

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

**FINANCIAL REPORT
JUNE 30, 2019**

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
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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, 2019, 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, 2019 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, 2019, 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
December 26, 2019

WATER POLLUTION CONTROL AUTHORITY

OF THE CITY OF BRIDGEPORT, CONNECTICUT

STATEMENT OF NET POSITION

JUNE 30, 2019

Assets:	
Current:	Cash and cash equivalents
	Accounts and liens receivable, net of allowances for doubtful accounts of \$5,176,739
	Intergovernmental
	Other receivables
	Prepaid assets
	Total current assets
	<u>16,450,290</u>
	Noncurrent:
	Capital assets not being depreciated
	Capital assets being depreciated, net of depreciation
	Total noncurrent assets
	<u>120,501,399</u>
	<u>136,951,689</u>
	Liabilities:
Current:	Accounts payable and accrued expenses
	Accrued interest payable
	Construction contracts payable
	Short term note payable
	Due to other funds of the City of Bridgeport
	Current portion of long-term debt
	Total current liabilities
	<u>9,863,608</u>
	Noncurrent:
	Long-term debt, noncurrent portion
	Net OPEB liability
	Total noncurrent liabilities
	<u>32,227,321</u>
	<u>42,090,929</u>
	Deferred inflows of resource:
	Deferred inflows related to OPEB
	<u>107,177</u>
	Net Position:
	Net investment in capital assets
	Unrestricted
	<u>84,166,380</u>
	<u>10,587,203</u>
	<u>\$ 94,753,583</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, 2019**

	Operating Revenues:
	Sewer user fees
\$ 34,688,772	Miscellaneous income
1,175,208	Total operating revenues
<u>35,863,980</u>	Operating Expenses:
	Operation and maintenance
30,832,349	Depreciation
8,367,934	Total operating expenses
<u>39,200,283</u>	Operating Loss
(3,336,303)	Nonoperating Revenue (Expense):
	Interest income
17,200	Interest expense
<u>(724,010)</u>	Net nonoperating expense
(706,810)	Loss Before Capital Contributions
(4,043,113)	Capital Contributions
463,946	Change in Net Position
<u>(3,579,167)</u>	Net Position - Beginning of Year
98,332,750	Net Position - End of Year
<u><u>\$ 94,753,583</u></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, 2019**

	\$ 35,352,014
Cash Flows from Operating Activities:	
Receipts from customers and users	(30,553,202)
Payments to suppliers	(1,024,024)
Payments to employees	(121,475)
Payments for interfund services used	3,653,313
Net cash provided by operating activities	<u>3,653,313</u>
Cash Flows from Capital and Related Financing Activities:	
Principal payments on debt	(4,096,821)
Interest paid on debt	(732,157)
Proceeds from bonds issued	2,095,000
Proceeds from notes payable	706,293
Proceeds received on capital grants	463,946
Purchase of capital assets	(3,330,925)
Net cash used in capital and related financing activities	<u>(4,894,664)</u>
Cash Flows from Investing Activities:	
Interest received on investments	17,200
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,224,151)</u>
Cash and Cash Equivalents at Beginning of Year	7,253,913
Cash and Cash Equivalents at End of Year	<u>\$ 6,029,762</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating income (loss)	\$ (3,336,303)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	8,367,934
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable and liens receivable	456,574
(Increase) decrease in other receivables	(968,540)
(Increase) decrease in prepaid assets	(41,348)
Increase (decrease) in accounts payable and accrued expenses	593,584
Increase (decrease) in due to other funds of the City of Bridgeport	(121,475)
Increase (decrease) in deferred inflows of resources	98,770
Increase (decrease) in net OPEB liability	(1,395,883)
Net Cash Provided by Operating Activities	<u>\$ 3,653,313</u>

The accompanying notes are an integral part of the financial statements

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, 2019, 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.

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	Equipment
20-50 years	5-20 years

G. Net Other Post Employment Benefits (OPEB) Liability

The net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The OPEB plan's fiduciary net position is determined using the same valuation methods that are used by the OPEB plan for purposes of preparing its statement of fiduciary net position. The net OPEB liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

H. 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.

I. Due to 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.

J. Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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 that time. Deferred inflows of resources were reported as they related to OPEB. A deferred inflow of resources related to OPEB results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees).

K. 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.

L. 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. The WPCA currently has no assets under restrictions. Unrestricted net position represents all other amounts that don't meet the definition of "net investment in capital assets" or "restricted".

M. 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 and expenses during the reporting period.

N. Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date the financial statements were available to be issued, which date is December 26, 2019.

Total depreciation expense was \$8,367,934 for the year ended June 30, 2019. 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.

	Beginning Balance	Additions/Transfers	Disposals/Transfers	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 6,240,267	\$ 986,787	\$ (3,168,931)	\$ 4,058,123
Capital assets being depreciated:				
Buildings and improvements	119,422,513	905,702		120,328,215
Machinery and equipment	14,639,742	262,453		14,902,195
Distribution and collection systems	105,579,528	3,673,830		109,253,358
Vehicles	3,184,850	301,765		3,486,615
Total capital assets being depreciated	242,826,633	5,143,750	-	247,970,383
Less accumulated depreciation for:				
Buildings and improvements	(80,699,308)	(4,817,309)		(85,516,617)
Machinery and equipment	(12,003,807)	(695,391)		(12,699,198)
Distribution and collection systems	(27,794,126)	(2,626,589)		(30,420,715)
Vehicles	(2,661,932)	(228,645)		(2,890,577)
Total accumulated depreciation	(123,159,173)	(8,367,934)	-	(131,527,107)
Total capital assets being depreciated, net	119,667,460	(3,224,184)		116,443,276
Business-Type Activities Capital Assets, Net	\$ 125,907,727	\$ (2,237,397)	\$ (3,168,931)	\$ 120,501,399

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

3. CAPITAL ASSETS

Disclosure of the City's custodial credit risk of deposits is contained in the City's basic financial statements. Responsibility for custodial credit risks of deposits rests with the City; accordingly, separate disclosure is not possible.

Demand accounts	\$ 6,029,743
Petty cash	19
	<u>\$ 6,029,762</u>

As of June 30, 2019, cash and cash equivalents, including balances restricted for repayment of principal and interest on State loans and for capital improvements, consist of the following:

2. CASH AND CASH EQUIVALENTS

**WATER POLLUTION CONTROL AUTHORITY
OF THE CITY OF BRIDGEPORT, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

4. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds and notes payable:					
General obligation bonds	\$ 4,434,391	\$ 2,095,000	\$ 170,813	\$ 6,358,578	\$ 198,610
Bond premium	114,324		7,827	106,497	
Net OPEB liability	3,280,798		1,395,883	1,884,915	
Clean water notes payable	30,271,403	1,561,471	3,926,008	27,906,866	3,830,925
Long-Term Liabilities	\$ 38,100,916	\$ 3,656,471	\$ 5,500,531	\$ 36,256,856	\$ 4,029,535

General Obligation Bonds and Clean Water Notes Payable at June 30, 2019 consists of the following:

2009 General Obligation Bonds issued by the City on behalf of the WPCA, bearing interest at 2% to 5.7%	\$ 1,175,938
2011 General Obligation Bonds issued by the City on behalf of the WPCA, bearing interest at 1.68% to 6.388%	275,767
2012 General Obligation Bonds issued by the City on behalf of the WPCA, bearing interest at 3% to 5%	1,207,646
2016 General Obligation Bonds issued by the City on behalf of the WPCA, bearing interest at 5%	800,000
2017 General Obligation Bonds issued by the City on behalf of the WPCA, bearing interest at 5%	804,227
2018 General Obligation Bonds issued by the city on behalf of the WPCA bearing interest at 5%	1,245,000
2019 General Obligation Bonds issued by the city on behalf of the WPCA bearing interest at 5%	850,000
Total	\$ 6,358,578
Clean Water Notes Payable:	
State of Connecticut Clean Water Fund Loans, bearing interest at 2%	\$ 27,906,866

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, 2019**

The annual debt service requirements relative to the outstanding general obligation bonds at June 30, 2019 are as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 198,610	\$ 352,003	\$ 550,613
2021	233,863	311,913	545,776
2022	317,239	298,785	616,024
2023	331,072	281,964	613,036
2024	346,448	263,952	610,400
2025-2029	2,048,782	1,023,733	3,072,515
2030-2034	1,572,254	511,516	2,083,770
2035-2039	1,184,559	181,775	1,366,334
2040-2044	78,595	21,614	100,209
2045-2049	47,156	3,535	50,691
Total	\$ 6,358,578	\$ 3,250,790	\$ 9,609,368

The annual debt service requirements relative to the outstanding Clean Water Notes Payable at June 30, 2019 are as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 3,830,925	\$ 525,089	\$ 4,356,014
2021	2,294,079	460,705	2,754,784
2022	2,229,273	415,897	2,645,170
2023	2,219,197	370,345	2,589,542
2024	2,042,643	329,736	2,372,379
2025-2029	9,278,786	1,054,636	10,333,422
2030-2034	4,490,876	342,100	4,832,976
2035-2039	1,521,087	46,562	1,567,649
Total	\$ 27,906,866	\$ 3,545,070	\$ 31,451,936

In addition, the WPCA has short-term notes payable of \$1,963,078, which were 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.

5. OTHER POST EMPLOYMENT BENEFITS

The City provides certain health care benefits for retired employees through a single employer defined benefit plan in which the WPCA participates. The collective bargaining agreements stipulate the employees' covered and the percentage of contribution, if any, to the cost of health care benefits. Contributions by the City may vary according to length of service. The cost of providing postemployment health care benefits is shared between the City and the retired employee. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. The cost of retiree health care benefits is recognized as an expense as claims are paid.

Disclosure of the OPEB plan is contained in the City's basic financial statements. WPCA reports its share of the OPEB liability of \$1,884,915, deferred inflows of resources of \$107,177 and OPEB expense of \$90,463.

6. INTEREST COST

The total interest cost incurred during the year ended June 30, 2019 was \$724,010. Of this amount, \$40,538 was included as part of the cost of capital assets under construction in connection with wastewater treatment facilities' construction projects.

7. 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. At June 30, 2019, the claim liability is \$7,500.

8. 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.

9. 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.

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, 2019, \$209,595,279 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, 2019, the State is committed to providing the WPCA additional funding in the form of loans and grants of \$956,949 and \$941,949, respectively.

10. PRIVATIZATION AGREEMENT

On October 8, 2013, the WPCA entered into a ten-year agreement (the Agreement) with a new independent contractor Inframark (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.