



BlumShapiro

Accounting | Tax | Business Consulting

**WATER POLLUTION CONTROL AUTHORITY
FOR THE CITY OF BRIDGEPORT, CONNECTICUT**

FINANCIAL REPORT

JUNE 30, 2017



**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
TABLE OF CONTENTS**

Independent Auditors' Report

1-2

Exhibit

Financial Statements:

I	Statement of Net Position	3
II	Statement of Revenues, Expenses and Changes in Net Position	4
III	Statement of Cash Flows	5
	Notes to the Financial Statements	6-13

BlumShapiro

Accounting | Tax Business Consulting

Independent Auditors' Report

To the Board of Directors
Water Pollution Control Authority of
The City of Bridgeport, Connecticut

We have audited the accompanying financial statements of the Water Pollution Control Authority of the City of Bridgeport, Connecticut (the WPCA) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the WPCA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the WPCA as of June 30, 2017 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Water Pollution Control Authority of the City of Bridgeport, Connecticut, are intended to present the financial position, the changes in financial position and cash flows information of only that portion of the business-type activities of the City of Bridgeport, Connecticut, that is attributable to the transactions of the WPCA. They do not purport to, and do not, present fairly the financial position of the City of Bridgeport, Connecticut, as of June 30, 2017, or the changes in its financial position or its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut

January 10, 2018

WATER POLLUTION CONTROL AUTHORITY
 OF THE CITY OF BRIDGEPORT, CONNECTICUT
 STATEMENT OF NET POSITION
 JUNE 30, 2017

Assets:	
Current:	
Cash and cash equivalents	\$ 7,237,154
Accounts and liens receivable, net of allowances for doubtful accounts of \$5,298,140	8,787,315
Other receivables	2,001,675
Prepaid assets	180,000
Total current assets	<u>18,206,144</u>
Noncurrent:	
Capital assets not being depreciated	862,628
Capital assets being depreciated, net of depreciation	125,851,512
Total noncurrent assets	<u>126,714,140</u>
Total assets	<u>144,920,284</u>
Liabilities:	
Current:	
Current portion of long-term debt	4,284,850
Accounts payable and accrued expenses	3,221,196
Accrued interest payable	76,568
Construction contracts payable	21,138
Short term note payable	333,319
Due to other funds of the City of Bridgeport	466,789
Total current liabilities	<u>8,403,860</u>
Long-term debt, less current portion	<u>34,006,109</u>
Total liabilities	<u>42,409,969</u>
Net Position:	
Net investment in capital assets	88,089,862
Unrestricted	<u>14,420,453</u>
Total Net Position	<u>\$ 102,510,315</u>

The accompanying notes are an integral part of the financial statements

WATER POLLUTION CONTROL AUTHORITY
 OF THE CITY OF BRIDGEPORT, CONNECTICUT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

Operating Revenues:	
Sewer user fees	\$ 36,827,008
Miscellaneous income	<u>1,023,942</u>
Total operating revenues	<u>37,850,950</u>
Operating Expenses:	
Operation and maintenance	30,345,859
Depreciation	<u>8,084,352</u>
Total operating expenses	<u>38,430,211</u>
Operating Loss	<u>(579,261)</u>
Nonoperating Revenue (Expense):	
Interest income	14,995
Interest expense	<u>(750,157)</u>
Net nonoperating expense	<u>(735,162)</u>
Loss Before Capital Contributions	(1,314,423)
Capital Contributions	<u>1,320,768</u>
Change in Net Position	6,345
Net Position - Beginning of Year	<u>102,503,970</u>
Net Position - End of Year	<u>\$ 102,510,315</u>

The accompanying notes are an integral part of the financial statements

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 36,683,950
Payments to suppliers	(28,929,549)
Payments to employees	(778,532)
Payments for interfund services used	327,477
Net cash provided by operating activities	<u>7,303,346</u>
Cash Flows from Capital and Related Financing Activities:	
Principal payments on debt	(4,231,220)
Interest paid on debt	(901,626)
Additional notes payable	333,319
Proceeds from notes payable	1,801,990
Proceeds received on capital grants	1,320,768
Purchase of capital assets	(3,841,023)
Net cash used in capital and related financing activities	<u>(5,517,792)</u>
Cash Flows from Investing Activities:	
Interest received on investments	<u>14,995</u>
Net Increase in Cash and Cash Equivalents	1,800,549
Cash and Cash Equivalents at Beginning of Year	<u>5,436,605</u>
Cash and Cash Equivalents at End of Year	<u>\$ 7,237,154</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating income (loss)	\$ (579,261)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	8,084,352
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable and unbilled usage charges	(434,167)
(Increase) decrease in other receivables	(647,726)
(Increase) decrease in prepaids	10,000
Increase (decrease) in provision for uncollectible accounts	(85,107)
Increase (decrease) in due to other funds of the City of Bridgeport	327,477
Increase (decrease) in accounts payable and accrued expenses	<u>627,778</u>
Net Cash Provided by Operating Activities	<u>\$ 7,303,346</u>

The accompanying notes are an integral part of the financial statements

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Pursuant to an ordinance approved by the City Council (the Ordinance) of the City of Bridgeport, Connecticut (the City) on April 18, 1988, the Water Pollution Control Authority of the City of Bridgeport, Connecticut (the WPCA) was established, effective July 1, 1988, to operate and maintain the sewage system of the City as a self-sustaining activity. The Ordinance requires the WPCA to adopt its own budget and to be accounted for as a business-type activity of the City. The WPCA is governed by a Board of Directors consisting of nine members, four of whom are City officials and five of whom are appointed by the Mayor of the City and approved by the City Council. The financial statements present only the Water Pollution Control Authority of the City of Bridgeport, Connecticut, and do not purport to, and do not, present fairly the financial position of the City of Bridgeport, Connecticut, as of June 30, 2017, and the changes in its financial position and its cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Certain operations of the WPCA are conducted by the City and its employees in accordance with an agreement of understanding. This agreement outlines the operating and financial responsibilities of the WPCA and the City and also stipulates the methods by which certain overhead costs incurred by the City for providing these services are to be reimbursed by the WPCA.

B. Basis of Presentation

The accounts of the WPCA are organized on the basis of an enterprise fund, which is considered a separate accounting entity. The operations of the fund are accounted for through a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses.

C. Basis of Accounting

The WPCA utilizes the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when incurred.

D. Cash and Cash Equivalents

For purposes of reporting cash flows, the WPCA considers all unrestricted and restricted highly liquid investments with an original maturity term of three months or less when purchased to be cash equivalents.

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

E. Accounts Receivable

Accounts receivable are carried at the original amount billed less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Recoveries of accounts receivable previously written off are recorded when received.

F. Capital Assets

Property, plant and equipment are stated at cost. Normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Assets being constructed over a period of time are classified as construction in progress. Interest expense incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No depreciation is computed on these assets until they are complete and placed into service. Property, plant and equipment are depreciated over the following estimated useful lives:

Facilities and improvements	20-50 years
Equipment	5-20 years

G. Compensated Absences

Vacations earned during the year and not taken can be, subject to certain restrictions, carried over to the following fiscal year or partly paid in cash. A liability is accrued for that portion of vacation pay that vests. Unused sick pay is accumulated, subject to certain limitations, for future absences or paid upon death or retirement.

Vested sick leave and accumulated vacation leave is recognized as an expense and liability as the benefits accrue to employees. Nonvested sick leave is recognized to the extent it is expected to be paid. Compensated absences are recorded as short-term liabilities.

H. Due from Other Funds of the City of Bridgeport and Self-Insurance

The City's General Fund pays for all expenses on behalf of the WPCA and bills the WPCA monthly for such expenses, as well as for certain overhead costs incurred by the City in connection with the WPCA's operations. The City also makes the principal and interest payments on its outstanding debt, and bills the WPCA for such payments.

The City self-insures for employee health benefits and workers' compensation. The WPCA is charged a premium for health benefits based on rates set by the City. Any underfunding at the City level will result in increased premiums in later years, but is not believed to be material to the WPCA. The WPCA is charged for the workers' compensation claims attributable to its employees based on actual costs. The WPCA recognizes a liability for workers' compensation claims payable and for claims incurred but not reported.

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

I. Revenues

Revenues are based on the WPCA authorized minimum charges and rates per hundred cubic feet applied to customer consumption of water. The WPCA accrues an estimate for services delivered but not billed at the end of each accounting period. The WPCA distinguished operating revenues and expenses from nonoperating. Operating revenues result from charges to customers for sewer treatment and related services. Operating expenses include the cost of operations, maintenance, sales and service, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating or capital contributions.

Interest is levied on accounts that are 30 days past due. The WPCA has the authority to file liens on past due accounts. The liens are payable second to property taxes upon transfer of the respective properties.

J. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the WPCA or through external restrictions imposed by creditors, grantors or laws or regulation of other governments. Restricted resources are used first to fund appropriations.

K. Accounting Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. The WPCA currently has no assets under restrictions.

2. CASH AND CASH EQUIVALENTS

As of June 30, 2017, cash and cash equivalents, including balances restricted for repayment of principal and interest on State loans and for capital improvements, consist of the following:

Demand accounts	\$ 7,236,681
Petty cash	<u>473</u>
	<u>\$ 7,237,154</u>

Responsibility for custodial credit risks of deposits rests with the City; accordingly, separate disclosure is not possible.

Disclosure of the City's custodial credit risk of deposits is contained in the City's basic financial statements.

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

3. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Disposals/ Transfers</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 13,839,812	\$ 2,175,719	\$ (15,152,903)	\$ 862,628
Capital assets being depreciated:				
Buildings and improvements	119,097,664	63,545		119,161,209
Machinery and equipment	13,996,945	229,623		14,226,568
Distribution and collection systems	88,817,064	15,714,063		104,531,127
Vehicles	2,760,581	19,198		2,779,779
Total capital assets being depreciated	<u>224,672,254</u>	<u>16,026,429</u>	<u>-</u>	<u>240,698,683</u>
Less accumulated depreciation for:				
Buildings and improvements	(71,159,014)	(4,762,703)		(75,921,717)
Machinery and equipment	(9,714,810)	(1,242,391)		(10,957,201)
Distribution and collection systems	(23,444,355)	(1,974,003)		(25,418,358)
Vehicles	(2,444,640)	(105,255)		(2,549,895)
Total accumulated depreciation	<u>(106,762,819)</u>	<u>(8,084,352)</u>	<u>-</u>	<u>(114,847,171)</u>
Total capital assets being depreciated, net	<u>117,909,435</u>	<u>7,942,077</u>	<u>-</u>	<u>125,851,512</u>
Business-Type Activities Capital Assets, Net	<u>\$ 131,749,247</u>	<u>\$ 10,117,796</u>	<u>\$ (15,152,903)</u>	<u>\$ 126,714,140</u>

Total depreciation expense was \$8,084,352 for the year ended June 30, 2017.

Construction in progress consists primarily of costs for storm and sanitary sewer separation, rehabilitation of pump stations and rehabilitation of generators on the West and East Sides.

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

4. LONG-TERM DEBT

Long-term debt at June 30, 2017 consists of the following:

2007 General Obligation Bonds issued by the City on behalf of the WPCA, bearing interest at 4% to 6%	\$ 60,000
2009 General Obligation Bonds issued by the City on behalf of the WPCA, bearing interest at 2% to 5.7%	1,341,285
2011 General Obligation Bonds issued by the City on behalf of the WPCA, bearing interest at 1.68% to 6.388%	315,693
2012 General Obligation Bonds issued by the City on behalf of the WPCA, bearing interest at 3% to 5%	1,337,517
2016 General Obligation Bonds issued by the City on behalf of the WPCA, bearing interest at 4% to 5%	800,000
State of Connecticut Clean Water Fund Loans, bearing interest at 2%	<u>34,331,925</u>
	38,186,420
Less current portion	<u>4,284,850</u>
	<u>\$ 33,901,570</u>

The WPCA does not have the authority to issue debt on its own behalf. All debt issued on behalf of the WPCA is considered debt of the City. The WPCA pays the principal and interest due on its allocable portion of the City's debt.

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

The annual debt service requirements on the above debt at June 30, 2017 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,284,850	\$ 856,182	\$ 5,141,032
2019	4,076,504	757,421	4,833,925
2020	3,949,475	672,616	4,622,091
2021	2,419,676	599,988	3,019,664
2022	2,362,599	546,082	2,908,681
2023	2,361,483	490,592	2,852,075
2024	2,194,614	439,111	2,633,725
2025	2,202,967	385,058	2,588,025
2026	2,136,204	333,964	2,470,168
2027	2,039,095	284,013	2,323,108
2028	2,015,568	234,793	2,250,361
2029	1,867,177	185,296	2,052,473
2030	1,655,164	138,629	1,793,793
2031	997,740	104,166	1,101,906
2032	951,953	80,212	1,032,165
2033	612,179	58,115	670,294
2034	592,196	44,949	637,145
2035	538,945	31,947	570,892
2036	417,182	21,337	438,519
2037	353,659	11,782	365,441
2038	15,719	7,467	23,186
2039	15,719	6,681	22,400
2040	15,719	5,895	21,614
2041	15,719	5,109	20,828
2042	15,719	4,323	20,042
2043	15,719	3,537	19,256
2044	15,719	2,751	18,470
2045	15,719	1,965	17,684
2046	15,719	1,179	16,898
2047	15,719	391	16,110
Total	\$ 38,186,420	\$ 6,315,551	\$ 44,501,971

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and notes payable:					
General obligation bonds	\$ 3,267,800	\$ 800,000	\$ 213,305	\$ 3,854,495	\$ 224,331
Bond premium	112,021		7,482	104,539	
Notes payable	<u>37,347,850</u>	<u>1,001,990</u>	<u>4,017,915</u>	<u>34,331,925</u>	<u>4,060,519</u>
Long-Term Liabilities	\$ 40,727,671	\$ 1,801,990	\$ 4,238,702	\$ 38,290,959	\$ 4,284,850

In addition, the WPCA has a short-term note payable of \$333,319, which was issued for sewer construction. The note carries a 2% interest rate and the principal becomes payable upon the permanent refinancing of the short-term note payable.

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

5. INTEREST COST

The total interest cost incurred during the year ended June 30, 2017 was \$750,157. Of this amount, \$141,164 was included as part of the cost of capital assets under construction in connection with wastewater treatment facilities' construction projects.

6. RISK MANAGEMENT

The WPCA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The WPCA and the City have implemented a program to account for and finance their uninsured risks of loss. Under this program, the City provides coverage for general liability insurance and employee health insurance, and the WPCA finances its own risks for workers' compensation. The WPCA purchases insurance coverage for its other insurable risks. Settled claims have not exceeded commercial coverage in any of the past three years.

The WPCA makes payments to the City for employee health claims based on actuarial estimates. The WPCA does not share in the exposure for the difference between payments to the City and actual claims paid; thus, no claim liability is reported by the WPCA.

For workers' compensation claims, the WPCA makes payments to the City based on actual claims paid by the City relating to WPCA employees. The WPCA recognizes a liability for workers' compensation claims payable and for claims incurred but not reported, based on an actuarial valuation.

Changes in claims liabilities, primarily workers' compensation, during the past two years are as follows:

Fiscal Year Ended June 30,	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2016	\$ 7,500	\$ -	\$ -	\$ 7,500
2017	7,500	-	-	7,500

7. EMPLOYEE BENEFITS

Employees of the WPCA are entitled to certain benefits through the City. These benefits include health care benefits and pension benefits. Information with respect to these benefits is contained in the City's basic financial statements.

8. COMMITMENTS AND CONTINGENCIES

The WPCA is a defendant in various legal actions principally involving property damage and other miscellaneous claims. Based upon the advice of legal counsel, management believes that the ultimate resolution of these matters will not have a material adverse effect on the financial condition or results of operation of the WPCA.

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Under various consent decrees issued by the State of Connecticut Department of Environmental Protection (consent decrees), the WPCA is required to bring both of its treatment facilities in compliance with Federal standards and eliminate certain combined storm and sanitary sewers. The estimated cost of these improvements is \$244,000,000. As of June 30, 2017, \$203,237,166 relating to these projects, including capitalized interest, has been incurred and included in property, plant and equipment. Based on current engineering estimates, completion of these projects will be within the next six years. Funding for these improvements is being provided by the State of Connecticut's Clean Water Fund in the form of loans and grants. As of June 30, 2017, the State is committed to providing the WPCA additional funding in the form of loans and grants of \$1,931,781 and \$1,922,832, respectively.

9. PRIVATIZATION AGREEMENT

On October 8, 2013, the WPCA entered into a ten-year agreement (the Agreement) with a new independent contractor Severn Trent (the Contractor) to provide operations, maintenance and management services to its two wastewater treatment facilities and collection system. This Agreement took effect on January 1, 2014. The Agreement was amended in 2017 to include a two-year early termination clause should the City seek any regionalization or other restructuring of the wastewater plant and treatment system. The City of Bridgeport and the Town of Trumbull resolved all litigation regarding amounts Trumbull users pay to the Bridgeport WPCA and such rates are billed on that agreed-upon basis.