APPENDIX B – BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Appendix B - Basic Financial Statements - is taken from the Annual Report of Southeastern Connecticut Water Authority for the Fiscal Year ended June 30, 2021 as presented by the Auditors and does not include all of the schedules. A copy of the complete report is available upon request to the General Manager, Southeastern Connecticut Water Authority, Gales Ferry, Connecticut.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southeastern Connecticut Water Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Southeastern Connecticut Water Authority (the "Authority") as of and for the year ended June 30, 2021, 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.

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2021, and the changes in financial position and its cash flows for the year 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's discussion and analysis information on pages 3 through 8 and the schedules on pages 25 and 26 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 report dated August 24, 2021, 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Sandra E. Welwood, LLC

Danbury, Connecticut
August 24, 2021

As management of the Southeastern Connecticut Water Authority (the "Authority"),we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2021.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by $5,799,628.
- The Authority's total net position decreased by $85,846. The decrease is primarily caused by higher than planned expenses related to employee benefits expense and operating expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: 1) fund financial statements, and 2) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund Financial Statements. The Statement of Net Position presents information on all of the Authority's assets, deferred outflows, liabilities, and deferred inflows with the difference between those accounts being 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 Authority is improving or deteriorating.

The fund financial statements present current year's revenues and expenses, which are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements measure the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs through its user fees and other charges, profitability, and credit worthiness.

Notes to Financial Statements. The notes provide additional information that are essential to a full understanding of the data provided in the fund financial statements.

Financial Analysis

Net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Southeastern Connecticut Water Authority, assets exceeded liabilities by $5,799,628 at the close of the most recent fiscal year.

The largest portion of the Authority's net position reflects its investment in capital assets (e.g., land, water distribution system and general plant, machinery, and equipment), less any related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Southeastern Connecticut Water Authority
Net Position

	2021	2020
Current and other assets	$ 1,156,269	$ 921,009
Capital assets (net)	6,496,047	6,629,219
Total assets	7,652,316	7,550,228
Deferred outflows of resources	231,364	276,564
Current liabilities	688,146	486,913
Noncurrent liabilities	1,395,906	1,454,405
Total liabilities	2,084,052	1,941,318
Net position:		
Net investment in capital assets	5,525,510	5,713,885
Unrestricted	274,118	171,589
Total net position	$ 5,799,628	$ 5,885,474

At the end of the current fiscal year, the Authority is able to report a positive balance in the net investment in capital assets and in unrestricted net position. The same held true for the prior fiscal year.

The Authority's net position decreased $85,846 during the current fiscal year.

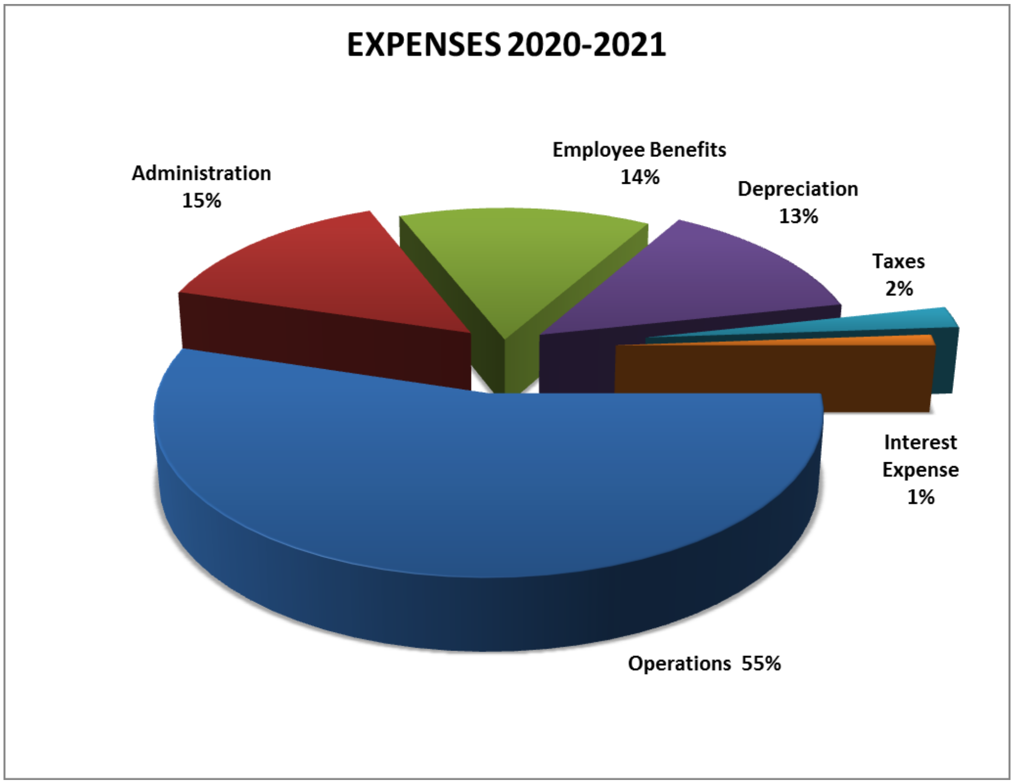
Southeastern Connecticut Water Authority
Changes in Net Position

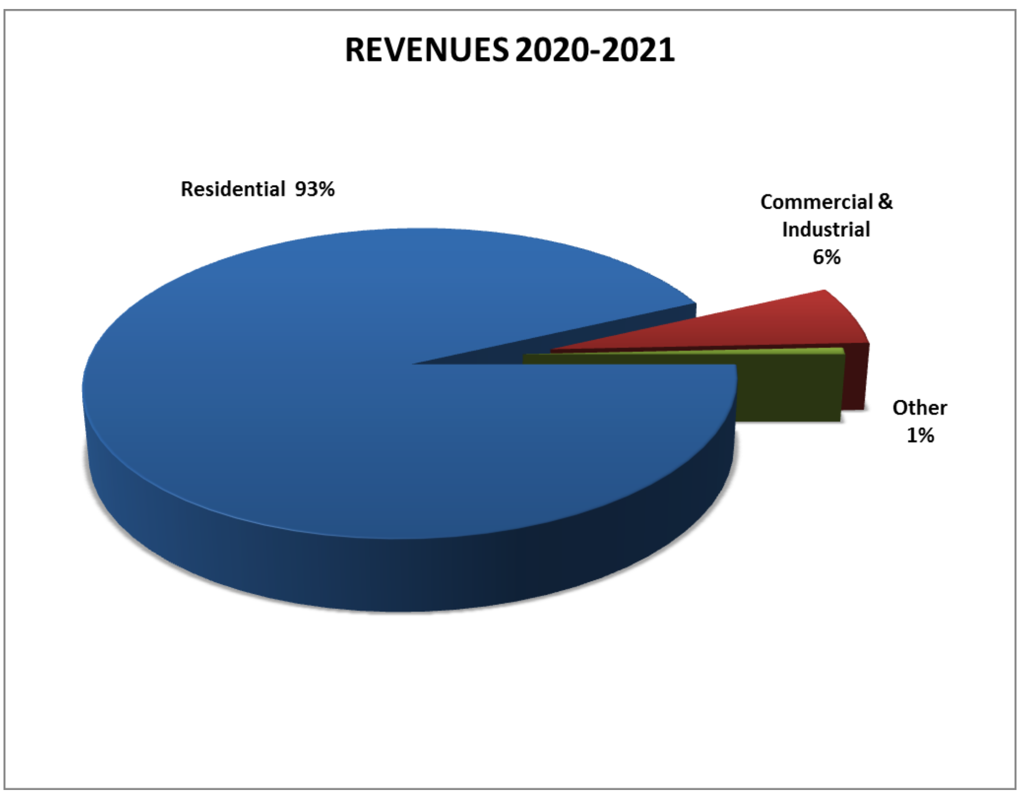
	2021	2020
Revenues:		
Operating revenues:		
Charges for services	$ 1,739,769	$ 1,615,692
Contract services	2,328	3,803
Other income	10,207	17,669
Non-operating revenues:		
Investment and dividend income	58	436
Total revenues	1,752,362	1,637,600
Expenses:		
Operations	1,005,316	989,778
Administration	263,555	258,061
Employee benefits	261,987	213,997
Depreciation	244,531	249,635
Taxes	41,629	40,189
Interest expense	21,190	31,433
Total expenses	1,838,208	1,783,093
Increase (decrease) in net position	(85,846)	(145,493)
Net position – July 1	5,885,474	6,030,967
Net position – June 30	$ 5,799,628	$ 5,885,474

Major factors:

- Charges for services increased by $124,077 or 7.7%.
- Increase in employee benefits expense of $47,990.
- Operating expenses increased by $15,538 or 1.6% primarily from repairs and maintenance costs.

Expenses and Revenues Fiancial Analysis for the Fiscal Year





Capital Assets and Debt Administration

Capital Assets. The Authority's investment in capital assets as of June 30, 2021, amounted to $6,496,047 (net of accumulated depreciation). This investment in capital assets includes land, intangibles, water distribution system, machinery and equipment, and vehicles. The decrease in the Authority's capital assets for the current fiscal year was $133,172 as depreciation was greater than additions and disposals.

Capital Assets
(Net of Depreciation)

	2021	2020
Land	$ 38,848	$ 38,848
Construction in progress	183,706	161,875
Intangibles	124,717	124,717
Water diversion permits	75,904	82,604
Water distribution system	6,029,847	6,187,029
Machinery and equipment	5,827	12,773
Vehicles	37,198	21,373
Total	$ 6,496,047	$ 6,629,219

Additional information on the Authority's capital assets can be found in Note 3 of this report.

Long-Term Debt. At the end of the current fiscal year, the Authority had total bonded and note debt outstanding of $970,537. All debt is backed by the full faith and credit of the Authority.

	2021	2020
General obligation bonds	$ 570,000	$ 665,000
Bond anticipation note	175,000	-
Drinking Water State Revolving Loan Fund notes payable	225,537	250,334
Total	$ 970,537	$ 915,334

Additional information on the Authority's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budget and Rates

Pumping, water treatment, and transmission costs continue to increase due to required testing and demand of water supply throughout the region.

The occupancy rate of the properties that the Authority provides water service to remains very high, and it appears this will continue, at least into the immediate future. The economic climate of the region appears to be relatively stable.

Economic factors, with an emphasis on projected operating costs and revenues, were considered in the preparation and adoption of the Authority's budget for fiscal year 2021-22.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the General Manager, P.O. Box 415, Gales Ferry, CT 06339.

SOUTHEASTERN CONNECTICUT WATER AUTHORITY

STATEMENT OF NET POSITION
JUNE 30, 2021

Assets	
Current assets:	
Cash and cash equivalents	$ 368,967
Investments	70,030
Receivables:	
Usage fees receivable	78,997
Unbilled usage fees receivable	318,571
Prepaid expenses	43,589
Total current assets	880,154
Noncurrent assets:	
Restricted assets:	
Cash	86,071
Investments	189,621
Other	423
Capital assets - utility plant (net):	
Land	38,848
Construction in progress	183,706
Intangibles	124,717
Water diversion permits	75,904
Water distribution system	6,029,847
Machinery and equipment	5,827
Vehicles	37,198
Total capital assets - utility plant (net)	6,496,047
Total noncurrent assets	6,772,162
Total assets	7,652,316
Deferred Outflows of Resources	
Deferred outflows related to pension	231,364
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	52,341
Accrued compensation and related liabilities	64,815
Bonds and notes payable - current maturities	295,298
Total current liabilities	412,454
Noncurrent liabilities:	
Escrow accounts payable from restricted assets	275,692
Bonds and notes payable	675,239
Net pension liability	720,667
Total noncurrent liabilities	1,671,598
Total liabilities	2,084,052
Net Position	
Net investment in capital assets	5,525,510
Unrestricted	274,118
Total net position	$ 5,799,628

The notes to the financial statements are an integral part of this statement.

SOUTHEASTERN CONNECTICUT WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

Operating revenues:	
Sales of water	$ 1,739,769
Contract operations	2,328
Other income	10,207
Total operating revenues	1,752,304
Operating expenses:	
Operations:	
Source of supply	41,597
Pumping	316,146
Treatment	155,556
Distribution	301,178
Customer accounts	85,496
Other	105,343
Administration:	
Administrative salaries	141,420
Office expenses	39,516
Professional services	82,619
Employee benefits	261,987
Depreciation	244,531
Taxes	41,629
Total operating expenses	1,817,018
Operating loss	(64,714)
Non-operating income (expense):	
Investment and dividend income	58
Interest expense	(21,190)
Net non-operating income (expense)	(21,132)
Change in net position	(85,846)
Net position, beginning of year	5,885,474
Net position, end of year	$ 5,799,628

The notes to the financial statements are an integral part of this statement.

SOUTHEASTERN CONNECTICUT WATER AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:	
Receipts from customers	$ 1,778,839
Payments to suppliers	(736,506)
Payments to employees including benefits	(761,855)
Net cash provided by operating activities	280,478
Cash flows from capital activities and related financing activities:	
Acquisition and construction of capital assets	(111,359)
Proceeds from Bond Anticipation Note	175,000
Debt payments	(119,797)
Interest paid	(21,190)
Net cash used in capital and related financing activities	(77,346)
Cash flows from investing activities:	
Net purchase of investments	(10,217)
Interest and dividends on investments	58
Net cash used in investing activities	(10,159)
Net increase in cash and cash equivalents	192,973
Cash and cash equivalents, beginning of year	262,065
Cash and cash equivalents, end of year	$ 455,038

Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	$ (64,714)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	244,531
Changes in assets:	
Receivables	(26,535)
Prepaid expenses	(5,535)
Change in deferred outflows of resources	45,200
Changes in liabilities:	
Accounts payable and accrued expenses	5,639
Accrued compensation and related liabilities	10,830
Escrow accounts	9,264
Net pension liability	61,798
Net cash provided by operating activities	$ 280,478

Statement of Net Position detail:	
Cash and cash equivalents	$ 368,967
Restricted cash	86,071
	$ 455,038

The notes to the financial statements are an integral part of this statement.

Note 1 – Summary of Significant Accounting Policies

History and Organization

In 1967, the General Assembly created the Southeastern Connecticut Water Authority (the "Authority") as a public purpose governmental organization. The Authority exists to plan, operate, maintain and, when needed, construct water supply systems for the 18 southeastern Connecticut regional Authorities of Bozrah, Colchester, East Lyme, Franklin, Griswold, Groton, Ledyard, Lisbon, Montville, New London, North Stonington, Norwich, Preston, Salem, Sprague, Stonington, Voluntown and Waterford, and the three boroughs of Jewett City, Stonington and the City of Groton.

The seven-member Authority governing board is appointed by a 42-member Representative Advisory Board comprised of two members for each of the region's constituent municipalities. The Representative Advisory Board also monitors Authority finances through an annual audit. The Authority's statutory powers include the power of eminent domain, the authority to issue bonded debt, the ability to set service rates, the right to receive grants and generally to do anything necessary or convenient to carry out its purposes.

The Authority has been servicing the region for over forty years. The Authority's mission is to provide southeastern Connecticut with an ample supply of good quality drinking water at a reasonable cost. The direct mission is carried out through the 15 public water supply systems that the Authority owns and operates. The Authority promotes regional consideration of public water supply issues.

Special Act No. 04-2, approved on May 4, 2004, extended the period from 2016 to 2045 during which the State of Connecticut may guarantee Authority loans for up to a total of fifteen million dollars.

The Authority has been determined to be a municipal agency since its creation and, accordingly, is classified under Section 115(1) of the Internal Revenue Code, which provides that gross taxable income does not include income derived from any public utility and accruing to a state or any political subdivision. Therefore, no provision or liability for Federal and state income taxes is reflected in the accompanying basic financial statements.

Basis of Accounting

For financial purposes, the Authority is considered a special purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water use charges. Operating expenses for the Authority include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents and Investments

Cash and equivalents consist of funds deposited in demand deposit accounts, time deposit accounts, certificates of deposit, money market funds, State of Connecticut Treasurer's Short-Term Investment Fund, Tax Exempt Proceeds Funds, and treasury bills with original maturities of less than three months.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Authority deposits may not be returned to it. The Authority's policy for custodial credit risk is to allow the Authority to use banks that are in the State of Connecticut. The State of Connecticut requires 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. The Authority's policy for custodial credit risk is to invest in obligations allowable under the Connecticut General Statutes as described previously.

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Authority does not have a formal credit risk policy other than restrictions to obligations allowable under the Connecticut General Statutes.

Interest Rate Risk – The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, its practice is to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Concentration of Credit Risk – Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Authority follows the limitations specified in the Connecticut General Statutes. Generally, the Authority's deposits cannot be 75% or more of the total capital of any one depository.

Restricted Cash – Certain assets are classified as restricted because their use is limited. Restricted cash relates to escrowed accounts in connection with the Thames River Interconnection Agreement.

Investments are measured by the Authority at fair value (generally based on quoted market prices), except for investments in certain external investment pools as described below.

Investments in certain external investment pools consist of money market mutual funds and the Short-Term Investment Fund (STIF), which is managed by the State of Connecticut Treasurer's Office. Investments in these types of funds, which are permitted to measure their investment holdings at amortized costs, are measured by the Authority at the net asset value per share as determined by the fund.

Fair Value Measurements – The Authority utilizes the market approach as the valuation technique to measure fair value of its financial assets. GAAP establishes a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (“observable inputs”) and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (“unobservable inputs”) and requires that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- <u>Level 1</u> - Valuation based on unadjusted quoted prices in active markets for identical assets the Authority has the ability to access. Since valuations are based on quoted prices readily and regularly available in an active market, valuation of these assets does not entail significant judgment.

- Level 2 - Valuation based on quoted prices for similar assets in active markets; quoted prices for similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, etc.) or can be corroborated by observable market data.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Authority's own assumptions about assumptions that market participants might use.

The Authority's investments are measured on a recurring basis using Level 1 information (market quotations for investments that have quoted prices in active markets). The Authority has no financial assets measured using Level 2 or Level 3 at June 30, 2021.

User Charges and Other Receivables

User charges and other receivables include amounts due from other governments and individuals for services provided by the Authority. Receivables are recorded and revenues recognized as earned. Allowances are recorded when appropriate. There was no allowance for uncollectible receivables at June 30, 2021.

Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Intangible assets lack physical substance, are nonfinancial in nature, and useful life extends beyond a single reporting period. These are reported at historical cost if identifiable. Intangible assets with no legal, contractual, regulatory, technological, or other factors limiting their useful life are considered to have an indefinite useful life and are not amortized.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction-in-progress is not depreciated. Capital assets of the Authority are depreciated or amortized using the straight line method over the following estimated useful lives:

Assets	Years
Water diversion permits	24
Supply and distribution mains	80
Pump structures	40-50
Pumping equipment	15
Treatment equipment	25
Wells and fences	20
Office furniture and equipment:	
General	16.5
Radios	10
Computers and miscellaneous	8
Computer software	5
Tools and equipment	10
Transportation equipment	5
Organization and engineering	20

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority reports a deferred outflow of resources in the Statement of Net Position related to pension contributions made subsequent to the measurement date. These amounts are deferred and included in pension expense in the subsequent year. Also, the Authority reports a deferred outflow of resources related to pension results from differences between expected and actual experience in the Statement of Net Position. These amounts are deferred and included in pension expense in a systematic and rational manner.

Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

Compensated Absences

Employees of the Authority earn sick leave, which can accumulate, and vacation leave based on the provisions of negotiated contracts or other personnel policies. Vacation leave vests with the employee and is payable upon termination of employment.

Pension

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

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

Net Position

Net position represents the difference between assets, liabilities, and deferred outflows/inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position on the Statement of Net Position includes net investment in capital assets. The balance is classified as unrestricted.

The components of net position are detailed below:

> Net Investment in Capital Assets – the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – the component of net position that reflects funds that can only be spent subject to the laws, regulations, grants, and other agreements relating to these funds.

Unrestricted – all other amounts that do not meet the definition of “restricted” or “net investment in capital assets”.

When both restricted and unrestricted amounts of net position are available for use for expenditures incurred, it is the Authority's policy to use restricted amounts first and then unrestricted amounts as they are needed.

Use of Estimates

The preparation of 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, liabilities, and deferred inflows/outflows, 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.

Note 2 – Deposits

Cash and Cash Equivalents

Cash of the Authority consists of the following at June 30, 2021:

Cash and cash equivalents	$ 368,967
Restricted cash	86,071
	$ 455,038

Custodial Credit Risk on Deposits

As of June 30, 2021, the carrying amount of the Authority's deposits with financial institutions was $455,038. The bank balance of the deposits was $517,631 and $433,646 was covered by Federal Depository Insurance.

Note 3 – Capital Assets

Changes in the Authority's capital assets are as follows:

	Balance at July 1, 2020	Increases	Decreases	Balance at June 30, 2021
Capital assets not being depreciated:				
Land	$ 38,848	$ -	$ -	$ 38,848
Construction in progress	161,875	21,831	-	183,706
Intangibles	124,717	-	-	124,717
Total capital assets not being depreciated	325,440	21,831	-	347,271
Capital assets being depreciated:				
Water diversion permits	161,112	-	-	161,112
Water distribution system	11,343,555	61,725	(27,350)	11,377,930
Machinery and equipment	172,412	-	-	172,412
Vehicles	178,441	37,055	-	215,496
Total capital assets being depreciated	11,855,520	98,780	(27,350)	11,926,950
Total capital assets	12,180,960	120,611	(27,350)	12,274,221
Less accumulated depreciation:				
Water diversion permits	78,508	6,700	-	85,208
Water distribution system	5,156,526	209,655	(18,098)	5,348,083
Machinery and equipment	159,639	6,946	-	166,585
Vehicles	157,068	21,230	-	178,298
Total accumulated depreciation	5,551,741	244,531	(18,098)	5,778,174
Capital assets being depreciated, net of depreciation	6,303,779	(145,751)	(9,252)	6,148,776
Total	$ 6,629,219	$ (123,920)	$ (9,252)	$ 6,496,047

Note 4 – Escrowed Accounts -Thames River Interconnection Agreement

On May 24, 2004, the Authority entered into a water supply agreement with several local towns, water authorities, and the Mohegan Tribe for water supplied from the Authority under the Thames River. Upon initial water delivery, the Town of Montville and the Mohegan Tribe are liable for $25,000 each in an escrow set up and maintained by the Authority. The initial water delivery was in February 2008. As such, the Authority established an account for the $50,000, which is earmarked for costs associated with emergency repairs of the regional assets and water tank cleaning and repairs. At June 30, 2021, the restricted cash and investments of $275,692 are for the Thames River Interconnection agreement. The contract restricts the expenditure for the designated purpose. In the event the water supply agreement is terminated for any reason, any remaining funds held in escrow shall be released per the terms of the agreement.

Note 5 – Long-Term Obligations

The following table summarizes changes in the Authority's long-term indebtedness for the year ending June 30, 2021:

Type	Original Amount	Year of Issue	Year of Maturity	Interest Rate	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Bonds/Notes									
Capital Improvement Bond	$ 1,530,000	03/01/07	03/01/27	4.00-4.75%	$ 665,000	$ -	$ 95,000	$ 570,000	$ 95,000
Bond anticipation note	175,000	10/15/20	10/14/21	2.0%	-	175,000	-	175,000	175,000
Drinking Water State:									
Revolving Loan Fund Note	158,059	10/26/12	06/30/32	2.0%	103,720	-	7,724	95,996	7,881
Revolving Loan Fund Note	15,771	09/15/14	02/28/33	2.0%	11,514	-	803	10,711	819
Revolving Loan Fund Note	11,601	09/15/14	02/28/33	2.0%	8,469	-	590	7,879	602
Revolving Loan Fund Note	157,020	04/30/18	11/30/27	2.0%	126,631	-	15,680	110,951	15,996
Total Bonds/Notes					915,334	175,000	119,797	970,537	295,298
Net Pension Liability					658,869	61,798	-	720,667	-
Total Long-Term Obligations					$ 1,574,203	$ 236,798	$ 119,797	$ 1,691,204	$ 295,298

All debt is secured by full faith and credit of the Authority.

The annual requirements to amortize bonds and notes payable at June 30, 2021, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2022	$ 297,841	$ 31,240	$ 329,081
2023	120,808	22,765	143,573
2024	121,330	17,986	139,316
2025	121,860	13,197	135,057
2026	122,403	8,397	130,800
2027	122,956	3,587	126,543
2028-2032	62,163	2,506	64,669
2033	1,176	4	1,180
	$ 970,537	$ 99,682	$ 1,070,219

Bond Authorized and Unissued

At June 30, 2021, there were no authorized and unissued bonds.

Note 6 – Employee Retirement Systems and Pension Plans

Connecticut Municipal Employees Retirement System

Description of Retirement System

The Authority is a participating municipality of the Connecticut's Municipal Employees Retirement System ("CMERS"), which is the public pension plan offered by the State of Connecticut for municipal employees in participating municipalities. The plan was established in 1947 and is governed by Connecticut General Statute Title 7, Chapter 113. CMERS is a multiemployer cost-sharing defined benefit pension plan administered by the Connecticut State Retirement Commission. The State Retirement Commission is responsible for the administration of CMERS. The State Treasurer is responsible for investing CMERS funds for the exclusive benefit of CMERS members. The Authority had 7 participants in CMERS at June 30, 2021.

CMERS is considered a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106 or by calling (860) 702-3480.

Summary of Significant Accounting Policies

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

Benefits Provided

The benefits provided to participants by CMERS include retirement, disability, and death benefits as follows:

General Employees – Employees are eligible to retire at age 55 with 5 years of continuous service, or 15 years of active aggregate service, or 25 years of aggregate service.

Policemen and Firemen – Compulsory retirement age for police and fire members is age 65.

Normal Retirement – For members not covered by social security, the benefit is 2% of average final compensation times years of service.

For members covered by social security, the benefit is 1.5% of the average final compensation not in excess of the year's breakpoint plus 2% of average final compensation in excess of the year's breakpoint, times years of service.

The maximum benefit is 100% of average final compensation and the minimum benefit is $1,000 annually. Both the minimum and the maximum include workers' compensation and social security benefits.

If any member covered by social security retires before age 62, the benefit until age 62 or until a social security disability award is received, is computed as if the member is not under social security.

Early Retirement – Employees are eligible after 5 years of continuous service or 15 years of active aggregate service. The benefit is calculated based on average final compensation and service to date of termination. Deferred to normal retirement age or an actuarially reduced allowance may begin at the time of separation.

Disability Retirement – Employees are eligible for service-related disability benefits from being permanently or totally disabled from engaging in the service of the municipality provided such disability has arisen out of and in the course of employment with the municipality. Disability due to hypertension or heart disease, in the case of firefighters and police officers, is presumed to have been suffered in the line of duty. Disability benefits are calculated based on compensation and service to the date of the disability with a minimum benefit (including workers' compensation benefits) of 50% of compensation at the time of disability.

Employees are eligible for non-service related disability benefits with 10 years of service and being permanently or totally disabled from engaging in gainful employment in the service of the municipality. Disability benefits are calculated based on compensation and service to the date of the disability.

Pre-Retirement Death Benefit – The plan also offers a lump sum return of contributions with interest or surviving spouse benefit depending on length of service.

Contribution Requirements

Employer – As a participating municipality, the Authority makes annual contributions consisting of a normal cost contribution, a contribution for the amortization of the net unfunded accrued liability, and a prior service amortization payment, which covers the liabilities of CMERS not met by member contributions.

Employees – For employees not covered by social security, each person is required to contribute 6% of compensation. For employees covered by social security, each person is required to contribute 3.25% of compensation up to the social security taxable wage base plus 6% of compensation, if any, in excess of such base.

The Authority's required contribution to CMERS is currently 14.95% of covered payroll. Such contribution was $73,111 for the year ended June 30, 2021, related to covered payroll of $489,038.

Actuarial Assumptions

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

Inflation	2.50 Percent
Salary increases, including inflation	3.50-10.00 Percent
Long-term investment rate of return, net of pension investment expense, including inflation	7.00 Percent

Mortality rates - For the period after retirement and for dependent beneficiaries, mortality rates were based on the RP-2014 Combined Mortality Table adjusted to 2006 and projected to 2015 with Scale MP-2017 and projected to 2022 with Scale BB for General Employees and the RP-2014 Blue Collar Mortality

Table adjusted to 2006 and projected to 2015 with Scale MP-2017 and projected to 2022 with Scale BB for Police and Fire. For disabled retirees, the RP-2014 Disabled Mortality Table projected with Scale BB to 2020 was used. The static projection produces sufficient margin in the mortality rates to reflect future improvement in our judgement.

Future Cost-of-Living adjustments for members who retire on or after January 1, 2002 are 60% of the annual increase in the CPI up to 6%. The minimum annual COLA is 2.5%; the maximum is 6%.

The collective total pension liability as of June 30, 2020 is based upon the June 30, 2020 actuarial valuation. The actuarial assumptions used in the June 30, 2020valuation were based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2017.

The long-term expected rate of return on pension investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equities	20%	5.3%
Developed Non-U.S. Equities	11%	5.1%
Emerging Markets (Non-U.S.)	9%	7.4%
Core Fixed Income	16%	1.6%
Inflation Linked Bonds	5%	1.3%
Emerging Market Bonds	5%	2.9%
High Yield Bonds	6%	3.4%
Real Estate	10%	4.7%
Private Equity	10%	7.3%
Alternative Investments	7%	3.2%
Liquidity Fund	1%	0.9%

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on those assumptions, the pension's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability of CMERS, calculated using the discount rate of 7.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Sensitivity of the proportionate share of the net pension liability	$ 1,027,025	$ 720,667	$ 463,995

Pension Liabilities, Pension Expense, and Deferred Inflows/Outflows of Resources

At June 30, 2021, the Authority reported a liability in the Statement of Net Position for its proportionate share (0.1835150%) of the net pension liability. The amount recognized by the Authority as its proportionate share of the net pension liability was $720,667.

The Authority recognized the total proportionate share of the collective pension expense in the government-wide Statement of Activities associated with the Authority of $179,056 for the fiscal year ended June 30, 2021.

At June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to CMERS in its government-wide Statement of Net Position from the following sources:

	Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	$ (44,388)
Change in assumptions	118,657
Change in proportionate share	8,356
Net difference between projected and actual earnings on plan investments	75,628
Authority contributions subsequent to the measurement date	73,111
Total	$ 231,364

The deferred outflows of resources resulting from the Authority's contributions subsequent to the measurement date of June 30, 2020, will be recognized as a reduction of the net pension liability in the subsequent year.

Other deferred outflows and inflows are amortized over a closed five-year period.

Amounts reported in deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30,	
2022	$ 142,476
2023	81,014
2024	(984)
2025	8,858

Note 7 – Contingent Liabilities

Litigation

The Authority is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Authority's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

Note 8 – Risk Management

The Authority is exposed to various risks of loss involving torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the Authority carries commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

Note 9 - Operating Leases

The Authority leases a tract of land approximately seven acres in size, which contains one 225 gallon per minute well, one 120 gallon per minute well, a pump house, and a well enclosure. The present term of the lease is 25 years, expiring June 30, 2040, with the right to renew for an additional twenty-five year period. The payments are $8,269 per year and can be adjusted every five years according to changes in the Consumer Price Index.

The Authority also leases office space under a five-year lease that expires on November 30, 2025. Monthly payments are $1,750 or $21,000 per year.

Note 10 – Recently Issued Accounting Standards Not Yet Adopted

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. The impact of the following accounting pronouncements are currently being assessed by the Authority as to the impact to the financial statements.

GASB Statement No. 87, Leases. This Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset, which should result in the recognition and reporting of leased assets and the liability associated with subsequent lease payments, which have historically been classified as operating leases of the current reporting period only. The new Statement requires a Lessee to recognize a lease liability and an intangible right-to-use lease asset, with the lessor required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The Authority is aware of this Statement and will assess its impact to ensure timely implementation.

GASB Statement No. 92, Omnibus 2020. Statement 92 includes guidance addressing various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements. The issues covered by GASB Statement No. 92, Omnibus 2020, include:

- Modification of the effective date of Statement No. 87, Leases, as well as associated implementation guidance, to fiscal years beginning after December 15, 2019, to address concerns regarding interim financial reports;
- Reporting intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan;
- The applicability of Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for pensions and OPEB;
- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to pension and OPEB arrangements; and
- Measurement of liabilities and assets, if any, related to asset retirement obligations in a government acquisition.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. This Statement postpones the effective dates of the following GASB Statements and Implementation Guides for one year from their original effective dates to provide relief to governments and other stakeholders in light of the COVID-19 pandemic. The GASB encourages and permits earlier application of these standards to the extent specified in each pronouncement as originally issued.

GASB Statement No. 96, Subscription-Based Information Technology Arrangements. GASB Statement No. 96 provides accounting and financial reporting guidance for subscription-based information technology arrangements (SBITAs). It is based on the standards established in Statement 87, Leases. It:

- Defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction;
- Requires governments with SBITAs to recognize a right-to-use subscription asset — an intangible asset — and a corresponding subscription liability (with an exception for short-term SBITAs — those with a maximum possible term of 12 months); and
- Provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA.
- The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Note 11 – Subsequent Events

Management has evaluated subsequent events from the financial statement date of June 30, 2021 through August 24, 2021, which is the date these financial statements were available to be issued. All subsequent events requiring recognition or disclosure have been incorporated into these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

SOUTHEASTERN CONNECTICUT WATER AUTHORITY

CONNECTICUT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2021	2020	2019	2018	2017	2016	2015
Authority's proportion of the net pension liability	0.183515%	0.178516%	0.170244%	0.185240%	0.185240%	0.184747%	0.184747%
Authority's proportionate share of the net pension liability	$ 720,667	$ 658,869	$ 651,113	$ 306,203	$ 363,584	$ 252,939	$ 190,045
Authority's covered-employee payroll	$ 489,038	$ 469,861	$ 458,914	$ 440,250	$ 429,097	$ 385,114	$ 409,965
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	147.36%	140.23%	141.88%	69.55%	84.73%	65.68%	46.36%
System fiduciary net position as a percentage of the total pension liability	71.18%	72.69%	73.60%	91.68%	88.29%	92.72%	90.48%

See accompanying Independent Auditors' Report.

SOUTHEASTERN CONNECTICUT WATER AUTHORITY

CONNECTICUT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CONTRIBUTIONS

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 73,111	$ 64,512	$ 53,877	$ 51,685	$ 48,831	$ 43,826	$ 49,114
Contributions in relation to the contractually required contribution	(73,111)	(64,512)	(53,877)	(51,685)	(48,831)	(43,826)	(49,114)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority's covered-employee payroll	$ 489,038	$ 469,861	$ 458,914	$ 440,250	$ 429,097	$ 385,114	$ 409,965
Contributions as a percentage of covered-employee payroll	14.95%	13.73%	11.74%	11.74%	11.38%	11.38%	11.98%

See accompanying Independent Auditors' Report.