt, Net of Current Maturities	12,947,631	13,623,536	(675,905)	-4.96%
Deferred Inflows of Resources	<u>357</u>	<u>-</u>	<u>357</u>	N/A
Total Liabilities & Deferred Inflows of Resources	<u>15,089,963</u>	<u>16,335,769</u>	<u>(1,245,806)</u>	-7.63%
Net Position:				
Invested in Capital Assets, Net of Related Debt	34,941,706	33,995,345	946,361	2.78%
Unrestricted	<u>5,252,461</u>	<u>5,414,620</u>	<u>(162,159)</u>	-2.99%
Total Net Position	<u>\$ 40,194,167</u>	<u>\$ 39,409,965</u>	<u>\$ 784,202</u>	1.99%

Summary of Operations & Changes in Net Position

<u>Revenues:</u>	<u>2018</u>	<u>2017</u>	<u>\$ change</u>	<u>% change</u>
Operating Revenues:				
Sale of Water	\$ 6,101,871	\$ 6,505,349	\$ (403,478)	-6.20%
Jobbing and Contract Work, Net	68,752	92,502	(23,750)	-25.68%
Other Operating Revenues	<u>155,827</u>	<u>150,012</u>	<u>5,815</u>	<u>3.88%</u>
	6,326,450	6,747,863	(421,413)	-6.25%
Non Operating Revenues:				
Other Miscellaneous Income	140,090	131,224	8,866	6.76%
Investment Income	<u>67,654</u>	<u>42,470</u>	<u>25,184</u>	<u>59.30%</u>
Total Revenues	<u>6,534,194</u>	<u>6,921,557</u>	<u>(387,363)</u>	<u>-5.60%</u>
<u>Expenses:</u>				
Utility Operating Expenses	3,902,899	3,834,068	68,831	1.80%
Depreciation, Utility Plant Only	1,198,272	1,029,621	168,651	16.38%
Taxes	179,006	178,634	372	0.21%
Loss on Disposal of Assets	21,056	25,137	(4,081)	-16.24%
CMERS Pension Expense	279,133	334,550	(55,417)	-16.56%
Interest on Long-Term Debt	414,521	311,490	103,031	33.08%
Total Expenses	<u>5,994,887</u>	<u>5,713,500</u>	<u>281,387</u>	<u>4.92%</u>
Income Before Contributions	539,307	1,208,057	(668,750)	-55.36%
Capital Contributions	<u>244,895</u>	<u>136,282</u>	<u>108,613</u>	<u>79.70%</u>
Changes in Net Position	784,202	1,344,339	(560,137)	-41.67%
Total Net Position-beginning	<u>39,409,965</u>	<u>38,065,626</u>	<u>1,344,339</u>	<u>3.53%</u>
Total Net Position-ending	<u>\$ 40,194,167</u>	<u>\$ 39,409,965</u>	<u>\$ 784,202</u>	<u>1.99%</u>

Summary of Utility Operating Expenses

	<u>2018</u>	<u>2017</u>	<u>\$ change</u>	<u>% change</u>
Source of Supply Expenses	\$ 114,302	\$ 119,488	\$ (5,186)	-4.34%
Pumping Expenses	518,137	428,048	90,089	21.05%
Water Treatment Expenses	430,681	462,902	(32,221)	-6.96%
Transmission and Distribution Expenses	1,105,175	1,007,663	97,512	9.68%
Customer Accounts Expense	158,582	169,612	(11,030)	-6.50%
Administrative and General Expenses	1,576,022	1,646,355	(70,333)	-4.27%
Total Utility Operating Expenses	<u>\$ 3,902,899</u>	<u>\$ 3,834,068</u>	<u>\$ 68,831</u>	<u>1.80%</u>

SCHEDULE OF ACTUAL RESULTS VS. BUDGET

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u> FAVORABLE (UNFAVORABLE)
<u>Operating Revenues:</u>			
Water sales	\$ 6,600,572	\$ 6,101,871	\$ (498,701)
Other water revenue	181,582	224,579	42,997
Total Operating Revenues	<u>6,782,154</u>	<u>6,326,450</u>	<u>(455,704)</u>
<u>Non-Operating Revenues:</u>			
Interest income	41,000	67,654	26,654
Other income	116,442	140,090	23,648
Total Non-Operating Revenues	<u>157,442</u>	<u>207,744</u>	<u>50,302</u>
Total Revenues	<u>6,939,596</u>	<u>6,534,194</u>	<u>(405,402)</u>
<u>Operating Expenses:</u>			
Utility operating expenses	4,147,152	3,901,959	245,193
Taxes	200,053	179,006	21,047
Total Operating Expenses	<u>4,347,205</u>	<u>4,080,965</u>	<u>266,240</u>
<u>Non-Operating Expenses:</u>			
Loss on disposals of assets	-	(21,056)	(21,056)
Interest expense	(369,396)	(414,521)	(45,125)
Total Non-Operating Expenditures	<u>(369,396)</u>	<u>(435,577)</u>	<u>(66,181)</u>
Income Before Capital Contributions and Depreciation Expense	<u>\$ 2,222,995</u>	<u>\$ 2,017,652</u>	<u>\$ (205,343)</u>

Summary of Cash Flows

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities	\$ 1,516,780	\$ 2,905,833
Cash Flows From Capital and Related Financing Activities:		
Debt proceeds	753,897	2,325,718
Principal and interest payments	(1,465,287)	(1,258,515)
Capital expenditures	(1,734,508)	(4,578,131)
	<u>(2,445,898)</u>	<u>(3,510,928)</u>
Cash Flows From Investing Activities:		
Interest received on investments	<u>67,654</u>	<u>42,470</u>
Net Increase (Decrease) in Cash	(861,464)	(562,625)
Cash and Equivalents-Beginning of year	<u>6,684,916</u>	<u>7,247,541</u>
Cash and Equivalents-End of year	<u>\$ 5,823,452</u>	<u>\$ 6,684,916</u>

Major Construction Projects Completed During the 2018 Fiscal Year

<u>Project Name/Location</u>	<u>Cost</u>
East Side Pressure Zone	\$ 4,257,797
Well 7 Replacement	1,875,385
Regional Water Interconnect	325,454
Reservoir Dredging	226,835
	<u>\$ 6,685,471</u>

Summary of Debt

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

Debt Service Requirements

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance Remaining</u>
2019	\$ 1,109,457	\$ 263,309	\$ 1,372,766	\$ 11,773,092
2020	1,116,643	233,658	1,350,301	10,656,449
2021	1,123,985	199,720	1,323,705	9,532,464
2022	1,123,934	172,404	1,296,338	8,408,530
2023	796,597	144,149	940,746	7,611,933
2024-2028	3,720,335	719,982	4,440,317	3,891,598
2029-2033	2,642,861	310,204	2,953,065	1,248,737
2034-2038	1,248,737	41,653	1,290,390	-
Totals	<u>\$ 12,882,549</u>	<u>\$ 2,085,079</u>	<u>\$ 14,967,628</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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Current Assets	12,093,239	10,671,353	8,455,750	7,914,203	7,067,668
Current Liabilities	1,892,097	2,278,675	2,513,086	2,712,233	2,141,975

Current Ratio	6.39	4.68	3.36	2.92	3.30
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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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Net Credit Sales	5,708,776	6,217,899	6,541,774	6,876,105	6,434,494
Avg. Accts. Receivable	880,757	914,431	1,019,189	979,631	998,537
A/R Turnover	6.48	6.80	6.42	7.02	6.44

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Accounts Receivable	840,032	988,830	998,940	960,321	1,036,753
Avg. Daily Sales	15,640	17,035	17,874	18,839	17,629
# of Days Sales in A/R	53.71	58.05	55.89	50.98	58.81

RATIOS

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Liabilities	13,614,667	13,981,865	14,341,376	16,335,769	15,089,606
Total Net Position	36,715,759	36,829,316	38,065,626	39,409,965	40,194,167
Debt to Equity Ratio	0.37	0.38	0.38	0.41	0.38

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
EBITDA*	1,577,275	2,164,297	2,313,838	2,549,168	2,152,100
Total Debt Service	939,091	1,168,370	1,250,551	1,258,515	1,456,058
Debt Service Coverage Ratio	1.68	1.85	1.85	2.03	1.48

*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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Cash and Net Receivables	11,617,532	10,479,381	8,246,481	7,645,237	6,860,205
Daily Cash expenses	12,274	12,401	12,523	13,115	13,380
Number of days	947	845	659	583	513