

# **Greater New Haven Water Pollution Control Authority**

Financial Report  
June 30, 2014 and 2013

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**Financial Section**



## Independent Auditor's Report

To the Board of Directors  
Greater New Haven Water Pollution Control Authority  
New Haven, Connecticut

### Report on the Financial Statements

We have audited the accompanying financial statements of the Greater New Haven Water Pollution Control Authority (the "Authority"), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority'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 an opinion on these financial statements based on our audits. We conducted our audits 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 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 Authority'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 opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Greater New Haven Water Pollution Control Authority as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 3–8 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 16, 2014 and December 30, 2013, on our consideration of the Authority'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 these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*McGladrey LLP*

New Haven, Connecticut  
December 16, 2014

**Greater New Haven  
Water Pollution Control Authority  
Management's Discussion and Analysis - *Unaudited*  
For the Year Ended June 30, 2014**

**INTRODUCTION**

The Greater New Haven Water Pollution Control Authority (the "GNHWPCA" or the "Authority") was organized in 2005 as a political subdivision of the State of Connecticut established and created for the performance of an essential public and governmental function. It was created as a regional water pollution control authority under Connecticut Public Act 95-329, subsequently enacted as Title 22a, Sections 500 to 519 of the Connecticut General Statutes, as amended (the "Act"). The GNHWPCA was created pursuant to the Act by concurrent ordinances of the four municipalities (the City of New Haven, and the Towns of Hamden, East Haven and Woodbridge, the "Constituent Municipalities"). Under the Act, the GNHWPCA is empowered to purchase, own and operate a public sewer system; to levy assessments and sewer use fees; to place liens on real estate to secure such assessments; and to issue revenue bonds. The GNHWPCA is also eligible for grants and loans under the State of Connecticut Clean Water Fund program ("CWF"). Under the by-laws of the GNHWPCA, a governing Board of Directors comprised of representatives of the Constituent Municipalities was established.

On August 29, 2005, the GNHWPCA entered into an Asset Purchase Agreement ("regionalization") with the Constituent Municipalities and thereby acquired ownership of the wastewater system assets of the Constituent Municipalities which included CWF obligations.

In order to finance the acquisition of the wastewater system assets, the GNHWPCA issued \$91,290,000 of revenue bonds (the "2005 Series A Bonds") subject to an Indenture of Trust (the "Indenture"). The Indenture constitutes a contract between the GNHWPCA, the Trustee and the holders of the 2005 Series A Bonds. The Indenture secures the 2005 Series A Bonds and the CWF loans assumed from the Constituent Municipalities.

The wastewater system assets acquired by the GNHWPCA included: the East Shore Wastewater Treatment Plant (the "Treatment Plant"), located in New Haven; 30 pump stations; a collection system of approximately 560 miles of sanitary and combined sewers (the "Collection System"); and machinery and equipment. The system provides wastewater treatment services to approximately 50,000 customers throughout the four communities.

The Greater New Haven Water Pollution Control Authority operates on a fiscal year that starts on July 1 and ends on June 30.

Management's Discussion and Analysis ("MD&A") provides supplemental information to the audit and should be read in conjunction with such audit. The purpose of the MD&A is to introduce and highlight the more detailed information provided in the audited financial statements. For example, it will assess improvement to or deterioration of the GNHWPCA financial position and will identify factors that, in management's opinion, affected financial performance during the fiscal period under review.

**CONTENTS OF THE AUDITED FINANCIAL STATEMENTS**

Our financial statements are prepared using proprietary fund (enterprise fund) accounting that employs essentially the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting are used.

Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. These statements are followed by notes to the financial statements.

The GNHWPCA's audited financial statements include the following:

- **Statements of net position**

These statements provide information about the GNHWPCA's investments in resources (assets) and its obligations to creditors (liabilities), with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the GNHWPCA is improving or deteriorating.

- **Statements of revenues, expenses, and changes in net position**

These statements demonstrate changes in net position from one period to another by accounting for operating and non-operating revenues and expenditures and measuring the financial results of operations combined with any capital contributions to determine the net change in position for the period. This change combined with the beginning of the period net position balance reconciles to the net position at the end of the period. The information may be useful to determine how the GNHWPCA has funded its costs.

- **Statements of cash flows**

These statements report cash and cash equivalent activity for the year resulting from operating activities, non-capital financing activities, capital and related financial activities and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalents balance at the end of the year.

- **Notes to financial statements**

Notes to the financial statements contain information essential to understanding the financial statements, such as the GNHWPCA accounting methods and policies.

## **THE GNHWPCA BUSINESS**

The GNHWPCA was created pursuant to Sections 22a-500 to 22a-519, inclusive, of the Connecticut General Statutes to (a) operate the Treatment Plant and to (b) use, equip, re-equip, repair, maintain, supervise, manage, operate and perform any act pertinent to collection, transportation, treatment and disposal of sewage with respect to the Constituent Municipalities. Currently, the daily flow at the Treatment Plant is approximately 29 million gallons per day.

## **OPERATIONS TRANSITION**

Effective January 4, 2014, the GNHWPCA assumed responsibility for the day-to-day management of the operations of the Treatment Plant and the Collection System, which had previously been contracted out to a private company since 1999. As a result of the transition, the Authority's full-time equivalent (FTE) employees increased from 39 to 63.

## FINANCIAL HIGHLIGHTS

### Condensed Statements of Revenues, Expenses and Changes in Net Position

<i>(Dollars in Thousands)</i>	Years ended June 30,			Dollar Variance		Percentage Variance	
	2014	2013	2012	14 vs. 13	13 vs. 12	14 vs. 13	13 vs. 12
Operating revenues	<b>\$ 38,917</b>	\$ 37,234	\$ 35,157	\$ 1,683	\$ 2,077	4.5%	5.9%
Operating expenses	<b>22,194</b>	21,219	21,142	975	77	4.6%	0.4%
Depreciation and amortization	<b>5,260</b>	4,580	4,499	680	81	14.8%	1.8%
<b>Total operating expenses, including depreciation</b>	<b>27,454</b>	25,799	25,641	1,655	158	6.4%	0.6%
<b>Operating income</b>	<b>11,463</b>	11,435	9,516	28	1,919	0.2%	20.2%
Nonoperating (expense) income	<b>(4,362)</b>	(4,651)	(4,650)	289	(1)	(6.2%)	0.0%
Capital grants	<b>5,170</b>	4,159	10,158	1,011	(5,999)	24.3%	(59.1%)
Change in Accounting Principle	-	-	(1,638)	-	1,638	0.0%	100.0%
<b>Change in net position</b>	<b>\$ 12,271</b>	\$ 10,943	\$ 13,386	\$ 1,328	\$ (2,443)	12.1%	(18.3%)

The following items highlight the condensed statements of revenues, expenses and changes in net position, shown above.

- **Operating Revenues**

Operating revenues of \$38.9 million for fiscal year 2014 represent an increase of \$1.7 million or 4.5% compared to \$37.2 million in operating revenues for fiscal year 2013. The increase in operating revenue is primarily attributable to a rate increase of \$0.25 per centum cubic feet ("CCF") from fiscal year 2013 to fiscal year 2014. The GNHWPCA approved a charge of \$3.55 per CCF to meet the requirements of the Indenture and to fund capital improvements.

Operating revenues of \$37.2 million for fiscal year 2013 represent an increase of \$2 million or 5.9% compared to \$35.2 million in operating revenues for fiscal year 2012. The increase in operating revenue is primarily attributable to a rate increase of \$0.24 per CCF from fiscal year 2012 to fiscal year 2013. The GNHWPCA approved a charge of \$3.30 per CCF to meet the requirements of the Indenture and to fund capital improvements.

- **Operating Expenses**

Operating expenses include all costs, including maintenance, necessary to deliver wastewater collection and treatment services. It also includes the administrative resources and billing and customer service costs employed to ensure efficient operations.

Operating expenses for fiscal year 2014 increased to \$22.2 million, an increase of \$1.0 million over fiscal year 2013, with a total of \$21.2 million. The increase is largely due to an increase in salaries and benefits due to the operations transition.

Operating expenses for fiscal year 2013 were consistent with fiscal year 2012 at \$21.2 million and \$21.1 million, respectively.



- **Non-operating Income and Expense**

Non-operating income and expense includes revenue from investment income, reflective of market rates of return, which is used in the general operation of the entity; and interest expense which consists primarily of interest incurred on revenue bonds issued and outstanding and loans assumed in connection with the CWF Program.

Non-operating expenses in fiscal year 2014 decreased \$0.3 million or 6.2% to \$4.4 million from \$4.7 million for fiscal year 2013. The decrease in non operating income and expenses is directly related to a decrease in interest expense associated with outstanding debt.

Non-operating expenses in fiscal year 2013 were consistent with fiscal year 2012 at \$4.7 million.

### Condensed Statements of Net Position

<i>(Dollars in Thousands)</i>	June 30,			Dollar Variance		Percentage Variance	
	2014	2013	2012	14 vs. 13	13 vs. 12	14 vs. 13	13 vs. 12
<b>Assets</b>							
Current assets	\$ 41,287	\$ 34,493	\$ 30,667	\$ 6,794	\$ 3,826	19.7%	12.5%
Capital assets, net	175,539	165,452	155,248	10,087	10,204	6.1%	6.6%
Noncurrent assets							
Restricted assets	12,647	16,565	9,333	(3,918)	7,232	(23.7%)	77.5%
Other (As Restated)	9,331	7,853	8,591	1,478	(738)	18.8%	(8.6%)
<b>Total assets</b>	<b>238,804</b>	<b>224,363</b>	<b>203,839</b>	<b>14,441</b>	<b>20,524</b>	<b>6.4%</b>	<b>10.1%</b>
<b>Liabilities</b>							
Current liabilities	14,742	19,952	15,195	(5,210)	4,757	(26.1%)	31.3%
Noncurrent liabilities	141,625	134,245	129,420	7,380	4,825	5.5%	3.7%
<b>Total liabilities</b>	<b>156,367</b>	<b>154,197</b>	<b>144,615</b>	<b>2,170</b>	<b>9,582</b>	<b>1.4%</b>	<b>6.6%</b>
<b>Net Position</b>							
Net investment in capital assets	57,521	52,277	48,137	5,244	4,140	10.0%	8.6%
Restricted	1,068	1,169	968	(101)	201	(8.6%)	20.8%
Unrestricted (as restated)	23,531	16,721	10,119	6,810	6,602	40.7%	65.2%
Unrestricted - designated	317	-	-	317	-	100.0%	0.0%
<b>Total net position</b>	<b>\$ 82,437</b>	<b>\$ 70,167</b>	<b>\$ 59,224</b>	<b>\$ 12,270</b>	<b>\$ 10,943</b>	<b>17.5%</b>	<b>18.5%</b>

The following items highlight the condensed statements of net position shown above.

- **Current Assets**

The increase of \$6.8 million in current assets between fiscal year-end 2013 and fiscal year-end 2014 resulted principally from an increase in cash and cash equivalents as a result of higher cash receipts, as well as an increase in receivable from the City of New Haven and prepaid Insurance as of June 30, 2014. The increase in receivables is due to a rate increase to meet the requirements of the Authority's Indenture and to fund capital improvements.

- **Capital Assets**

The increase in capital assets is attributable to additions to equipment and sewer lines, such as acquisition and improvements of pumping equipment, water treatment facilities, the waste water collection system and information technology.

Capital assets are assets acquired for the use in operations that will benefit more than a single fiscal year. Capital assets are stated at cost. Normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Assets being constructed over a period of time are classified as construction in progress. No depreciation is computed on these assets until they are complete and placed into service. Depreciation is computed on a straight line basis over the estimated useful lives of the respective assets. Additional information on capital assets is presented in Note 4.

- **Restricted Assets**

The term “restricted assets” refers primarily to certain funds established under various bond indentures, as well as funds acquired from the regionalization, whose use is restricted for the following purposes:

- Debt Service
- Debt Service Reserves
- Construction
- Maintenance Escrow

The decrease of \$4.0 million in restricted assets between fiscal year-end 2013 and fiscal year-end 2014 is primarily due to the funding of capital projects.

The GNHWPCA invests these restricted assets in investments as allowed by the Indenture, for example, depository accounts in direct obligations of the federal or state governments (or agencies) or in guaranteed investment contracts.

- **Other Non-Current Assets**

Other non-current assets increased \$1.5 million or 18.8% to \$9.3 million from \$7.9 million for fiscal year-end 2014. The increase is primarily due to an increase in the long-term portion of the receivable with the City of New Haven as it relates to their portion of Clean Water Fund bonds.

- **Current Liabilities**

The decrease of \$5.2 million in current liabilities from fiscal year-end 2013 to fiscal year-end 2014 is primarily attributed to a decrease in the current portion of long term debt and an increase in accounts payable at June 30, 2014.

- **Non-Current Liabilities**

Non-current liabilities increased by \$7.4 million between fiscal year-end 2013 to fiscal year-end 2014 primarily due to the closing of Clean Water Fund projects 441-D and 581-C2 and were offset by the shift in long-term debt from non-current to current; additional information of non-current liabilities is presented in Note 6.

- **Net Position**

By far the largest portion of the GNHWPCA's net position of \$82.4 million, 69.8% or \$57.5 million reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure) in the Constituent Municipalities served by the Authority. An additional portion of the Authority's net position \$1.1 million represents resources that are subject to external restrictions to meet the requirements of the indenture. The remaining balance of unrestricted net position \$23.5 million may be used to meet the Authority's ongoing obligations and \$316,895 has been designated for debt service reserve.

Total net position increased by \$12.2 million or 17.5% to \$82.4 million for fiscal year-end 2014 from \$70.2 million in 2013 as a result of the Authority's investment in capital assets.

## **THE GNHWPCA'S CUSTOMER BASE**

The GNHWPCA serves a population of almost 200,000 users; the customer base is primarily residential and commercial. Of its approximately 50,000 customers, 44,000 are residential and approximately 6,000 are commercial, industrial and public authorities.

## **LIQUIDITY AND CAPITAL RESOURCES**

In fiscal year 2014 the Authority generated \$38.9 million in total operating revenues and \$.48 million from investment and other earnings. These amounts were used to pay for operations and maintenance of \$22.2 million and to fund debt service of \$11.3 million.

The Authority funds its program of capital improvements largely through debt financing and capital contributions from the State of Connecticut's Clean Water Fund program and through the issuance of revenue bonds.

## **CREDIT RATING**

Standard & Poor's, Moody's and Fitch Investors Service affirmed ratings of A+, A1 and A+, respectively, on the GNHWPCA's outstanding debt.

## **FINANCIAL STATEMENT PRESENTATION**

The GNHWPCA financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Greater New Haven Water Pollution Control Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Director of Finance & Administration, Greater New Haven Water Pollution Control Authority, 260 East Street, New Haven, Connecticut 06511.

## **Basic Financial Statements**

**Greater New Haven Water Pollution Control Authority**

**Statements of Net Position  
June 30, 2014 and 2013**

	2014	2013
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 32,773,253	\$ 26,948,303
Accounts receivable, less allowance for doubtful accounts of \$4,139,796 and \$3,986,156 in 2014 and 2013, respectively	7,499,797	6,770,932
Receivable - City of New Haven (Note 3)	866,051	773,861
Other current assets	148,102	-
<b>Total current assets</b>	<b>41,287,203</b>	<b>34,493,096</b>
Capital assets (Note 4)	209,434,093	194,086,631
Less accumulated depreciation	(33,895,481)	(28,635,020)
	<b>175,538,612</b>	<b>165,451,611</b>
Non-current receivable - City of New Haven (Note 3)	9,331,528	7,853,829
Restricted assets (Note 5)	12,646,855	16,564,702
<b>Total assets</b>	<b>238,804,198</b>	<b>224,363,238</b>
<b>Liabilities</b>		
Current Liabilities:		
Current portion of long-term debt (Note 6)	5,518,465	13,919,178
Accounts payable	6,369,995	3,061,219
Retainage payable	430,947	646,804
Accrued interest	1,111,915	1,269,241
Accrued expenses	1,311,062	1,055,317
<b>Total current liabilities</b>	<b>14,742,384</b>	<b>19,951,759</b>
Long-term debt, less current portion (Note 6)	141,624,662	134,244,534
<b>Total liabilities</b>	<b>156,367,046</b>	<b>154,196,293</b>
<b>Net Position</b>		
Net investment in capital assets	57,521,336	52,277,106
Restricted:		
Debt service	1,001,480	1,102,014
Escrow	66,500	66,500
Unrestricted	23,530,941	16,721,325
Unrestricted - designated for debt service reserve	316,895	-
<b>Total net position</b>	<b>\$ 82,437,152</b>	<b>\$ 70,166,945</b>

See Notes to Financial Statements.

**Greater New Haven Water Pollution Control Authority**

**Statements of Revenues and Expenses  
and Changes in Net Position  
Years Ended June 30, 2014 and 2013**

	2014	2013
<b>Operating Revenues</b>		
Residential	\$ 23,520,980	\$ 22,104,879
Commercial and industrial	9,365,750	9,622,542
Municipal	1,289,700	1,192,442
Delinquent interest and lien fees	1,424,163	1,426,360
Outside sludge disposal	995,816	1,116,368
Other	2,522,263	2,134,475
Provision for bad debts	(201,657)	(363,215)
<b>Total operating revenues</b>	<b>38,917,015</b>	<b>37,233,851</b>
<b>Operating Expenses</b>		
Operation and maintenance (Notes 8, 9 and 10)	22,194,301	21,219,266
Depreciation and amortization	5,260,461	4,579,995
<b>Total operating expenses</b>	<b>27,454,762</b>	<b>25,799,261</b>
<b>Operating income</b>	<b>11,462,253</b>	<b>11,434,590</b>
<b>Nonoperating Income (Expense)</b>		
Other income	189,660	180,068
Interest income	290,318	281,048
Interest expense (Note 7)	(4,841,735)	(5,111,904)
<b>Total nonoperating income (expense)</b>	<b>(4,361,757)</b>	<b>(4,650,788)</b>
<b>Income before capital contributions</b>	<b>7,100,496</b>	<b>6,783,802</b>
Capital contributions	5,169,711	4,158,864
<b>Change in net position</b>	<b>12,270,207</b>	<b>10,942,666</b>
<b>Net Position, beginning</b>	<b>70,166,945</b>	<b>59,224,279</b>
<b>Net Position, ending</b>	<b>\$ 82,437,152</b>	<b>\$ 70,166,945</b>

See Notes to Financial Statements.

Greater New Haven Water Pollution Control Authority

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013
<b>Cash Flows From Operating Activities</b>		
Receipts from customers and users	\$ 38,188,150	\$ 37,606,996
Payments to suppliers	(13,461,712)	(19,126,067)
Payments to employees	(5,532,028)	(4,002,847)
<b>Net cash provided by operating activities</b>	<b>19,194,410</b>	<b>14,478,082</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from notes payable	4,804,171	16,009,726
Principal payments on debt	(5,574,436)	(4,716,452)
Interest paid on debt	(5,249,380)	(4,898,225)
Proceeds from City of New Haven	899,396	773,909
Proceeds received from capital contributions	2,604,418	3,543,984
Acquisition and construction of capital assets	(15,251,453)	(14,204,863)
<b>Net cash used in capital and related financing activities</b>	<b>(17,767,284)</b>	<b>(3,491,921)</b>
<b>Cash Flows From Non-Capital Activities</b>		
Other income	189,659	180,068
<b>Cash Flows From Investing Activities</b>		
Interest received	290,318	281,048
<b>Net increase in cash and cash equivalents</b>	<b>1,907,103</b>	<b>11,447,277</b>
<b>Cash and Cash Equivalents</b>		
Beginning	43,513,005	32,065,728
Ending	\$ 45,420,108	\$ 43,513,005
Reported on Statement of Net Position as follows:		
Unrestricted cash and cash equivalents	\$ 32,773,253	\$ 26,948,303
Restricted assets	\$ 12,646,855	\$ 16,564,702
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 11,462,253	\$ 11,434,590
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,260,461	4,579,995
Provision for bad debts	201,657	363,215
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(930,522)	9,930
(Increase) decrease in other assets	(148,102)	15,478
Increase (decrease) in accounts payable	3,092,918	(2,040,722)
Increase in accrued expenses and retainage	255,745	115,596
<b>Net cash provided by operating activities</b>	<b>\$ 19,194,410</b>	<b>\$ 14,478,082</b>
<b>Noncash Investing, Capital and Financing Activities</b>		
Conversion of interim obligation to permanent	\$ 9,620,162	\$ 656,236
City of New Haven Share of Clean Water Fund	\$ 2,510,686	\$ -

See Notes to Financial Statements.

## Greater New Haven Water Pollution Control Authority

### Notes to Financial Statements

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#### Note 1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity: The Greater New Haven Water Pollution Control Authority (the "GNHWPCA") or (the "Authority") was organized in 2005 as a political subdivision of the State, established and created for the performance of an essential public and governmental function. It was created as a regional water pollution control authority under Connecticut Public Act 95-329, subsequently enacted as Title 22a, Sections 500 to 519 of the Connecticut General Statutes, as amended (the "Act"). The GNHWPCA was created pursuant to the Act by concurrent ordinances of the City of New Haven and the Towns of Hamden, East Haven and Woodbridge (the "Constituent Municipalities"). Under the Act, the GNHWPCA is empowered to purchase, own and operate a public sewer system; to levy assessments and sewer use fees; to place liens on real estate to secure such assessments; and to issue revenue bonds. The GNHWPCA is also eligible for grants and loans under the State of Connecticut Clean Water Fund ("CWF") program. Under the by-laws of the GNHWPCA, a governing Board of Directors comprised of representatives of the Constituent Municipalities was established.

Accounting principles require that the reporting entity include organizations for which the nature and significance of their relationship with the primary entity are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This criterion has been considered and as a result, there are no agencies or entities that should be, but are not, combined with the financial statements of the GNHWPCA.

In 2005, the GNHWPCA entered into an Asset Purchase Agreement with the Constituent Municipalities. Under the agreement, the Authority acquired ownership of their wastewater system assets and assumed certain obligations of the Constituent Municipalities.

Significant accounting policies are as follows:

Basis of Accounting: The GNHWPCA utilizes the accrual basis of accounting, as required of proprietary funds under generally accepted accounting principles, under which revenues are recognized when earned and expenses are recognized when incurred.

Accounting Estimates: The preparation of financial statements 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. Actual results could differ from those estimates.

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

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. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as revenue when received.



## Greater New Haven Water Pollution Control Authority

### Notes to Financial Statements

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#### Note 1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

**Capital Assets:** Property, plant and equipment are stated at cost when purchased and fair value when contributed. 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. No depreciation is computed on these assets until they are complete and placed into service. Property, plant and equipment are depreciated utilizing the following estimated useful lives:

	<u>Years</u>
Land improvements	15-50
Buildings and improvements	40
Machinery and equipment	5-20
Sewer lines	10-50
Vehicles	5

GNHWPCA capitalizes interest during the period of construction.

**Debt Issuance Costs and Bond Premiums:** Costs incurred in connection with issuance of long-term debt, consisting primarily of legal fees, are expensed as incurred. Bond premiums have been deferred and are being amortized over the life of the related debt.

**Net Position:** Net position is classified in the following categories:

*Net Investment in capital assets* - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balance of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

*Restricted net position* - This category represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* - This category represents the amount not restricted for any project or other purpose.

**Revenues:** Revenues are based on the GNHWPCA authorized minimum charges and rates per hundred cubic feet (CCF) applied to customer consumption of water. Revenues are recognized when utility services are provided.

The GNHWPCA bills customers based on actual water consumption used during the period from April 1 through March 31 of the previous year, with an adjustment for seasonal use for residential customers who use less than 300 CCF's per year.

Interest is levied on accounts that are 30 days past due. The GNHWPCA has the authority to file liens on past due accounts.

**Operating Revenues and Expenses:** The GNHWPCA distinguishes operating revenues and expenses from non-operating. Operating revenues result from charges to customers for wastewater disposal 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 non-operating or capital contributions.

## Greater New Haven Water Pollution Control Authority

### Notes to Financial Statements

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#### Note 1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Capital Contributions: Capital contributions are recognized when eligibility requirements are met. Capital contributions consist principally of grant funding received under the State of Connecticut's Clean Water Fund Program, contributions received from the City of New Haven under a cost sharing agreement for Clean Water Fund projects and contributions received from the State of Connecticut Department of Transportation for costs incurred to move infrastructure.

Compensated Absences: Under the terms of two collective bargaining agreements, employees are awarded vacation on January 1 of each year based on years of service, and can accumulate up to 40 days of unused vacation. Employees are also allowed sick leave, which is earned monthly, and can accumulate up to 150 days. Upon termination of employment without eligibility for retirement, each employee is paid for unused vacation. Retiring employees are paid for 100 percent of their unused vacation and unused sick leave up to 90 days. Such balances are recorded as a component of accrued expenses in the statement of net position.

Vested sick leave and accumulated vacation leave is recognized as an expense and liability as the benefits accrue to employees.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position will sometimes report a separate section for outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Authority had no deferred outflows/inflows of resources that met the above definition.

#### Note 2. Cash, Cash Equivalents and Investments

Deposits: The GNHWPCA's custodial credit risk policy for deposits conforms to the State of Connecticut requirement that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio.

Investments: The GNHWPCA does not have a formal credit risk policy for investments; however, the GNHWPCA adheres to State of Connecticut statutes which, in general, allows the GNHWPCA to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. Investments in Guaranteed Investment Contracts are recorded at cost, which approximate fair value.

Interest Rate Risk: The GNHWPCA does not have a policy for interest rate risk. This is the risk that changes in market interest rates will adversely affect the fair value of the investment. Generally, the longer the maturity of the investment, the greater the sensitivity of its fair value to changes in market interest rates. The guaranteed investment contract matures August 15, 2035.

## Greater New Haven Water Pollution Control Authority

### Notes to Financial Statements

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#### Note 2. Cash, Cash Equivalents and Investments (Continued)

Credit Risk: Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. The guaranteed investment contract is not rated.

Concentrations: The GNHWPCA's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over-concentration of assets in a specific issuer. The guaranteed investment contract is with one issuer.

#### Custodial Credit Risks:

Deposits: The GNHWPCA is subject to custodial credit risk. This is the risk that, in the event of failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. At June 30, 2014 and 2013, \$14,863,966 and \$18,672,575 of the GNHWPCA's bank balance of \$41,558,292 and \$37,939,071 was uninsured and uncollateralized.

Investments: This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, an entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

A summary of balances as of June 30 consist of the following:

	2014		
	Unrestricted	Restricted	Total
Deposits	\$ 32,773,253	\$ 6,750,355	\$ 39,523,608
Guaranteed Investment Contract	-	5,896,500	5,896,500
	<u>\$ 32,773,253</u>	<u>\$ 12,646,855</u>	<u>\$ 45,420,108</u>

  

	2013		
	Unrestricted	Restricted	Total
Deposits	\$ 26,948,303	\$ 10,668,202	\$ 37,616,505
Guaranteed Investment Contract	-	5,896,500	5,896,500
	<u>\$ 26,948,303</u>	<u>\$ 16,564,702</u>	<u>\$ 43,513,005</u>

## Greater New Haven Water Pollution Control Authority

### Notes to Financial Statements

#### Note 3. Receivable – City of New Haven

The Authority has a receivable from the City of New Haven with respect to a cost sharing agreement entered into in conjunction with the CWF program for sewer separation projects. Under the terms of the cost sharing agreement, the City of New Haven agreed to reimburse the GNHWPCA for 40% of the debt service costs associated with the funding received. Included in the balance at June 30, 2014, are certain outstanding obligations assumed pursuant to the Asset Purchase Agreement. The terms associated with this receivable mirror the underlying terms of the Clean Water Fund obligations of the GNHWPCA. The total receivable at June 30, 2014, is \$10,197,579, of which \$866,051 is current. The City of New Haven made principal payments of \$899,396 and \$773,909 during the years ended June 30, 2014 and 2013, respectively.

#### Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2014, was as follows:

	2014				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Capital assets, not being depreciated:					
Land	\$ 2,578,488	\$ -	\$ -	\$ -	\$ 2,578,488
Construction in progress	30,193,656	12,618,611	(2,296)	(26,962,760)	15,847,211
Total capital assets, not being depreciated	32,772,144	12,618,611	(2,296)	(26,962,760)	18,425,699
Capital assets, being depreciated:					
Buildings and improvements	40,754,267	51,592	-	1,864,581	42,670,441
Machinery and equipment	20,542,975	208,765	-	1,184,264	21,936,004
Furniture and fixtures	2,227,379	30,739	-	25,436	2,283,554
Infrastructure	97,090,310	2,175,796	-	23,888,479	123,154,585
Vehicles	699,556	264,255	-	-	963,811
Total capital assets, being depreciated	161,314,487	2,731,147	-	26,962,760	191,008,394
Less accumulated depreciation for:					
Buildings and improvements	10,044,798	1,423,458	-	-	11,468,256
Machinery and equipment	4,977,995	1,055,097	-	-	6,033,092
Furniture and fixtures	1,257,518	220,045	-	-	1,477,563
Infrastructure	12,030,222	2,463,092	-	-	14,493,314
Vehicles	324,487	98,770	-	-	423,257
Total accumulated depreciation	28,635,020	5,260,461	-	-	33,895,481
Total capital assets, being depreciated, net	132,679,467	(2,529,314)	-	26,962,760	157,112,913
Total capital assets, net	\$ 165,451,611	\$ 10,089,297	\$ (2,296)	\$ -	\$ 175,538,612

## Greater New Haven Water Pollution Control Authority

### Notes to Financial Statements

#### Note 4. Capital Assets (Continued)

Capital assets activity for the year ended June 30, 2013, was as follows:

	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Capital assets, not being depreciated:					
Land	\$ 2,578,488	\$ -	\$ -	\$ -	\$ 2,578,488
Construction in progress	19,853,020	12,836,489	-	(2,495,853)	30,193,656
Total capital assets, not being depreciated	22,431,508	12,836,489	-	(2,495,853)	32,772,144
Capital assets, being depreciated:					
Buildings and improvements	39,546,206	145,687	-	1,062,374	40,754,267
Machinery and equipment	18,942,515	611,708	-	988,752	20,542,975
Furniture and fixtures	2,211,894	15,485	-	-	2,227,379
Infrastructure	95,470,846	1,174,737	-	444,727	97,090,310
Vehicles	699,556	-	-	-	699,556
Total capital assets, being depreciated	156,871,017	1,947,617	-	2,495,853	161,314,487
Less accumulated depreciation for:					
Buildings and improvements	8,686,040	1,358,758	-	-	10,044,798
Machinery and equipment	3,990,381	987,614	-	-	4,977,995
Furniture and fixtures	1,017,686	239,832	-	-	1,257,518
Infrastructure	10,088,416	1,941,806	-	-	12,030,222
Vehicles	272,502	51,985	-	-	324,487
Total accumulated depreciation	24,055,025	4,579,995	-	-	28,635,020
Total capital assets, being depreciated, net	132,815,992	(2,632,378)	-	2,495,853	132,679,467
Total capital assets, net	\$ 155,247,500	\$ 10,204,111	\$ -	\$ -	\$ 165,451,611

The State of Connecticut Department of Transportation contributed \$96,008 and \$91,871 in infrastructure required for various State sponsored construction at June 30, 2014 and 2013, respectively. Included in construction in progress is \$715,616 and \$508,669 of capitalized interest at June 30, 2014 and 2013, respectively.

#### Note 5. Restricted Assets

Pursuant to the 2005 Series A Bond Indenture and the Asset Purchase Agreement, the 2008 Series A Bond Indenture, 2012 Series B Revenue Bond Indenture, as well as certain legal settlements, certain funds are required to be maintained for purposes specified in the applicable agreement.

## Greater New Haven Water Pollution Control Authority

### Notes to Financial Statements

#### Note 5. Restricted Assets (Continued)

At June 30, GNHWPCA's restricted assets were being maintained for the following purposes:

	2014	2013
Debt service reserve fund - Revenue Bonds and CWF*	\$ 9,596,015	\$ 9,490,534
Unspent Construction funds from Revenue Bonds*	1,982,860	5,905,653
Debt service fund	1,001,480	1,102,014
Maintenance escrow	66,500	66,500
	<b>\$ 12,646,855</b>	<b>\$ 16,564,701</b>

\* Unspent bond proceeds

These funds come with a maximum debt service requirement, and minimum percentages of these issuances that the GNHWPCA is required to maintain at all times:

	Original Bond Issuance	Maximum Debt Service Requirement	Debt Service Service Reserve Fund Balance	DRSF Requirement*	Indenture
2005 Series A Rev Bonds	\$ 91,290,000	\$ 5,896,500	\$ 5,896,500	100%	1st
2007 Series A CWF 563-DC	8,961,758	548,910	278,780	50%	3rd
2007 Series C CWF Consolidated	20,560,842	2,199,723	1,100,040	50%	6th
2007 Series E CWF 463-CD1	934,984	61,896	31,436	50%	8th
2008 Series A Rev Bonds	18,975,000	1,234,500	1,249,677	100%	9th
2008 Series B (CREBS)	2,500,000	187,000	189,855	100%	10th
2009 Series C CWF 206-CSL	3,952,524	237,710	118,875	50%	13th
2011 Series D CWF 581-C1	6,121,755	368,171	61,371	2 months **	16th
2012 Series B Rev Bonds	9,295,000	538,800	538,808	100%	18th
2013 Series A CWF 627-C	656,236	39,467	6,578	2 months **	20th
2013 Series C CWF 441-D	3,571,120	214,772	35,797	2 months **	22nd
2013 Series D CWF 581-C2	6,276,714	377,490	62,917	2 months **	23rd
Total	<b>\$ 173,095,932</b>	<b>\$ 11,904,939</b>	<b>\$ 9,570,633</b>		

\*Represents the percent of aggregate maximum annual debt service the WPCA is required to maintain. All funds are held with U.S. Bank.

\*\*Per State of Connecticut, a minimum of two month debt service payments is required to be maintained.

**Greater New Haven Water Pollution Control Authority**

**Notes to Financial Statements**

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**Note 6. Long-Term Debt**

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

	<u>2014</u>	<u>2013</u>
<b><u>2005 Series A Revenue Bonds</u></b>		
\$44,895,000 Serial Bonds, issued August 2005, interest payable semi-annually at 3.25% - 5.0%, due in annual principal amounts, beginning in 2007, of \$1,580,000 to \$3,485,000, through 2025.	<b>\$ 32,590,000</b>	\$ 34,555,000
\$20,310,000 Term Bonds, issued August 2005, interest payable semi-annually at 5.0%, due November 15, 2030.	<b>20,310,000</b>	20,310,000
\$26,085,000 Term Bonds, issued August 2005, interest payable semi-annually at 5.0%, due August 15, 2035.	<b>26,085,000</b>	26,085,000
<b><u>2008 Series A Revenue Bonds</u></b>		
\$7,185,000 Serial Bonds, issued March 2008, interest payable semi-annually at 4.0%-5.0%, due in annual principal amounts, beginning in 2010, of \$355,000 to \$635,000.	<b>5,675,000</b>	6,075,000
\$2,860,000 Term Bonds, issued March 2008, interest payable semi-annually at 4.75%, due November 15, 2028.	<b>2,860,000</b>	2,860,000
\$8,930,000 Term Bonds, issued March 2008, interest payable semi-annually at 5.00%, due November 15, 2037.	<b>8,930,000</b>	8,930,000
<b><u>2008 Series B Revenue Bonds</u></b>		
\$2,500,000 Term Bonds, issued April 2008, interest payable quarterly at 3.3% - 5.73%, due in annual principal amounts, beginning December 2008, of \$166,667, through December 2022.	<b>1,499,999</b>	1,666,666
<b><u>2012 Series B Revenue Bonds</u></b>		
\$9,295,000 of Revenue Bonds, issued July 12, 2012. The bonds bear interest of 2.00% to 4.180% and mature from July 12, 2013 to July 12, 2042.	<b>9,115,000</b>	9,295,000

**Greater New Haven Water Pollution Control Authority**

**Notes to Financial Statements**

**Note 6. Long-Term Debt (Continued)**

	<u>2014</u>	<u>2013</u>
<b><u>Notes Payable and Other</u></b>		
State of Connecticut Clean Water Fund obligation, due in monthly principal amounts of \$32,000 to \$146,000, plus interest at 2%, through 2026(A).	<b>14,883,293</b>	16,727,756
State of Connecticut Clean Water Fund obligation, due in annual principal payments amounts of \$169,000 to \$233,000, plus interest at 2%, through 2029 (A)	<b>2,975,043</b>	3,151,337
State of Connecticut Clean Water Fund obligation, due in annual principal payment amounts of \$183,000 to \$361,000, plus interest at 2%, through 2030 (A)	<b>5,170,569</b>	5,432,482
State of Connecticut Clean Water Fund obligation, due in annual principal payments amounts of \$152,000 to \$209,000, plus interest of 2%, through 2033 (A).	<b>3,355,772</b>	-
State of Connecticut Clean Water Fund obligation, due in annual principal payments amounts of \$266,000 to \$373,000, plus interest of 2%, through 2033 (A).	<b>5,962,878</b>	-
State of Connecticut Clean Water Fund obligation, due in annual principal payments amounts of \$27,613 to 50,916, plus interest of 2%, through 2032.	<b>605,320</b>	656,236
State of Connecticut Clean Water Fund Interim obligations, bearing interest at 2% (A).	<b>3,830,263</b>	8,873,925
Total long-term debt	<b>143,848,137</b>	144,618,402
Unamortized bond:		
Premium	<b>3,427,033</b>	3,686,497
Discount	<b>(132,043)</b>	(141,187)
	<b>147,143,127</b>	148,163,712
Less current portion	<b>5,518,465</b>	13,919,178
	<b>\$ 141,624,662</b>	<b>\$ 134,244,534</b>

(A) Pursuant to the Asset Purchase Agreement, the GNHWPCA assumed outstanding obligations in connection with the State of Connecticut's Clean Water Fund Program for sewer separation projects. Additionally, the GNHWPCA entered into a cost sharing agreement with the City of New Haven with respect to Clean Water Fund Program obligations issued to the GNHWPCA.



## Greater New Haven Water Pollution Control Authority

### Notes to Financial Statements

#### Note 6. Long-Term Debt (Continued)

The Series A 2005 Revenue Bonds are subject to mandatory sinking fund redemption requirements prior to maturity at a redemption price equal to the principal amount plus accrued interest to the date upon which the redemption takes place. For purposes of the \$20,310,000 and \$26,085,000 Term Bonds, the annual date of redemption begins on November 15, 2026 and August 31, 2031, respectively. Mandatory sinking fund redemption requirements range from \$3,665,000 to \$5,750,000.

The Series A 2008 Revenue Bonds are subject to mandatory sinking fund redemption requirements prior to maturity at a redemption price equal to the principal amount plus accrued interest to the date upon which this redemption takes place. For purposes of the \$2,860,000 and \$8,930,000 Term Bonds, the annual date of redemption begins on November 15, 2025 and November 15, 2029, respectively. Mandatory sinking fund redemption requirements range from \$665,000 to \$1,200,000.

The Series B 2012 Revenue Bonds are subject to mandatory sinking fund redemption requirements prior to maturity at a redemption price equal to the principal amount plus accrued interest to the date upon which this redemption takes place. For purposes of the \$2,090,000 and \$7,205,000 Term bonds, the annual date of redemption begins on January 1, 2013 and July 1, 2024, respectively. Mandatory sinking fund redemption requirements range from \$240,000 to \$515,000.

Additionally, the 2005, 2008 and 2012 bond indentures contain certain restrictive and financial covenants, including a rate covenant which requires the GNHWPCA to set rates to provide for 100% of operating expenses and a Debt Service Coverage ratio of 115%.

The annual debt service requirements on the above debt at June 30, 2014, are as follows:

	Principal	Interest	Total
2015	\$ 5,518,465	\$ 5,645,811	\$ 11,164,276
2016	5,636,464	5,463,913	11,100,377
2017	5,372,588	5,279,679	10,652,267
2018*	9,328,934	5,091,746	14,420,680
2019	5,677,889	4,896,997	10,574,886
2020-2024	30,631,324	21,447,759	52,079,083
2025-2029	29,396,408	15,661,452	45,057,860
2030-2034	32,611,065	8,668,778	41,279,843
2035-2039	17,730,000	1,628,350	19,358,350
2040-2044	1,945,000	159,300	2,104,300
Total	<u>\$ 143,848,137</u>	<u>\$ 73,943,785</u>	<u>\$ 217,791,922</u>

\*2018 Principal figure of \$9,328,934 includes interim funding obligations of \$3,830,262 that are scheduled to convert to a permanent loan obligation by June 30, 2018.

**Greater New Haven Water Pollution Control Authority**

**Notes to Financial Statements**

**Note 6. Long-Term Debt (Continued)**

Long-term liability activity for the year ended June 30, 2014 and 2013, was as follows:

	2014				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue obligation bonds	\$ 109,776,666	\$ -	\$ 2,711,667	\$ 107,064,999	\$ 2,821,668
Notes payable	25,967,812	9,847,834	2,862,771	32,952,875	2,696,797
Interim obligations	8,873,925	4,576,499	9,620,161	3,830,263	-
Total long-term liabilities	<u>\$ 144,618,403</u>	<u>\$ 14,424,333</u>	<u>\$ 15,194,599</u>	<u>\$ 143,848,137</u>	<u>\$ 5,518,465</u>

  

	2013				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue obligation bonds	\$ 102,918,333	\$ 9,295,000	\$ 2,436,667	\$ 109,776,666	\$ 2,531,667
Notes payable	27,591,360	656,236	2,279,784	25,967,812	2,513,586
Interim obligations	2,815,435	6,704,111	645,621	8,873,925	8,873,925
Total long-term liabilities	<u>\$ 133,325,128</u>	<u>\$ 16,655,347</u>	<u>\$ 5,362,072</u>	<u>\$ 144,618,403</u>	<u>\$ 13,919,178</u>

**Note 7. Interest Cost**

The total interest cost incurred during the years ended June 30, 2014 and 2013, was \$5,557,351 and \$5,620,573, respectively, of which \$715,616 and \$508,669, respectively, were capitalized as part of the cost of various capital projects and offset by amortization of debt issuance costs and bond premiums and discounts, respectively.

**Note 8. Risk Management**

The GNHWPCA maintains commercial insurance for various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claims have not exceeded coverage amounts in the last three fiscal years.

**Note 9. Retirement Plan**

The GNHWPCA employees participate in the Connecticut Municipal Employees' Retirement System (MERS). MERS is the administrator of 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. MERS is considered to be a part of the State of Connecticut's financial reporting entity and is included in the State's financial reports as a pension trust fund. The Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the State of Connecticut Retirement and Benefit Services Division, Office of the State Controller, 55 Elm Street, Hartford, CT 06106.

## Greater New Haven Water Pollution Control Authority

### Notes to Financial Statements

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#### Note 9. Retirement Plan (Continued)

Plan provisions are set by Statute of the State of Connecticut. MERS provides retirement benefits, as well as death and disability benefits. Annual cost of living increases between 3% and 5% are paid to disabled members and nondisabled retired members who have reached age 65. Effective January 1, 2002, all other retired members will receive a 2.5% annual adjustment until age 65, at which point they will receive the same cost of living adjustment as those currently age 65. For those retiring after December 31, 2001, annual cost of living increases will be between 2.5% and 6.0%. All benefits vest after 5 years of continuous service or 15 years of aggregate service. Vested members who retire after age 55 or after 25 years of service, irrespective of age, are entitled to an annual retirement benefit, payable monthly for life, in an amount for each year of service equal to:

- If not covered by Social Security: 2% of the average of earnings for the three highest paid years of service.
- If covered by Social Security: 1-1/2% of the three-year average of earnings not in excess of the year's breakpoint, plus 2% of the three-year average of earnings in excess of the year's breakpoint.

Covered employees are required by State Statute to contribute 2-1/4% of earnings upon which Social Security tax is paid, plus 5% earnings on which no Social Security tax is paid. Each participating municipality is required to contribute the amounts necessary to finance the remaining costs of the plan. Employees not covered by social security are required to contribute 5% of all earnings.

The GNHWPCA's required and actual contributions for the years ended June 30, 2014, 2013 and 2012 were \$550,085, \$373,853, and \$356,665, respectively.

#### Note 10. Commitments and Contingencies

The GNHWPCA is a defendant in various litigation, 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 the results of operations of the GNHWPCA.

The GNHWPCA had a long-term agreement, with Operations Management International (OMI) that expired in January 2014 for the operation and maintenance of the treatment plant, pump stations and sewer collection system. The Authority executed a 15 year Maintenance Services Agreement with New Haven Residuals, LP ("Maintenance Contractor") on September 30, 2013 that went into effect January 4, 2014. The comprehensive agreement with the Maintenance Contractor provides for the maintenance of the East Shore Treatment Plant and pump stations. The agreement establishes performance and reporting requirements for the maintenance of the system, and requires the implementation of the maintenance management program to include preventive, predictive, and corrective maintenance for all components of the system.

## Greater New Haven Water Pollution Control Authority

### Notes to Financial Statements

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#### Note 10. Commitments and Contingencies (Continued)

The agreement provides for payment of a Service Fee to the Maintenance Contractor consisting of the following components:

- A fixed component of \$1,930,000 (2014 dollars, adjusted annually);
- Reimbursement for expenditures for maintenance, major repairs, capital costs and outside services up to a Project Expense Limit of \$1,100,000 (2014 dollars, adjusted annually). Amounts expended by the Maintenance Contractor in excess of the limit are paid by the GNHWPCA, subject to a markup due to the Maintenance Contractor; and
- 50% of the revenues collected by the GNHWPCA from the Fats, Oils and Greases) Facility.
- The GNHWPCA is responsible for all utility costs.

As a result of the new Maintenance Services Contract the Authority assumed the day to day operations of the Treatment Plant and sewer collection system effective January 4, 2014. For fiscal year ended June 30, 2014 the Authority paid operations and maintenance fees totaling \$4,046,902 compared to \$5,135,296 for fiscal year ended June 30, 2013.

The GNHWPCA executed a new 10 year extension on August 25, 2014 with New Haven Residuals, LP ("Synagro") for the receipt and disposal of sludge at the East Shore Treatment Plant and operation of the sludge burning incinerator. Under the terms of the new agreement Synagro is responsible for reimbursing the GNHWPCA for the cost of all utilities, except water, associated with the specified services. The agreement provides a payment of a service fee to Synagro to process 6,570 dry tons of sludge with provisions for adjusted fees for defined deviations from that level. The Service Fee is \$385 per dry ton for 2014 subject to annual adjustments for inflation.

Under the terms of the new agreement, Synagro is allowed to solicit sludge from other entities (outside sludge) to utilize the capacity of the on-site incinerator. Synagro is required to pay as a royalty, \$35 per dry ton of outside sludge processed to a sinking fund. The GNHWPCA is required to match all such payments into the sinking fund with all combined contributions to be used for any capital projects that exceed a cost of \$20,000. Synagro is responsible for all capital projects costing less than \$20,000. Combined payments to the sinking fund are expected to approximate \$500,000 annually.

At June 30, 2014, the GNHWPCA has approximately \$430,947 of unbilled, ongoing contracts for construction and improvements of its sewer systems. Funding for these projects is primarily being provided by the State of Connecticut's Clean Water Fund in the form of loans and grants and through excess revenue bond proceeds.

#### Note 11. Pronouncements Issued, Not Yet Effective

The GASB issued pronouncements that have an effective date that may impact future financial presentations.

***GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and its amendment, GASB Statement No. 71***, will be effective on July 1, 2014. This statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other requirements, Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time and calls for immediate recognition of more pension expense than is currently required

**Greater New Haven Water Pollution Control Authority**

**Notes to Financial Statements**

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**Note 11. Pronouncements Issued, Not Yet Effective (Continued)**

***GASB Statement No. 69, Government Combinations and Disposals of Government Operations***, will be effective for the fiscal year beginning on July 1, 2014. This statement provides guidance for determining whether a specific government combination is a government merger, acquisition, or a transfer of operations, which will improve accounting for mergers and acquisitions among state and local governments.

Management has not yet determined the effect that the above GASB statements will have on the financial statements, except that GASB Statement No. 68 will have a material impact.

**Note 12. Subsequent Events**

On July 10, 2014, the GNHWPCA issued Regional Wastewater System Revenue Refunding Bonds in the amount of \$77,510,000, refunding the outstanding 2005 Series A Revenue Bonds.