

WATER WORKS DEPARTMENT - TOWN OF SOUTHTON, CONNECTICUT

BOARD MEMBERS' PACKAGE

JUNE 30, 2020

BUDWITZ & MEYERJACK.P.C.

Certified Public Accountants

CHESHIRE • FARMINGTON
CONNECTICUT

WATER WORKS DEPARTMENT – TOWN OF SOUTHLINGTON, CONNECTICUT
BOARD MEMBERS’ PACKAGE
JUNE 30, 2020

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FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
AND REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2020

(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, CT (the Department) as of and for the year ended June 30, 2020, 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, CT, as of June 30, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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 10 and schedules of the Department's proportionate share of the net pension liability and contributions on pages 35 and 36 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 30, 2020, 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, 2020, 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 30, 2020

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, 2020. 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 2020 financial statements are presented with comparative totals from 2019.

- ❖ The Department's assets and deferred outflows of resources exceeded its liabilities as of June 30, 2020 by \$42,068,225 (net position). Of this amount, \$37,856,078 (unrestricted net position) may be used to meet the Department's ongoing obligations. The Department's net position increased by \$664,941 during the current fiscal year and by \$1,209,117 in the prior fiscal year.
- ❖ Total operating revenues increased by \$462,001 or 7% for the year ended June 30, 2020 from approximately \$6.79 million in 2019 to \$7.25 million in 2020. Most of this increase in revenues occurred in the metered water sales to customers and is largely due to a rate increase.
- ❖ Some of the major construction projects completed during the year increasing the Department's assets were as follows:

Project Name/Location	Cost
Rourke Avenue and Hill Street	\$ 402,085
	<u>\$ 402,085</u>

Summary of Operations and Changes in Net Position

<u>Revenues:</u>	<u>2020</u>	<u>2019</u>
<u>Operating Revenues:</u>		
Sale of Water	\$ 6,938,057	\$ 6,486,036
Jobbing and Contract Work, Net	135,087	106,209
Other Operating Revenues	<u>174,600</u>	<u>193,498</u>
	7,247,744	6,785,743
<u>Non-Operating Revenues:</u>		
Other Miscellaneous Income	154,594	138,773
Investment Income	<u>98,712</u>	<u>116,817</u>
Total Revenues	<u>7,501,050</u>	<u>7,041,333</u>

Summary of Operations and Changes in Net Position (continued)

	<u>2020</u>	<u>2019</u>
<u>Expenses:</u>		
Utility Operating Expenses	4,355,157	4,094,735
Depreciation, Utility Plant Only	1,233,833	1,234,694
Taxes	192,376	181,651
CT Municipal Employee Pension Expense	781,016	370,604
Loss on Disposal of Assets	13,725	17,219
Interest on Long-Term Debt	315,668	322,016
Total Expenses	<u>6,891,775</u>	<u>6,220,919</u>
Income Before Contributions	609,275	820,414
Capital Contributions	<u>55,666</u>	<u>388,703</u>
Changes in Net Position	664,941	1,209,117
Total Net Position-beginning	<u>41,403,284</u>	<u>40,194,167</u>
Total Net Position-ending	<u>\$42,068,225</u>	<u>\$41,403,284</u>

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

Financial Position Summary

Net position is an indication of the Department's financial strength. The Department's net position as of June 30, 2020 and 2019 is \$42,063,275 and \$41,403,284, respectively. A summary of the Department's financial position is shown below:

	<u>2020</u>	<u>2019</u>
Current and Other Assets	\$ 6,862,898	\$ 7,734,286
Deferred Outflows of Resources	1,445,955	1,626,273
Capital Assets	<u>52,721,437</u>	<u>50,029,067</u>
Total Assets and Deferred Outflows of Resources	<u>61,030,290</u>	<u>59,389,626</u>
Current and Other Liabilities	2,428,082	3,607,598
Deferred Inflows of Resources	272,212	102,755
Noncurrent Liabilities	<u>16,261,771</u>	<u>14,275,989</u>
Total Liabilities and Deferred Inflows of Resources	<u>18,962,065</u>	<u>17,986,342</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	37,856,078	37,234,692
Restricted	-	-
Unrestricted	<u>4,212,147</u>	<u>4,168,592</u>
Total Net Position	<u>\$42,068,225</u>	<u>\$41,403,284</u>

Total assets remained fairly consistent from June 30, 2019 to June 30, 2020, increasing approximately \$1.8 million or 3.15%.

Deferred outflows of resources decreased by approximately \$180,000 in that same period of time due to actuarial calculations related to the municipal employees' pension plan.

Total liabilities increased by approximately \$800,000 from June 30, 2019 to June 30, 2020, or 4.5%. This is due to an increase in debt used for infrastructure and an increase in the net pension liability at June 30, 2020.

Deferred inflows of resources also increased by approximately \$170,000 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 Department's proportionate share of the Connecticut Municipal Employees' Retirement System.

Rates and Charges

Consumption in Hundred Cu. FT. (CCF)	<u>2020</u>	<u>2019</u>	<u>2018</u>
0-1000	\$ 3.35/CCF	\$ 3.19/CCF	\$ 3.04/CCF
over 1000	\$ 2.98/CCF	\$ 2.98/CCF	\$ 2.84/CCF
<u>Quarterly Service Charge Rates</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Meter Size</u>	<u>Service Charge</u>	<u>Service Charge</u>	<u>Service Charge</u>
5/8"	\$ 23.96	\$ 22.82	\$ 22.15
3/4"	\$ 23.96	\$ 22.82	\$ 22.15
1"	\$ 36.49	\$ 34.75	\$ 33.74
1-1/2"	\$ 66.47	\$ 63.30	\$ 61.46
2"	\$ 96.44	\$ 91.85	\$ 89.18
3"	\$ 169.43	\$ 161.36	\$ 156.66
4"	\$ 273.69	\$ 260.66	\$ 253.07
6"	\$ 487.44	\$ 464.23	\$ 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>2020</u>	<u>2020</u> <u>Budget</u>	<u>2019</u>
Water Sales:			
Residential	\$ 5,339,405	\$ 5,360,144	\$ 4,902,488
Commercial	909,687	920,406	913,924
Industrial	182,054	167,665	187,253
Municipal	105,701	99,905	84,721
Private Fire Protection	179,428	178,312	176,452
Public Fire Protection	221,782	221,344	221,198
Total Water Sales	<u>6,938,057</u>	<u>6,947,776</u>	<u>6,486,036</u>
Other Water and Operating Revenue	<u>309,687</u>	<u>214,948</u>	<u>299,707</u>
Total Operating Revenue	<u>\$ 7,247,744</u>	<u>\$ 7,162,724</u>	<u>\$ 6,785,743</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>2020</u>	<u>2020</u> <u>Budget</u>	<u>2019</u>
Source of Supply	\$ 131,198	\$ 122,095	\$ 154,581
Pumping	586,011	565,241	510,312
Water Treatment	482,462	408,104	425,264
Transmission and Distribution	1,151,902	1,063,709	1,171,007
Customer Accounts	191,730	185,605	182,524
Administrative and General	1,811,854	1,676,650	1,651,047
Unallocated Overhead Expenses	-	502,375	-
Total Operating Revenue	<u>\$ 4,355,157</u>	<u>\$ 4,523,779</u>	<u>\$ 4,094,735</u>

Functional Expense

Functional expenses (excluding depreciation and amortization) were \$168,622, or 3.73% under budget for 2020.

Non-Operating Revenue (Expense)

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

	<u>2020</u>	<u>2019</u>
Interest and Dividend Income	\$ 98,712	\$ 116,817
Rental Income	120,091	120,225
Other Miscellaneous Income	34,503	18,548
Loss on Disposal of Assets	(13,725)	(17,219)
CT Municipal Employees' Pension expense	(781,016)	(370,604)
Interest Expense	(315,668)	(322,016)
Total Non-Operating Revenue (Expense)	<u>\$ (857,103)</u>	<u>\$ (454,249)</u>

Capital Assets

The Department's investments in capital assets amounted to \$52,721,437 and \$50,029,067 net of accumulated depreciation as of June 30, 2020 and 2019, respectively. The increase in capital assets during the fiscal years amounted to \$2,692,370 in 2020 and \$2,204,811 in 2019, and is summarized as follows:

	<u>2020</u>	<u>2019</u>
Capital Expenditures	\$ 4,060,119	\$ 3,578,429
Less: Depreciation	(1,354,024)	(1,356,399)
Less: Scrapped Equipment, Net	(13,725)	(17,219)
	<u>\$ 2,692,370</u>	<u>\$ 2,204,811</u>

Debt Administration

Water Bond Debt

As of June 30, 2020 the Department has two water bond series outstanding as summarized below.

<u>Bond Series</u>	<u>Outstanding as of June 2020</u>	<u>Outstanding as of June 2019</u>	<u>Principal due 2020</u> ²¹
2011 Series	\$ -	\$ 335,000	\$ -
Bond premium-2011 Series	-	-	-
2014 Series	4,100,000	4,395,000	295,000
Bond premium-2014 Series	196,651	211,128	14,477
2019 Series	605,000	605,000	316,000
Total Bond Debt	<u>\$ 4,901,651</u>	<u>\$ 5,546,128</u>	<u>\$ 625,477</u>

Management's Discussion and Analysis
Required Supplementary Information
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Loans Payable

As of June 30, 2020, the Department has seven loans payable, six project loans through the State of Connecticut Drinking Water Fund, and one other loan through Eversource Energy as summarized below.

<u>Project</u>	<u>Payable as of June 2020</u>	<u>Payable as of June 2019</u>	<u>Principal due 2020</u> ²⁰²¹
Wellhead Protection	\$ 807,430	\$ 931,650	\$ 124,220
Water Main Replacement	474,442	526,875	53,605
Wellhead Protection Phase II	779,615	889,470	112,431
East Side Pressure Zone	3,620,761	3,798,867	181,701
Well 2A	1,931,701	843,910	79,357
Mill Street Tank	2,300,988	257,474	94,527
LED Lighting Loan-Eversource Energy	48,770	-	17,213
Total Loans Payable	<u>\$ 9,963,707</u>	<u>\$ 7,248,246</u>	<u>\$ 663,054</u>

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 2021, the Department intends to spend approximately \$2.3 million for capital improvements, including the following major projects:

- Shuttle Meadow with PRV Vault
- Reservoir 2 Gate Chamber
- Well 8 Engineering/Pilot Study MN

The Department believes it possesses the financial and leadership capabilities to accomplish its goals during the upcoming year.

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, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,292,587	\$ 6,369,155
Accounts receivable	124,022	94,183
Accrued unbilled revenue	1,121,929	988,740
Inventory - materials and supplies	264,846	222,694
Total Current Assets	<u>6,803,384</u>	<u>7,674,772</u>
NONCURRENT ASSETS:		
Capital assets-nondepreciable	9,145,960	5,990,314
Capital assets-depreciable	71,808,531	70,980,759
	80,954,491	76,971,073
Less accumulated depreciation	<u>(28,233,054)</u>	<u>(26,942,006)</u>
Net Capital Assets	<u>52,721,437</u>	<u>50,029,067</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>52,780,951</u>	<u>50,088,581</u>
Total Assets	<u>59,584,335</u>	<u>57,763,353</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Employer contributions subsequent to measurement date	273,492	214,655
Deferred actuarial amounts related to pensions	1,172,463	1,411,618
Total Deferred Outflows of Resources	<u>1,445,955</u>	<u>1,626,273</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Current maturities of bonds	625,477	644,477
Current maturities of notes payable	663,054	464,615
Accounts payable	257,073	1,664,766
Unearned revenue	148,907	189,975
Accrued expenses	733,043	643,013
Pension contribution payable	528	752
Total Current Liabilities	<u>2,428,082</u>	<u>3,607,598</u>
NONCURRENT LIABILITIES:		
Bonds payable	4,276,174	4,901,651
Notes payable	9,300,653	6,783,631
Net pension liability	2,684,944	2,590,707
Total Noncurrent Liabilities	<u>16,261,771</u>	<u>14,275,989</u>
Total Liabilities	<u>18,689,853</u>	<u>17,883,587</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred actuarial amounts related to pensions	266,872	33,334
Deferred amounts on refunding of water revenue bonds	5,340	69,421
Total Deferred Inflows of Resources	<u>272,212</u>	<u>102,755</u>
NET POSITION:		
Net investment in capital assets	37,856,078	37,234,692
Unrestricted	4,212,147	4,168,592
Total Net Position	<u>\$ 42,068,225</u>	<u>\$ 41,403,284</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, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
OPERATING REVENUE:		
Metered Sales to Customers:		
Water sales - residential	\$ 5,339,405	\$ 4,902,488
Water sales - commercial	909,687	913,924
Water sales - industrial	182,054	187,253
Water sales - municipal	<u>105,701</u>	<u>84,721</u>
	6,536,847	6,088,386
Private fire protection	179,428	176,452
Public fire protection	<u>221,782</u>	<u>221,198</u>
Total Sale of Water	6,938,057	6,486,036
OTHER WATER REVENUE:		
Revenue from jobbing and contracts	234,650	209,555
Jobbing and contract expenses	<u>(99,563)</u>	<u>(103,346)</u>
Net Jobbing Revenue	135,087	106,209
Finance charges	23,264	34,066
Line protection	126,978	125,587
Safe drinking water assessment	<u>24,358</u>	<u>33,845</u>
Net Other Water Revenue	<u>309,687</u>	<u>299,707</u>
TOTAL SALES AND REVENUE	<u>7,247,744</u>	<u>6,785,743</u>
OPERATING EXPENSES:		
Utility operating expenses	4,355,157	4,094,735
Taxes	192,376	181,651
Depreciation	<u>1,233,833</u>	<u>1,234,694</u>
Total Operating Expenses	<u>5,781,366</u>	<u>5,511,080</u>
UTILITY OPERATING INCOME	1,466,378	1,274,663
OTHER INCOME (EXPENSE):		
Interest and dividend income	98,712	116,817
Rental income	120,091	120,225
Other miscellaneous non-operating income	34,503	18,548
Loss on disposals of assets	(13,725)	(17,219)
Connecticut Municipal Employees' pension expense	(781,016)	(370,604)
Interest expense	<u>(315,668)</u>	<u>(322,016)</u>
Total Other Income (Expense)	<u>(857,103)</u>	<u>(454,249)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	609,275	820,414
CAPITAL CONTRIBUTIONS	<u>55,666</u>	<u>388,703</u>
INCREASE IN NET POSITION	664,941	1,209,117
TOTAL NET POSITION - BEGINNING	<u>41,403,284</u>	<u>40,194,167</u>
TOTAL NET POSITION - ENDING	<u>\$ 42,068,225</u>	<u>\$ 41,403,284</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, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 7,148,161	\$ 6,795,871
Other miscellaneous receipts	154,594	138,773
Payments to vendors and others	(4,206,765)	(1,143,017)
Payments to employees	<u>(2,002,309)</u>	<u>(1,843,020)</u>
Net Cash Provided by Operating Activities	<u>1,093,681</u>	<u>3,948,607</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt	3,131,305	1,101,384
Payments on long-term debt	(1,097,483)	(1,109,457)
Interest paid	(345,019)	(321,922)
Acquisition of property and equipment	<u>(3,957,764)</u>	<u>(3,189,726)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(2,268,961)</u>	<u>(3,519,721)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	<u>98,712</u>	<u>116,817</u>
Net Cash Provided By Investing Activities	<u>98,712</u>	<u>116,817</u>
NET INCREASE (DECREASE) IN CASH	(1,076,568)	545,703
CASH AND EQUIVALENTS - beginning of year	<u>6,369,155</u>	<u>5,823,452</u>
CASH AND EQUIVALENTS - end of year	<u>\$ 5,292,587</u>	<u>\$ 6,369,155</u>

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

WATER WORKS DEPARTMENT - TOWN OF SOUTHLINGTON, CONNECTICUT
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 1,466,378	\$ 1,274,663
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,233,833	1,234,694
Depreciation - allocated to other expenses	120,191	121,705
Other miscellaneous income	154,594	138,773
Pension expense	(781,016)	(370,604)
Changes in:		
Accounts receivable	(163,028)	(46,170)
Inventories	(42,152)	(15,231)
Deferred outflows of resources	180,318	(1,293,581)
Accounts payable	(1,407,693)	1,468,043
Unearned revenue	(36,118)	(47,048)
Accrued expenses, excluding interest	40,823	34,406
Pension contribution payable	(224)	(188)
Net pension liability	94,237	1,416,168
Deferred inflows of resources related to pensions	<u>233,538</u>	<u>32,977</u>
 Net Cash Provided By Operating Activities	 <u>\$ 1,093,681</u>	 <u>\$ 3,948,607</u>
 NON-CASH CAPITAL FINANCING ACTIVITY:		
Captial assets received directly from developers and customers	<u>\$ 50,716</u>	<u>\$ 388,703</u>
Deferred amount on refunding of water revenue bonds	<u>\$ -</u>	<u>\$ 80,102</u>

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

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(With Comparative Totals for 2019)

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."

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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
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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 non-operating 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 non-operating 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 SOUTHLINGTON, CONNECTICUT
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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, 2020 and 2019 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.

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.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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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, 2019, 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.

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.

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
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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, 2020 and 2019, the carrying amounts of the Department’s deposits were \$5,292,587 and \$6,369,155, respectively. Of these balances, \$500,000 was covered by Federal Deposit Insurance in 2020 and 2019, 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.

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 \$40,834 in 2020 and \$40,216 in 2019 and invested in the State of Connecticut Short-Term Investment Fund (STIF) are uninsured and uncollateralized.

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(With Comparative Totals for 2019)

As of June 30, 2020 and 2019, the cash and cash equivalents balances at the following institutions were as follows:

	June 30, 2020 Total	June 30, 2019 Total
People's United Bank	\$ 1,397,000	\$ 1,597,035
United Bank	3,854,403	4,731,554
Total Bank Deposits	5,251,403	6,328,589
Add:		
STIF-State of CT	40,834	40,216
Petty Cash	350	350
Total Cash	\$ 5,292,587	\$ 6,369,155

2020						
	Total Bank Deposits	Collateralization Percentage	Total Collateralized	Total Insured	Insured and Collateralized	Uninsured and Uncollateralized
People's United Bank	\$ 1,397,000	10%	\$ 139,700	\$ 250,000	\$ 389,700	\$ 1,007,300
United Bank	3,854,403	10%	385,440	250,000	635,440	3,218,963
	\$ 5,251,403		\$ 525,140	\$ 500,000	\$ 1,025,140	\$ 4,226,263

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	\$ 1,187,331
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	\$ 5,195,730

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 SOUTHLINGTON, CONNECTICUT
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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, 2020, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Trade accounts receivable	\$ 153,071	\$ 113,789
Finance charges receivable	4,855	7,358
Accrued unbilled revenue	<u>1,121,929</u>	<u>988,740</u>
	1,279,855	1,109,887
Less allowance for doubtful accounts	<u>(33,904)</u>	<u>(26,964)</u>
Total Accounts Receivable and Accrued Unbilled Revenue	<u>\$1,245,951</u>	<u>\$1,082,923</u>

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 was as follows:

<u>Utility Plant</u>	Balance <u>6/30/19</u>	Additions	Disposals	Transfers	Balance <u>6/30/20</u>
Capital Assets, Not Being Depreciated:					
Land	\$ 2,292,861	\$ -	\$ -	\$ -	\$ 2,292,861
Construction in progress	3,310,486	3,613,490	-	(457,844)	6,466,132
Other non-depreciable assets	<u>386,967</u>	-	-	-	<u>386,967</u>
Total Capital Assets, Not Being Depreciated	<u>5,990,314</u>	<u>3,613,490</u>	<u>-</u>	<u>(457,844)</u>	<u>9,145,960</u>

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(With Comparative Totals for 2019)

5. CAPITAL ASSETS (continued)

<u>Utility Plant</u>	Balance				Balance
	<u>6/30/19</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>6/30/20</u>
<u>Capital Assets Being Depreciated:</u>					
Buildings and improvements	14,478,450	62,356	(5,281)	-	14,535,525
Machinery and equipment	1,069,005	18,170	(3,822)	-	1,083,353
Vehicles	955,721	70,315	(29,832)	-	996,204
Furniture, fixtures and office	1,772,801	59,232	(6,895)	-	1,825,138
Water systems	<u>52,704,782</u>	<u>236,556</u>	<u>(30,871)</u>	<u>457,844</u>	<u>53,368,311</u>
Total Capital Assets, Being Depreciated	<u>70,980,759</u>	<u>446,629</u>	<u>(76,701)</u>	<u>457,844</u>	<u>71,808,531</u>
<u>Less Accumulated Depreciation for:</u>					
Buildings and improvements	4,205,791	332,995	(2,773)	-	4,536,013
Machinery and equipment	649,876	41,425	(3,437)	-	687,864
Vehicles	721,576	82,670	(29,832)	-	774,414
Furniture, fixtures and office	1,739,326	14,328	(6,895)	-	1,746,759
Water systems	<u>19,625,437</u>	<u>882,606</u>	<u>(20,039)</u>	<u>-</u>	<u>20,488,004</u>
Total Accumulated Depreciation	<u>26,942,006</u>	<u>1,354,024</u>	<u>(62,976)</u>	<u>-</u>	<u>28,233,054</u>
Total Capital Assets, Being Depreciated, Net	<u>44,038,753</u>	<u>(907,395)</u>	<u>(13,725)</u>	<u>457,844</u>	<u>43,575,477</u>
Capital Assets, Net	<u>\$ 50,029,067</u>	<u>\$ 2,706,095</u>	<u>\$ (13,725)</u>	<u>\$ -</u>	<u>\$ 52,721,437</u>

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

<u>Utility Plant</u>	Balance				Balance
	<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>
<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>

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
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(With Comparative Totals for 2019)

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>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>

6. WATER BONDS PAYABLE AND NOTES PAYABLE

Long-term obligations as of June 30, 2020, the increases and decreases in those obligations and the resulting ending balances as of June 30, 2020 are as follows:

	<u>Outstanding</u>				
	<u>June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>	<u>Current Maturities</u>
Water bonds, 2011 issue	\$ 335,000	\$ -	\$ (335,000)	\$ -	\$ 295,000
Water bonds, 2014 issue	4,395,000	-	(295,000)	4,100,000	316,000
Water bonds, 2019 issue	605,000	-	-	605,000	-
Total Bonded Debt	<u>5,335,000</u>	<u>-</u>	<u>(630,000)</u>	<u>4,705,000</u>	<u>611,000</u>
Unamortized Premium, 2014 issue	211,128	-	(14,477)	196,651	14,477
Net Bonded Debt	<u>5,546,128</u>	<u>-</u>	<u>(644,477)</u>	<u>4,901,651</u>	<u>625,477</u>
State of CT-Project 200202-C	931,650	-	(124,220)	807,430	124,220
State of CT-Project 200201-C	526,876	-	(52,434)	474,442	53,605
State of CT-Project 200202-CD1	889,470	-	(109,855)	779,615	112,431
State of CT-Project 2016-7039	3,798,866	-	(178,106)	3,620,760	181,701
State of CT-Project 2019-7076	843,910	1,087,791	-	1,931,701	79,357
State of CT-Project 2019-7080	257,474	2,043,514	-	2,300,988	94,527
Eversource LED Lighting Loan	-	51,639	(2,868)	48,771	17,213
Total Notes Payable	<u>7,248,246</u>	<u>3,182,944</u>	<u>(467,483)</u>	<u>9,963,707</u>	<u>663,054</u>
Total Indebtedness	<u>12,794,374</u>	<u>\$ 3,182,944</u>	<u>\$ (1,111,960)</u>	<u>14,865,358</u>	<u>\$ 1,288,531</u>
Current Maturities	<u>(1,109,092)</u>			<u>(1,288,531)</u>	
Long-Term Debt	<u>\$ 11,685,282</u>			<u>\$ 13,576,827</u>	

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
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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:

	Outstanding			June 30, 2019	Current Maturities
	June 30, 2018	Increases	Decreases		
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	6,030,000	605,000	(1,300,000)	5,335,000	630,000
Unamortized Premium, 2011 issue	22,651	-	(22,651)	-	-
Unamortized Premium, 2014 issue	225,607	-	(14,479)	211,128	14,477
Net Bonded Debt	6,278,258	605,000	(1,337,130)	5,546,128	644,477
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	6,604,291	1,101,384	(457,429)	7,248,246	464,615
Total Indebtedness	12,882,549	\$ 1,706,384	\$ (1,794,559)	12,794,374	\$ 1,109,092
Current Maturities	(1,109,457)			(1,109,092)	
Long-Term Debt	<u>\$ 11,773,092</u>			<u>\$ 11,685,282</u>	

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 was 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, which was paid off in 2020.

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(With Comparative Totals for 2019)

Water bonds outstanding as of June 30, 2020 are as follows:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>
2014	\$ 4,100,000	3.0% - 4.0%	06/30/34
2019	605,000	2.25% - 5.0%	08/01/31
Total Outstanding	<u>\$ 4,705,000</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, 2020 were \$1,676,969, leaving a balance of \$807,430 as of June 30, 2020.

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, 2020 were \$598,655, leaving a balance of \$474,442 as of June 30, 2020.

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, 2020 amounted to \$1,092,902, leaving a balance of \$779,615 as of June 30, 2020.

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, 2020 amounted to \$452,930, leaving a balance of \$3,620,760 as of June 30, 2020.

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 \$1,931,701, 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 \$2,300,988, 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, 2020
(With Comparative Totals for 2019)

Eversource Energy provided a loan of \$51,639 for LED energy efficient lighting. The loan is repayable over three years with monthly interest free payments of \$1,434. The Department has determined the effect of the 0% interest rate to be immaterial to the financial statements taken as a whole using a discount rate of 3.25%.

Summary of Annual Debt Service Requirements:

The annual debt service requirements on water bonds and commercial notes outstanding at June 30, 2020 are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance Remaining</u>
2021	\$ 1,288,531	\$ 209,520	\$ 1,498,051	\$ 13,576,827
2022	1,272,541	172,930	1,445,471	12,304,286
2023	991,916	144,151	1,136,067	11,312,370
2024	989,054	125,456	1,114,510	10,323,316
2025	1,000,779	106,670	1,107,449	9,322,537
2026-2030	4,154,056	840,002	4,994,058	5,168,481
2031-2035	3,472,518	362,360	3,834,878	1,695,963
2036-2040	1,695,963	84,505	1,780,468	-
Totals	<u>\$ 14,865,358</u>	<u>\$ 2,045,594</u>	<u>\$ 16,910,952</u>	

7. ACCRUED EXPENSES

The components of accrued expenses at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Accrued interest expense	\$ 157,184	\$ 107,977
Accrued payroll, taxes and benefits	18,360	45,478
Accrued vacation and sick leave	557,097	488,249
Other accrued expenses	402	1,309
Total Accrued Expenses	<u>\$ 733,043</u>	<u>\$ 643,013</u>

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(With Comparative Totals for 2019)

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.

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.

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(With Comparative Totals for 2019)

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

At June 30, 2020 and 2019, the Department reported liabilities of \$2684,944 and \$2,590,707, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2020 and 2019, the Department's proportion was 0.727467% and 0.677382%, respectively, based on the June 30, 2019 and 2018 measurement dates.

For the years ended June 30, 2020 and 2019, the Department recognized pension expense of \$781,016 and \$370,604, respectively. At June 30, 2020 and 2019, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 109,303	\$ 242,000	\$ 155,975	\$ -
Change of assumptions	709,130	-	882,633	-
Department contributions subsequent to the measurement date	273,492	-	214,655	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	61,645	24,872	3,928	33,334
Differences between expected and actual experience	<u>292,385</u>	<u>-</u>	<u>369,082</u>	<u>-</u>
	<u>\$ 1,445,955</u>	<u>\$ 266,872</u>	<u>\$ 1,626,273</u>	<u>\$ 33,334</u>

Department contributions, subsequent to the measurement date of June 30, 2019, of \$273,492 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, 2020.

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020
 (With Comparative Totals for 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>	
2020	\$ 355,675
2021	262,871
2022	309,032
2023	(21,987)
2024	-

Payable to the Pension Plan:

At June 30, 2020 and 2019, the Department reported a payable of \$528 and \$752, respectively, for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020 and 2019.

Actuarial Assumptions:

The total pension liability as of June 30, 2020 was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Inflation	2.50%	3.25%
Long-Term Investment Rate of Return, net of pension plan investment expense, including inflation	7.00%	7.00%
Salary increases	3.50% - 10.00%	3.50% - 10.00%

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

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, 2020
(With Comparative Totals for 2019)

The target asset allocations and best estimates of arithmetic real rates of return for each major asset class for 2020 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 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>	

WATER WORKS DEPARTMENT-TOWN OF SOUTHTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(With Comparative Totals for 2019)

Discount Rate:

The discount rate used to measure the total pension liability was 7.00% in 2020 and 2019. 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 7.00% 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 or 1 percentage point higher than the current rate:

	2020		
	Decrease <u>(6.00%)</u>	Discount <u>(7.00%)</u>	Increase <u>(8.00%)</u>
Department's Proportionate Share of the Net Pension Liability	<u>\$ 3,826,051</u>	<u>\$ 2,684,944</u>	<u>\$ 1,723,844</u>
	2019		
	Decrease <u>(6.00%)</u>	Discount <u>(7.00%)</u>	Increase <u>(8.00%)</u>
Department's Proportionate Share of the Net Pension Liability	<u>\$ 3,494,919</u>	<u>\$ 2,590,707</u>	<u>\$ 1,542,971</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.

WATER WORKS DEPARTMENT-TOWN OF SOUTHLINGTON, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020
(With Comparative Totals for 2019)

9. CONTINGENCIES

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The Department has various insurance policies with third-party carriers related to property protection, casualty and statutory and non-statutory employee protection.

The Department is subject to litigation in the ordinary conduct of its affairs. In the opinion of the Department counsel, there were no material unpaid judgments against the Water Works Department, Town of Southington, CT.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic. COVID-19 has caused significant disruption in the national and global economy. While the disruption is currently expected to be temporary, there is uncertainty related to the duration. Therefore, while the Department does not expect this matter to negatively impact metered water sales, the related financial impact on jobbing and infrastructure improvements cannot be reasonably estimated at this time. The Department’s operating activities, liquidity and cash flows may be adversely affected by this global pandemic.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 30, 2020, 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 THE DEPARTMENT'S PROPORTIONATE SHARE OF
 THE NET PENSION LIABILITY
 AS OF JUNE 30, 2020

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years (only 6 years shown; periods prior to implementation of GASB 68 are unavailable and will be completed as they become available)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Department's proportion of the net pension liability	0.727467%	0.677382%	0.710546%	0.710546%	0.711024%	0.711024%
Department's proportionate share of the net pension liability	\$ 2,684,944	\$ 2,590,707	\$ 1,174,539	\$ 1,394,642	\$ 973,468	\$ 731,415
Department's covered-employee payroll	\$ 1,870,114	\$ 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	143.57%	141.69%	69.44%	82.45%	61.70%	46.36%
Plan fiduciary net position as a percentage of the total pension liability	72.69%	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, 2020

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years (only 6 years shown; periods prior to implementation of GASB 68 are unavailable and will be completed as they become available)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 781,016	\$ 370,604	\$ 279,133	\$ 334,550	\$ 179,962	\$ 132,089
Contributions in relation to the contractually required contribution	<u>(781,016)</u>	<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>	<u>\$ -</u>
Department's covered-employee payroll	\$ 1,870,114	\$ 1,828,407	\$ 1,691,433	\$ 1,691,433	\$ 1,577,803	\$ 1,577,803
Contributions as a percentage of covered-employee payroll	41.76%	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 SOUTHTON, CONNECTICUT
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET VERSUS ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
<u>Operating Revenues:</u>			
Water sales	\$ 6,947,776	\$ 6,938,057	\$ (9,719)
Other water revenue	<u>214,948</u>	<u>309,687</u>	<u>94,739</u>
Total Operating Revenues	<u>7,162,724</u>	<u>7,247,744</u>	<u>85,020</u>
<u>Non-Operating Revenues:</u>			
Interest and dividend income	82,200	98,712	16,512
Other income	<u>120,684</u>	<u>154,594</u>	<u>33,910</u>
Total Non-Operating Revenues	<u>202,884</u>	<u>253,306</u>	<u>50,422</u>
Total Revenues	<u>7,365,608</u>	<u>7,501,050</u>	<u>135,442</u>
<u>Operating Expenses:</u>			
Utility operating expenses	4,523,779	4,355,157	168,622
Taxes	<u>199,325</u>	<u>192,376</u>	<u>6,949</u>
Total Operating Expenses	<u>4,723,104</u>	<u>4,547,533</u>	<u>175,571</u>
<u>Non-Operating Expenses:</u>			
Loss on disposals of assets	-	(13,725)	(13,725)
Interest expense	<u>(357,741)</u>	<u>(315,668)</u>	<u>42,073</u>
Total Non-Operating Expenditures	<u>(357,741)</u>	<u>(329,393)</u>	<u>28,348</u>
Income Before Capital Contributions and Depreciation Expense	<u>\$ 2,284,763</u>	<u>\$ 2,624,124</u>	<u>\$ 339,361</u>

WATER WORKS DEPARTMENT - TOWN OF SOUTHTON, CONNECTICUT
STATEMENT OF CURRENT AND LONG-TERM DEBT
FOR THE YEAR ENDED JUNE 30, 2020

DEBT MATURING WITHIN ONE YEAR:

Water Bonds, Issue of 2014	\$ 295,000
Water Bonds, Issue of 2019	316,000
State of CT Project Loan 200202-C	124,220
State of CT Project Loan 200201-C	53,605
State of CT Project Loan 200202-CD1	112,431
State of CT Project Loan 2016-7039	181,702
State of CT Project Loan 2016-7076	79,357
State of CT Project Loan 2016-7080	94,526
Eversource Electric LED Lighting Loan	17,213
Amortization of bond premium	<u>14,477</u>
Total Debt Maturing Within One Year	<u>\$ 1,288,531</u>

LONG-TERM DEBT, NET OF CURRENT MATURITIES:

Water Bonds, Issue of 2014	\$ 3,805,000
Water Bonds, Issue of 2019	289,000
State of CT Project Loan 200202-C	683,210
State of CT Project Loan 200201-C	420,837
State of CT Project Loan 200202-CD1	667,184
State of CT Project Loan 2016-7039	3,439,059
State of CT Project Loan 2019-7076	1,852,345
State of CT Project Loan 2019-7080	2,206,460
Eversource Electric LED Lighting Loan	31,558
Amortization of bond premium	<u>182,174</u>
Total Long-Term Debt	<u>13,576,827</u>

Total Current and Long-Term Debt	<u><u>\$ 14,865,358</u></u>
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SCHEDULE OF DEBT PAYMENTS ON LONG-TERM DEBT:

June 30, 2021	\$ 1,288,531
June 30, 2022	1,152,503
June 30, 2023	1,133,004
June 30, 2024	851,667
June 30, 2025	859,496
Future Years	<u>9,580,157</u>
	<u><u>\$ 14,865,358</u></u>

WATER WORKS DEPARTMENT - TOWN OF SOUTHTON, CONNECTICUT
STATEMENT OF UTILITY OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
<u>Source of Supply Expenses:</u>		
Operating labor and expenses	\$ 128,095	\$ 144,352
Maintenance of reservoirs and other source structures	3,103	10,229
Total Source of Supply Expenses	131,198	154,581
<u>Pumping Expenses:</u>		
Pumping labor and expenses	97,677	94,275
Maintenance of pumping equipment	67,685	25,896
Fuel or power purchased for pumping	420,649	390,141
Total Pumping Expenses	586,011	510,312
<u>Water Treatment Expenses:</u>		
Purification labor and expenses	281,378	268,490
Chemicals	117,774	58,056
Maintenance of water treatment equipment	83,310	98,718
Total Water Treatment Expenses	482,462	425,264
<u>Transmission and Distribution Expenses:</u>		
Storage facilities, labor and expenses	46,805	27,159
Transmission and distribution lines expenses	179,340	191,161
Meter expenses	15,632	18,421
Customer installation expenses	34,891	49,796
Maintenance of distribution mains, improvements, reservoirs & standpipes	156,211	158,800
Maintenance of services	139,672	102,205
Maintenance of meters	147,623	146,352
Maintenance of hydrants	122,846	144,116
Maintenance of mains	308,882	332,997
Total Transmission and Distribution Expenses	1,151,902	1,171,007
<u>Customer Accounts Expenses:</u>		
Meter reading	89,882	88,479
Customers' records and collection expenses	101,848	94,045
Total Customer Accounts and Collection Expenses	191,730	182,524
<u>Administrative and General Expenses:</u>		
Salaries of superintendent and general salaries	499,091	264,245
General office supplies and expenses	82,069	78,066
Outside services employed	119,718	130,779
Property insurance and other	243,198	204,707
Pensions and other employee benefits	728,989	816,657
Maintenance of structures and improvements, general	59,949	59,924
Miscellaneous general expenses	78,840	96,669
Total Administrative and General Expenses	1,811,854	1,651,047
Total Utility Operating Expenses	\$ 4,355,157	\$ 4,094,735

WATER WORKS DEPARTMENT, TOWN OF SOUTHLINGTON, CONNECTICUT
LIST OF OFFICERS
FOR THE YEAR ENDED JUNE 30, 2020

<u>Board of Water Commissioners:</u>	<u>Term Expires</u>
Erika Pocock, President	2023
Robert M. Berkmoes, Vice President	2023
Ralph Warner, Secretary/Treasurer	2021
Thomas J. Murphy	2021
Rudolph Cabata	2021
Ron Lamoreux	2023

Other:

William M. Casarella, Superintendent

Albert T. Fiorillo, Assistant Superintendent

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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, 2020, 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 30, 2020.

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 30, 2020

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

JUNE 30, 2020

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December 30, 2020

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, 2020 and have issued our report thereon dated December 30, 2020. 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, 2020. 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 2020. 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 30, 2020.

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, 2020 AUDIT

Board Presentation

March 11, 2021

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 11-33)

- 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 11-33)

- 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 15-33)
 - Additional information to help explain specific items in the financial statements.

Required Supplementary Information

(Pages 34-36)

- 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 37-41)

- 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 42-43)

- 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>2020</u>	<u>2019</u>	<u>\$ change</u>	<u>% change</u>
Current and Other Assets	\$ 6,862,898	\$ 7,737,286	\$ (874,388)	-11.30%
Capital Assets	52,721,437	50,029,067	2,692,370	5.38%
Deferred Outflows of Resources	<u>1,445,955</u>	<u>1,626,273</u>	<u>(180,318)</u>	-11.09%
Total Assets & Deferred Outflows of Resources	<u>61,030,290</u>	<u>59,392,626</u>	<u>1,637,664</u>	2.76%
Current and Other Liabilities	2,428,082	3,607,598	(1,179,516)	-32.70%
Long-Term Debt, Net of Current Maturities	16,261,771	14,275,989	1,985,782	13.91%
Deferred Inflows of Resources	<u>272,212</u>	<u>102,755</u>	<u>169,457</u>	N/A
Total Liabilities & Deferred Inflows of Resources	<u>18,962,065</u>	<u>17,986,342</u>	<u>975,723</u>	5.42%
Net Position:				
Invested in Capital Assets, Net of Related Debt	37,856,078	37,234,692	621,386	1.67%
Unrestricted	<u>4,212,147</u>	<u>4,168,592</u>	<u>43,555</u>	1.04%
Total Net Position	<u>\$ 42,068,225</u>	<u>\$ 41,403,284</u>	<u>\$ 664,941</u>	1.61%

Summary of Operations & Changes in Net Position

<u>Revenues:</u>	<u>2020</u>	<u>2019</u>	<u>\$ change</u>	<u>% change</u>
Operating Revenues:				
Sale of Water	\$ 6,938,057	\$ 6,486,036	\$ 452,021	6.97%
Jobbing and Contract Work, Net	135,087	106,209	28,878	27.19%
Other Operating Revenues	174,600	193,498	(18,898)	-9.77%
	<u>7,247,744</u>	<u>6,785,743</u>	<u>462,001</u>	<u>6.81%</u>
Non Operating Revenues:				
Other Miscellaneous Income	154,594	138,773	15,821	11.40%
Investment Income	98,712	116,817	(18,105)	-15.50%
Total Revenues	<u>7,501,050</u>	<u>7,041,333</u>	<u>459,717</u>	<u>6.53%</u>
<u>Expenses:</u>				
Utility Operating Expenses	4,355,157	4,094,735	260,422	6.36%
Depreciation, Utility Plant Only	1,233,833	1,234,694	(861)	-0.07%
Taxes	192,376	181,651	10,725	5.90%
Loss on Disposal of Assets	13,725	17,219	(3,494)	-20.29%
CMERS Pension Expense	781,016	370,604	410,412	110.74%
Interest on Long-Term Debt	315,668	322,016	(6,348)	-1.97%
Total Expenses	<u>6,891,775</u>	<u>6,220,919</u>	<u>670,856</u>	<u>10.78%</u>
Income Before Contributions	609,275	820,414	(211,139)	-25.74%
Capital Contributions	55,666	388,703	(333,037)	-85.68%
Changes in Net Position	664,941	1,209,117	(544,176)	-45.01%
Total Net Position-beginning	41,403,284	40,194,167	1,209,117	3.01%
Total Net Position-ending	<u>\$ 42,068,225</u>	<u>\$ 41,403,284</u>	<u>\$ 664,941</u>	<u>1.61%</u>

Summary of Operating Revenues

	<u>2020</u>	<u>2019</u>	<u>\$ change</u>
Water Sales:			
Residential	\$ 5,339,405	\$ 4,902,488	\$ 436,917
Commercial	909,687	913,924	(4,237)
Industrial	182,054	187,253	(5,199)
Municipal	105,701	84,721	20,980
Private Fire Protection	179,428	176,452	2,976
Public Fire Protection	221,782	221,198	584
Total Water Sales	<u>6,938,057</u>	<u>6,486,036</u>	<u>452,021</u>
Other Water and Operating Revenue	<u>309,687</u>	<u>299,707</u>	<u>9,980</u>
Total Operating Revenue	<u>\$ 7,247,744</u>	<u>\$ 6,785,743</u>	<u>\$ 462,001</u>

Summary of Utility Operating Expenses

	<u>2020</u>	<u>2019</u>	<u>\$ change</u>	<u>% change</u>
Source of Supply Expenses	\$ 131,198	\$ 154,581	\$ (23,383)	-15.13%
Pumping Expenses	586,011	510,312	75,699	14.83%
Water Treatment Expenses	482,462	425,264	57,198	13.45%
Transmission and Distribution Expenses	1,151,902	1,171,007	(19,105)	-1.63%
Customer Accounts Expense	191,730	182,524	9,206	5.04%
Administrative and General Expenses	1,811,854	1,651,047	160,807	9.74%
Total Utility Operating Expenses	<u>\$ 4,355,157</u>	<u>\$ 4,094,735</u>	<u>\$ 260,422</u>	<u>6.36%</u>

SCHEDULE OF ACTUAL RESULTS VS. BUDGET

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u> FAVORABLE (UNFAVORABLE)
<u>Operating Revenues:</u>			
Water sales	\$ 6,947,776	\$ 6,938,057	\$ (9,719)
Other water revenue	214,948	309,687	94,739
Total Operating Revenues	<u>7,162,724</u>	<u>7,247,744</u>	<u>85,020</u>
<u>Non-Operating Revenues:</u>			
Interest income	82,200	98,712	16,512
Other income	120,684	154,594	33,910
Total Non-Operating Revenues	<u>202,884</u>	<u>253,306</u>	<u>50,422</u>
Total Revenues	<u>7,365,608</u>	<u>7,501,050</u>	<u>135,442</u>
<u>Operating Expenses:</u>			
Utility operating expenses	4,523,779	4,355,157	168,622
Taxes	199,325	192,376	6,949
Total Operating Expenses	<u>4,723,104</u>	<u>4,547,533</u>	<u>175,571</u>
<u>Non-Operating Expenses:</u>			
Loss on disposals of assets	-	(13,725)	(13,725)
Interest expense	(357,741)	(315,668)	42,073
Total Non-Operating Expenditures	<u>(357,741)</u>	<u>(329,393)</u>	<u>28,348</u>
Income Before Capital Contributions and Depreciation Expense	<u>\$ 2,284,763</u>	<u>\$ 2,624,124</u>	<u>\$ 339,361</u>

Summary of Cash Flows

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities	\$ 1,093,681	\$ 3,948,607
Cash Flows From Capital and Related Financing Activities:		
Debt proceeds	3,131,305	1,101,384
Principal and interest payments	(1,442,502)	(1,431,379)
Capital expenditures	(3,957,764)	(3,189,726)
	<u>(2,268,961)</u>	<u>(3,519,721)</u>
Cash Flows From Investing Activities:		
Interest received on investments	<u>98,712</u>	<u>116,817</u>
Net Increase (Decrease) in Cash	(1,076,568)	545,703
Cash and Equivalents-Beginning of year	<u>6,369,155</u>	<u>5,823,452</u>
Cash and Equivalents-End of year	<u>\$ 5,292,587</u>	<u>\$ 6,369,155</u>

Major Construction Projects Completed During the 2020 Fiscal Year

<u>Project Name/Location</u>	<u>Cost</u>
Rourke Avenue & Hill Street	\$ 402,085
	<u>\$ 402,085</u>

Summary of Debt

	<u>June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>
Water bonds, 2011 issue	\$ 335,000	-	(335,000)	-
Water bonds, 2014 issue	4,395,000	-	(295,000)	4,100,000
Water bonds, 2019 issue	605,000	-	-	605,000
Total Bonded Debt	5,335,000	-	(630,000)	4,705,000
Unamortized Premium, 2014 issue	211,128	-	(14,477)	196,651
Net Bonded Debt	5,546,128	-	(644,477)	4,901,651
State of CT-Project 200202-C	931,650	-	(124,220)	807,430
State of CT-Project 200201-C	526,876	-	(52,434)	474,442
State of CT-Project 200202-CD1	889,470	-	(109,855)	779,615
State of CT-Project 2016-7039	3,798,866	-	(178,106)	3,620,760
State of CT-Project 2019-7076	843,910	1,087,791	-	1,931,701
State of CT-Project 2019-7080	257,474	2,043,514	-	2,300,988
Eversource LED Lighting Loan	-	51,639	(2,868)	48,771
Total Notes Payable	7,248,246	3,182,944	(467,483)	9,963,707
Total Indebtedness	12,794,374	\$ 3,182,944	\$ (1,111,960)	14,865,358
Current Maturities	(1,109,092)			(1,288,531)
Long-Term Debt	\$ 11,685,282			\$ 13,576,827

Debt Service Requirements

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	Balance <u>Remaining</u>
2021	\$ 1,288,531	\$ 209,520	\$ 1,498,051	\$ 13,576,827
2022	1,272,541	172,930	1,445,471	12,304,286
2023	991,916	144,151	1,136,067	11,312,370
2024	989,054	125,456	1,114,510	10,323,316
2025	1,000,779	106,670	1,107,449	9,322,537
2026-2030	4,154,056	840,002	4,994,058	5,168,481
2031-2035	3,472,518	362,360	3,834,878	1,695,963
2036-2040	<u>1,695,963</u>	<u>84,505</u>	<u>1,780,468</u>	-
Totals	<u>\$ 14,865,358</u>	<u>\$ 2,045,594</u>	<u>\$ 16,910,952</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>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Current Assets	8,455,750	7,914,203	7,067,668	7,674,772	6,803,384
Current Liabilities	2,513,086	2,712,233	2,141,975	3,607,598	2,428,082
Current Ratio	3.36	2.92	3.30	2.13	2.80



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>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net Credit Sales	6,541,774	6,876,105	6,434,494	6,889,089	7,347,307
Avg. Accts. Receivable	1,019,189	979,631	998,537	1,059,838	1,164,437
A/R Turnover	6.42	7.02	6.44	6.50	6.31

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Accounts Receivable	998,940	960,321	1,036,753	1,082,923	1,245,951
Avg. Daily Sales	17,874	18,839	17,629	18,874	20,130
# of Days Sales in A/R	55.89	50.98	58.81	57.38	61.90

RATIOS

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Total Liabilities	14,341,376	16,335,769	15,089,606	17,883,587	18,689,853
Total Net Position	38,065,626	39,409,965	40,194,167	41,403,284	42,068,225
Debt to Equity Ratio	0.38	0.41	0.38	0.43	0.44

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
EBITDA*	2,313,838	2,549,168	2,152,100	2,377,124	2,158,776
Total Debt Service	1,250,551	1,258,515	1,456,058	1,431,379	1,442,502
Debt Service Coverage Ratio	1.85	2.03	1.48	1.66	1.50

*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>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash and Net Receivables	8,246,481	7,645,237	6,860,205	7,452,078	6,538,538
Daily Cash expenses	12,523	13,115	13,380	13,897	13,597
Number of days	659	583	513	536	481



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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