

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES**

FINANCIAL STATEMENTS

JUNE 30, 2022



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**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
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JUNE 30, 2022**

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INDEPENDENT AUDITORS' REPORT

Honorable Members of the
Public Utilities Commission and the Sewer Authority
City of Norwich, Connecticut, Department of Public Utilities

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the City of Norwich, Connecticut, Department of Public Utilities (the Department) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Norwich, Connecticut, Department of Public Utilities as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial positions, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the City of Norwich, Connecticut that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Norwich, Connecticut as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

Honorable Members of the
Public Utilities Commission and the Sewer Authority

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining and individual division financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining and individual division financial statements is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2022, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

West Hartford, Connecticut
December 18, 2022

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
STATEMENT OF NET POSITION
JUNE 30, 2022**

Assets:	
Current:	
Cash and cash equivalents	\$ 60,145,660
Receivables, net:	
User charges	14,020,115
Other	406,408
Leases receivable	100,550
Due from City of Norwich	28,276
Inventories	2,191,526
Other assets	2,219,116
Total current assets	<u>79,111,651</u>
Noncurrent assets:	
Leases receivable	544,585
Capital assets, net	156,146,003
Total noncurrent assets	<u>156,690,588</u>
Total assets	<u>235,802,239</u>
Deferred Outflows of Resources:	
Deferred outflow of resources related to pensions	23,636,804
Deferred outflow of resources related to OPEB	2,090,537
Total deferred outflows of resources	<u>25,727,341</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	8,268,051
Notes payable	1,849,587
Compensated absences	2,133,663
Risk management claims	252,759
Lease liability	145,476
Cash advances from other funds	2,758,756
Due to City of Norwich	40,183
Total current liabilities	<u>15,448,475</u>
Noncurrent liabilities:	
Customer deposits	3,390,658
Notes payable	23,966,393
Compensated absences	3,292,365
Risk management claims	912,135
Lease liability	497,531
Cash advances from other funds	62,637,911
Net pension liability	15,879,185
Net OPEB liability	6,904,639
Total noncurrent liabilities	<u>117,480,817</u>
Total liabilities	<u>132,929,292</u>
Deferred Inflows of Resources:	
Deferred inflow of resources related to leases	639,335
Deferred inflow of resources related to pensions	7,285
Deferred inflow of resources related to OPEB	1,780,718
Total deferred inflows of resources	<u>2,427,338</u>
Net Position:	
Net investment in capital assets	130,330,023
Restricted for energy efficiency program	1,122,212
Unrestricted	(5,279,285)
Total Net Position	<u>\$ 126,172,950</u>

The accompanying notes are an integral part of the financial statements

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

Operating revenues:	
Charges for services	\$ 96,253,796
Use of property	1,100,197
Other services	<u>1,097,885</u>
Total operating revenues	<u>98,451,878</u>
Operating expenses:	
Purchased gas and electric	36,940,647
Operations and maintenance	15,635,140
General and administrative	20,984,210
Depreciation and amortization	8,602,376
Pension expense	8,235,423
Customer accounts	3,968,724
Gross revenue and property taxes	3,190,756
OPEB expense	<u>1,347,310</u>
Total operating expenses	<u>98,904,586</u>
Operating Loss	<u>(452,708)</u>
Nonoperating Income (Expenses):	
Interest income	37,425
Interest expense	(858,584)
Loss on disposal of capital assets	162,093
Other nonoperating revenue	<u>753,681</u>
Net nonoperating income	<u>94,615</u>
Income (Loss) Before Contributions and Transfers	(358,093)
Capital Contributions	757,586
Transfer out to City of Norwich	<u>(8,648,304)</u>
Change in Net Position	(8,248,811)
Net Position at Beginning of Year	<u>134,421,761</u>
Net Position at End of Year	<u>\$ 126,172,950</u>

The accompanying notes are an integral part of the financial statements

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022**

Cash Flows from Operating Activities:	
Cash received from charges for services	\$ 97,200,178
Cash paid to vendors	(54,778,878)
Cash paid to employees for services	(79,205,134)
Net cash provided by (used in) operating activities	<u>(36,783,834)</u>
Cash Flows from Noncapital and Related Financing Activities:	
Transfers to City of Norwich	(8,648,304)
Customer deposits	372,260
Cash advance to other funds	142,251
Net cash provided by (used in) noncapital and related financing activities	<u>(8,133,793)</u>
Cash Flows from Capital and Related Financing Activities:	
Capital contributions	757,586
Purchases of capital assets	(11,312,454)
Proceeds from sale of capital assets	260,783
Proceeds from long-term debt	782,491
Principal payment on bonds and notes	467,139
Principal payment on capital leases	(2,083,801)
Interest payment on debt	(858,584)
Cash advances (repayments) from City of Norwich	52,351,808
Other nonoperating revenues	753,681
Net cash provided by (used in) capital and related financing activities	<u>41,118,649</u>
Cash Flows from Investing Activities:	
Income on investments	37,425
Net cash provided by (used in) investing activities	<u>37,425</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,761,553)
Cash and Cash Equivalents at Beginning of Year	<u>63,907,213</u>
Cash and Cash Equivalents at End of Year	<u>\$ 60,145,660</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in)	
Operating Activities:	
Operating Loss	\$ <u>(452,708)</u>
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:	
Depreciation expense	8,602,376
Change in deferred outflow of resources related to pensions	(17,332,905)
Change in deferred outflow of resources related to OPEB	(91,024)
Change in net pension liability	(21,477,425)
Change in net OPEB liability	(1,158,349)
Change in deferred inflow of resources related to leases	639,335
Change in deferred inflow of resources related to pensions	(5,847,763)
Change in deferred inflow of resources related to OPEB	1,632,970
(Increase) decrease in receivables	(1,245,900)
(Increase) decrease in lease receivable	(645,135)
(Increase) decrease in inventories and other assets	(366,531)
Increase (decrease) in accounts payable and accrued liabilities	959,225
Total adjustments	<u>(36,331,126)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (36,783,834)</u>

The accompanying notes are an integral part of the financial statements

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Department of Public Utilities (the Department) of the City of Norwich (the City), which operates gas, electric, water and sewer divisions, is managed by a Public Utilities Commission and Sewer Authority and is reported as a business-type activity in the City's basic financial statements.

B. Basis of Accounting

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

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of operations and maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Accounting 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 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.

D. Cash Equivalents

Cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

E. Estimated Unbilled Utility Services

An estimated amount has been recorded for utility services provided but not billed as of the end of the year.

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

F. Capital Assets

Property, plant and equipment are stated at cost. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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. Donated capital assets are recorded at estimated acquisition value at the date of the donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements	20
Underground distribution and collection systems	50
Electrical transmission systems	20
Vehicles, machinery and equipment	3-20

G. Inventories

Inventories are valued at cost using the average cost method.

H. Compensated Absences

Employees accumulate sick and vacation leave hours for subsequent use or for payment upon retirement. Sick leave vests and may be carried forward, but not to exceed 120 days. Vacation time is earned on a calendar year basis to be used in the following year. Hours accumulated and not used or expired are paid upon retirement.

The expense and liability for vested sick and vacation leave is recorded annually for benefits accrued to employees.

I. Funding Policy for Pension

The Department funds the annual actuarially determined contributions to the City's pension plan.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period or periods and so will not be recognized as an outflow of resources (expense) until then. The Department reports deferred outflows related to pension and OPEB. A deferred outflow of resources related to pension and OPEB results from differences between expected and actual experience, changes in assumptions or other inputs, and investment gains and losses. These amounts are deferred and included in pension and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension and OPEB plans (active employees and inactive employees) Differences in expected and actual investment income are expenses over five years.

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. A deferred inflow of resources related to pension and OPEB results from differences between expected and actual experience, changes in assumptions or other inputs, and investment gains and losses. These amounts are deferred and included in pension and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension and OPEB plan (active employees and inactive employees). Differences in expected and actual investment income are expenses over five years.

K. Net Pension Liability

The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. Investments are reported at fair value.

L. Net OPEB Liability

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

M. Net Position

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

N. Adoption of New Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

The Department adopted the requirements of the guidance effective July 1, 2021, and has elected to apply the provisions of this standard to the beginning period of adoption.

O. Leases

Lessee

The Department determines if an arrangement is a lease at inception. Leases are included in lease assets and lease liabilities in the statements of net position.

Lease assets represent the Department's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the Department's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the Department will exercise that option.

The Department has elected to recognize payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use lease assets on the statements of net position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Department has elected to use their incremental borrowing rate to calculate the present value of expected lease payments.

The Department accounts for contracts containing both lease and non-lease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and non-lease components, and it is impractical to estimate the price of such components, the Department treats the components as a single lease unit.

Lessor

The Department determines if an arrangement is a lease at inception. Leases are included in lease receivables and deferred inflows of resources in the statements of net position and fund financial statements.

Lease receivables represent the Department's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized at commencement date based on the present value of expected lease payments over the lease term, reduced by any provision for estimated uncollectible amounts.

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

Deferred inflows of resources related to leases are recognized at the commencement date based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflows related to leases are recognized as lease revenue in a systematic and rational manner over the lease term.

Amounts to be received under residual value guarantees that are not fixed in substance are recognized as a receivable and an inflow of resources if (a) a guarantee payment is required and (b) the amount can be reasonably estimated. Amounts received for the exercise price of a purchase option or penalty for lease termination are recognized as a receivable and an inflow of resources when those options are exercised.

The Department has elected to recognize payments received for short-term leases with a lease term of 12 months or less as revenue as the payments are received. These leases are not included as lease receivables or deferred inflows on the statements of net position and fund financial statements.

Significant lease terms are disclosed in Note 16 Leases.

The Department accounts for contracts containing both lease and non-lease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and non-lease components, and it is impractical to estimate the price of such components, the Department treats the components as a single lease unit.

2. CASH AND CASH EQUIVALENTS

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). At June 30, 2022, the carrying amount of the Department's deposits was \$60,145,660, and the bank balance was \$60,787,346. The Department's deposits, along with other cash equivalents, are under the control of the Treasurer of the City and subject to the City's available Federal Depository Insurance Coverage and certain limited collateralization provisions contained in Section 36a-333 of the Connecticut General Statutes. The Department's deposits that are uninsured and uncollateralized are not separately identifiable.

3. RECEIVABLES

Receivables as of year end for the Department's divisions, including applicable allowances for uncollected amounts, are as follows:

	<u>Gas</u>		<u>Electric</u>		<u>Water</u>		<u>Sewer</u>		<u>Total</u>
Receivables:									
User charges	\$ 3,603,626	\$	10,275,952	\$	1,007,915	\$	863,575	\$	15,751,068
Unbilled revenue	615,177		3,568,748		654,607		552,515		5,391,047
Other	3,777				402,631				406,408
Gross receivables	<u>4,222,580</u>		<u>13,844,700</u>		<u>2,065,153</u>		<u>1,416,090</u>		<u>21,548,523</u>
Less allowance for uncollectibles:									
User charges	<u>(1,816,500)</u>		<u>(4,900,500)</u>		<u>(222,100)</u>		<u>(182,900)</u>		<u>(7,122,000)</u>
Net Total Receivables	<u>\$ 2,406,080</u>	\$	<u>8,944,200</u>	\$	<u>1,843,053</u>	\$	<u>1,233,190</u>	\$	<u>14,426,523</u>

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business activities:					
Capital assets not being depreciated:					
Land	\$ 1,728,439	\$ 4,623	\$	\$	\$ 1,733,062
Construction in progress	<u>22,680,832</u>	<u>(7,245,808)</u>	<u>11,101,016</u>	<u>(259,950)</u>	<u>26,276,090</u>
Total capital assets not being depreciated	<u>24,409,271</u>	<u>(7,241,185)</u>	<u>11,101,016</u>	<u>(259,950)</u>	<u>28,009,152</u>
Capital assets being depreciated:					
Structures and improvements	52,576,855	65,940		(32,117)	52,610,678
Machinery, equipment pumping and distribution systems	<u>256,135,479</u>	<u>7,175,245</u>		<u>(1,294,201)</u>	<u>262,016,523</u>
Total capital assets being depreciated	<u>308,712,334</u>	<u>7,241,185</u>	<u>-</u>	<u>(1,326,318)</u>	<u>314,627,201</u>
Less accumulated depreciation for:					
Structures and improvements	(27,936,760)		(1,216,914)	32,117	(29,121,557)
Machinery, equipment pumping and distribution systems	<u>(152,272,983)</u>		<u>(7,227,312)</u>	<u>1,400,687</u>	<u>(158,099,608)</u>
Total accumulated depreciation	<u>(180,209,743)</u>	<u>-</u>	<u>(8,444,226)</u>	<u>1,432,804</u>	<u>(187,221,165)</u>
Total capital assets being depreciated, net	<u>128,502,591</u>	<u>7,241,185</u>	<u>(8,444,226)</u>	<u>106,486</u>	<u>127,406,036</u>
Business Activities Capital Assets, Net	<u>\$ 152,911,862</u>	<u>\$ -</u>	<u>\$ 2,656,790</u>	<u>\$ (153,464)</u>	<u>\$ 155,415,188</u>

Right-to-use asset activity for the year ended June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Right to Use Assets Amortized:					
Land	\$ -	\$ -	\$ 582,163	\$ -	\$ 582,163
Equipment	<u>-</u>	<u>-</u>	<u>306,802</u>	<u>(653)</u>	<u>306,149</u>
Total Right to Use Assets	<u>-</u>	<u>-</u>	<u>888,965</u>	<u>(653)</u>	<u>888,312</u>
Less Accumulated Amortization:					
Equipment	<u>-</u>	<u>-</u>	<u>(158,150)</u>	<u>653</u>	<u>(157,497)</u>
Total Accumulated Amortization	<u>-</u>	<u>-</u>	<u>(158,150)</u>	<u>653</u>	<u>(157,497)</u>
Right to Use Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 730,815</u>	<u>\$ -</u>	<u>\$ 730,815</u>

Depreciation and amortization were charged to the divisions as follows:

Gas	\$ 2,904,673
Electric	1,996,386
Water	1,620,442
Sewer	<u>2,080,875</u>
Total	<u>\$ 8,602,376</u>

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

5. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Notes payable	1,154,140	-	(395,466)	758,674	411,848
State of Connecticut - serial note	26,139,018	467,138	(1,548,850)	25,057,306	1,437,739
Total bonds and notes payable	27,293,158	467,138	(1,944,316)	25,815,980	1,849,587
Compensated absences	5,143,991	2,251,789	(1,969,752)	5,426,028	2,133,663
Workers' compensation	897,971	502,167	(235,244)	1,164,894	252,759
Lease liability	800,505	-	(157,498)	643,007	145,476
Cash advances	13,044,859	53,506,609	(1,154,801)	65,396,667	2,758,756
Net pension liability	37,356,610	-	(21,477,425)	15,879,185	-
Net OPEB liability	8,062,988	-	(1,158,349)	6,904,639	-
Total Long-Term Liabilities	\$ 92,600,082	\$ 56,727,703	\$ (28,097,385)	\$ 121,230,400	\$ 7,140,241

Outstanding bonds and serial notes payable at June 30, 2022 are comprised of the following:

<u>Description</u>	<u>Interest Rate (%)</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>(In Thousands)</u>	
				<u>Original Amount Issued</u>	<u>Outstanding June 30, 2022</u>
Notes payable:					
Equipment Financing Agreement	4.25	12/28/2017	2/29/2024	1,937	\$ 565
Equipment Financing Agreement	3.05	7/1/2020	10/31/2024	344	194
State of Connecticut serial notes payable:					
Clean Water Act 349-C	2.00	12/31/2002	12/31/2021	881	
Clean Water Act 625-D	2.00	12/31/2012	12/31/2031	1,865	969
Clean Water Act 495-C	2.00	05/31/2013	06/01/2032	5,748	3,107
Clean Water Act 625-D1	2.00	05/31/2015	12/31/2031	2,510	1,462
Clean Water Act 707-PD	2.00	2/26/2021	1/31/2041	1,655	1,538
Drinking Water State Revolving Fund 9714-C	2.77	12/31/2002	12/31/2021	1,899	
Drinking Water State Revolving Fund 200801-C	2.27	07/01/2009	07/01/2029	450	156
Drinking Water State Revolving Fund 2010-8005	2.06	03/31/2010	12/31/2029	145	54
Drinking Water State Revolving Fund 2010-8006	2.06	03/31/2010	06/30/2030	326	130
Drinking Water State Revolving Fund 2010-7005	2.00	04/30/2014	10/31/2032	160	90
Drinking Water State Revolving Fund 2010-7006	2.00	04/30/2014	04/30/2032	148	81
Drinking Water State Revolving Fund 2014-7027	2.00	06/30/2015	12/31/2034	506	316
Drinking Water State Revolving Fund 2014-7036	2.00	05/31/2016	11/30/2036	4,052	2,718
Drinking Water State Revolving Fund 2015-7037	2.00	10/31/2016	10/31/2034	1,528	1,040
Drinking Water State Revolving Fund 2017-7056	2.00	8/31/2019	8/31/2038	2,695	2,179
Drinking Water State Revolving Fund 2019-7069	2.00	12/31/2020	6/30/2040	2,477	2,229
Drinking Water State Revolving Fund 2019-7072	2.00	8/30/2019	2/28/2039	1,582	1,319
Drinking Water State Revolving Fund 2019-7081	2.00	11/30/2020	6/30/2040	2,414	2,172
Drinking Water State Revolving Fund 2019-7077	*	*	*	*	5,497
Total					\$ 25,816

* Loans not permanently financed as of June 30, 2022

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

The annual debt service requirements are as follows:

<u>Fiscal Year Ending June 30</u>	<u>(In Thousands)</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,850	\$ 402	\$ 2,252
2024	1,728	357	2,085
2025	1,526	323	1,849
2026	1,470	291	1,761
2027	1,481	262	1,743
2028-2032	7,290	860	8,150
2033-2037	3,655	300	3,955
2038-2044	1,319	38	1,357
Subtotal	20,319	2,833	23,152
State of Connecticut - serial notes not permanently financed as of June 30, 2022	5,497		5,497
Total	<u>\$ 25,816</u>	<u>\$ 2,833</u>	<u>\$ 28,649</u>

6. PENSION PLAN

A. Plan Description and Benefits Provided

All full-time and certain part-time employees of the Department participate in a single-employer public employee retirement system (PERS) established and administered by the City to provide pension benefits for its employees. The City includes the financial statements and required supplementary information for the plan in its comprehensive annual financial report, which is available from the City Comptroller, City Hall, 100 Broadway, Norwich, Connecticut.

The City provides all retirement, death and disability benefits through a single-employer, contributory, defined benefit plan. Under the plan, all employees are eligible to join after their probationary period. Department employees are 100% vested in a pension to begin at age 60 if they terminate employment after 10 years of continuous service or after 25 years of service and attainment of age 55. Any employee terminating employment after age 50 with 25 years of service is eligible for a pension immediately. Also, any member who terminates after 5 years of service is eligible for a pension deferred to age 60. Employees who retire at age 55 with 25 years of service or age 60 with 10 years of service receive a retirement benefit of 2.2% of average final earnings during the highest 3 of the last 10 consecutive-year period. Effective January 1, 2018, the plan was amended such that employees hired after January 1, 2018 receive a retirement benefit of 1.95% of average final earnings during the highest 3 of the last 10 consecutive-year periods.

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

Employees are required to contribute 8.5% of their earnings to the plan. If an employee leaves employment or dies before meeting the vesting requirements, accumulated employee contributions and interest are refunded. The Department is required to contribute the remaining amounts necessary to finance the benefits for its employees. The Department's contributions to the plan for the year ended June 30, 2022 was \$4,564,364, equal to the required contribution for the year. Employer contributions in 2021 and 2020 were \$4,256,000 and \$3,912,000, respectively, and equal to the required contribution for each year.

B. Net Pension Liability of the Department

The components of the net pension liability of the Department at June 30, 2022 were as follows:

Total pension liability	\$ 128,475,013
Plan fiduciary net position	<u>(112,595,828)</u>
Net Pension Liability	<u>\$ 15,879,185</u>
Plan fiduciary net position as a percentage of the total pension liability	87.64%

C. Changes in the Net Pension Liability

	NPU Portion of the City Retirement System		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of July 1, 2021	\$ <u>111,430,105</u>	\$ <u>74,073,495</u>	\$ <u>37,356,610</u>
Changes for the year:			
Service cost	1,854,216		1,854,216
Interest on total pension liability	7,976,006		7,976,006
Effect of economic/demographic gains or losses	414,251		414,251
Change in benefit terms			-
Change in assumptions	13,457,816		13,457,816
Employer contributions		52,893,516	(52,893,516)
Member contributions		1,397,601	(1,397,601)
Net investment income		(8,995,805)	8,995,805
Benefit payments, including refund to employee contributions	(6,657,381)	(6,657,381)	-
Administrative expenses		(115,598)	115,598
Net changes	<u>17,044,908</u>	<u>38,522,333</u>	<u>(21,477,425)</u>
Balances as of June 30, 2022	\$ <u><u>128,475,013</u></u>	\$ <u><u>112,595,828</u></u>	\$ <u><u>15,879,185</u></u>

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2022, the Department recognized pension expense of \$8,235,423. At June 30, 2022, the Department reported deferred outflows and inflows of resources related to pension from the following sources:

	NPU Employees	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,245,063	\$ 7,285
Changes of assumptions	13,043,391	-
Net difference between projected and actual earnings on pension plan investments	8,348,350	-
	<u>-</u>	<u>-</u>
Total	<u>\$ 23,636,804</u>	<u>\$ 7,285</u>

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

Year Ending June 30

2023	\$ 6,597,055
2024	6,477,675
2025	4,789,880
2026	5,764,909
2027	-

7. OTHER POST EMPLOYMENT BENEFITS

A. Plan Description and Benefits Provided

Employees are entitled to certain benefits from the City, including postemployment health benefits through the City retiree health plan (RHP). The City includes the financial statements and required supplementary information for the plan in its comprehensive annual financial report, which is available from the City Comptroller, City Hall, 100 Broadway, Norwich, Connecticut.

The City provides medical coverage and life insurance benefits to the Department under the RHP. All Department employees are eligible to join at age 55 with 25 years of service or age 60 with 5 years of service. The City pays 95% of the cost of insurance for the retiree before the age of 65 and provides between \$10,000 to \$25,000 in life insurance benefit for those retirees with 10 years of service. The Department's contributions to the plan for the year ended June 30, 2022 was \$963,713 and equal to the required contribution for the year. Employer contributions in 2021 and 2020 were \$898,539 and \$712,158, respectively, and equal to the required contribution for each year.

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

B. Net OPEB Liability of the Department

The Department's net OPEB liability was measured as of June 30, 2022. The components of the net OPEB liability of the Department at June 30, 2022 were as follows:

Total OPEB liability	\$ 8,534,677
Plan fiduciary net position	<u>(1,630,038)</u>
Net OPEB Liability	<u>\$ 6,904,639</u>
Plan fiduciary net position as a percentage of the total OPEB liability	19.10%

C. Changes in Net OPEB Liability

NPU Portion of the City Retiree Health Plan			
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances as of July 1, 2021	\$ 9,502,295	\$ 1,439,307	\$ 8,062,988
Changes for the year:			
Service cost	205,643		205,643
Interest on total OPEB liability	683,392		683,392
Effect of economic/demographic gains or losses	(2,101,147)		(2,101,147)
Change in assumptions	818,213		818,213
Employer contributions		963,713	(963,713)
Net investment income		(197,937)	197,937
Benefit payments, including refund to employee contributions	(573,719)	(573,719)	
Administrative expenses		(1,326)	1,326
Net changes	<u>(967,618)</u>	<u>190,731</u>	<u>(1,158,349)</u>
Balances as of June 30, 2022	<u>\$ 8,534,677</u>	<u>\$ 1,630,038</u>	<u>\$ 6,904,639</u>

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the Department recognized OPEB expense of \$1,347,310. At June 30, 2022, the Department reported deferred outflows and inflows of resources related to OPEB from the following sources:

	NPU Employees	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,003,927	\$ 1,762,252
Changes of assumptions	908,025	18,466
Net difference between projected and actual earnings on OPEB plan investments	178,585	-
	<u>-</u>	<u>-</u>
Total	\$ 2,090,537	\$ 1,780,718

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

Year Ending June 30

2023	\$ 439,390
2024	234,741
2025	27,654
2026	(143,657)
2027	(206,925)
Thereafter	(41,384)

8. RISK MANAGEMENT

The Department is exposed to various risks of loss related to public official liability, theft or impairment of assets, errors and omissions, injury to employees, natural disasters and owners' and contractors' protective liability.

The City has created an internal service fund to account for the self-insured health program for its employees. The City has purchased reinsurance to provide for individual and aggregate stop loss in excess of certain limits. The Department participates in this program. The Department is required to pay premiums, and the employee medical claims are then paid out of this fund. The Department records an expense as monthly premiums are paid or accrued. The Department does not record an amount for incurred but not reported claims, as they are accounted for in the internal service fund. If costs exceed premiums being charged, the amounts charged to the Department are increased in future periods. This is not expected to have a material effect on the financial statements. Settled claims have not exceeded coverage in any of the last three years.

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

It is the City’s policy to self-insure for workers’ compensation costs. The workers’ compensation account covers claims up to the reinsurance levels. The Department purchases commercial insurance for claims in excess of a self-insured retention amount of \$200,000 with a \$10,000,000 limit of liability. In addition, the Department has unlimited coverage under the City’s policy for all claims in excess of \$10,200,000. Settled claims have not exceeded coverage in any of the past three years.

Payments to fund the self-insurance costs are generally based upon the historical number and dollar amount of claims. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Department has accrued \$1,164,894 for estimated unpaid accrued losses on reported claims as of June 30, 2022. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including the frequency and amounts of payouts, and other economic and social factors.

The Department purchases commercial insurance for all other risks of loss. Settled claims have not exceeded commercial coverage in any of the past three years.

9. SEWER CAPITAL CONNECTION FEES

The Department has established a sewer capital connection fee and levies this fee for new connections and for changes in use, which result in an increase of existing waste water discharge to the sewer system. A fee of \$2,500 for each 200 gallons per day increased discharge is assessed. The revenues received from the sewer capital connection fee have been designated by the Department to partially offset costs associated with planned upgrades to the wastewater treatment plant. The designated balance of funds included in the Sewer Division’s cash and cash equivalents at June 30, 2022 is \$3,070,703.

10. RESTRICTED NET POSITION

Connecticut Municipal Electric Energy Cooperative (CMEEC) administers a Municipal Energy and Load Conservation Fund (the Fund) on behalf of its cooperative members, including the Department. The Fund was established to comply with provisions of House Bill 7501, Public Act No. 05-1 requiring CMEEC to establish and administer the Fund. CMEEC includes a charge of 2.5 mills per kilowatt hour in the monthly purchase power costs of wholesale electricity sold to the Department for deposit into the Fund. Disbursements from the Fund are required to be made pursuant to a comprehensive electric conservation and load management plan. The Department’s activity within the Fund administered by CMEEC on behalf of the Department is summarized as follows:

Funds held by CMEEC, July 1, 2021	\$ 1,368,090
Deposits into the fund	927,486
Investment income	5,981
Approved program expenses	<u>(1,179,345)</u>
Funds Held by CMEEC, June 30, 2022	<u>\$ 1,122,212</u>

Investment income earned on the Department’s deposits, along with the Fund’s authorized expenses during the year, is recorded in the Department’s statement of activities. The funds held by CMEEC on behalf of the Department are recorded as an asset on the Department’s statement of net position, and, accordingly, the Department’s net position has been restricted for the Fund’s energy efficiency program purposes.

11. CONTRACT FOR SALE OF ELECTRICAL PRODUCTS - COMBUSTION TURBINE UNIT

The Department had entered into a contract with CMEEC dated September 1, 2015, which provides for income to the Department from the sale of electrical products generated from a combustion turbine unit owned by the Department. Under the terms of the contract, the Department will operate the unit and make available all electrical power into the ISO New England (ISO-NE) markets. The Department receives a monthly payment based on the actual revenues received by CMEEC from ISO-NE associated with the delivery of electrical power from the unit. For the fiscal year ended June 30, 2022, the Electric Division reported net revenue of \$882,965 from the operation of the unit.

12. JOINTLY GOVERNED ORGANIZATION AND RELATED ORGANIZATIONS

Connecticut Municipal Electric Energy Cooperative (CMEEC)

CMEEC is a public corporation organized in 1976 under Connecticut Public Act 75-634, subsequently enacted as Title 7-233, Chapter 101a of the General Statutes of Connecticut, as amended. It is empowered to undertake the planning, financing, acquisition, construction and operation of facilities for the generation and transmission of electric power and energy for its member utilities, including the City of Norwich, Department of Public Utilities and others. CMEEC may issue bonds in its own name. Under the bylaws of CMEEC, a Board of Directors comprised of representatives from the participating members was established. CMEEC's Board is comprised of 20 representatives and officers. The governing board consists of representatives appointed by each of the participating members and assumes all the management decisions. Two representatives from the City of Norwich, Department of Public Utilities serve on the Board. The CMEEC Board acts as a regulatory body in that it reviews and approves recovery of costs in rates on an annual basis.

CMEEC has entered into power sales contracts with each of the members including the City of Norwich, Department of Public Utilities. Under the contracts, each of the member utilities have agreed to purchase essentially all of its electric power required for resale from CMEEC, with CMEEC's electric revenues to consist of billings for resale of power. The contracts obligate each member utility to pay for their share of CMEEC's fixed costs, which consist primarily of debt service and CMEEC administrative and general costs on a take or pay basis. The member utilities maintain this fixed cost obligation whether or not they take any power from CMEEC. The amount of power purchased from CMEEC for the fiscal year ended June 30, 2022 was \$28.01 million.

On July 1, 2006, the City of Norwich, Department of Public Utilities entered into a contract for the sale of Pierce Project Electric Power & Energy (the Pierce Contract). As of December 31, 2021, CMEEC sold the assets related to the Pierce Contract and in February 2022 CMEEC defeased a portion of the associated bonds with the proceeds from the sale. Under the terms of the Pierce Contract, the City of Norwich, Department of Public Utilities receives its allocable share of all electric products and benefits and pays its share of all costs associated with the project.

During the 2012 fiscal year, CMEEC and its members became participants in the Regional Greenhouse Gas Initiative Fund (RGGI), which is an initiative that implements the carbon dioxide cap and trading program as proposed by the RGGI in Connecticut. During the 2022 fiscal year, the share of contributions to the fund received by the Department totaled \$362,487, with drawdowns of \$315,306, and interest on the fund of \$352. The balance of the Department's funds held by CMEEC for the RGGI was \$107,458 for the year ended June 30, 2022.

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

13. COMMITMENTS AND CONTINGENCIES

Purchased Gas Contracts

The Department participates in forward contracts for the purchase of gas capacity for storage and transmission. Under the terms of the contracts, the Department is obligated to make payments for set capacities that will be charged at variable and fixed rates until the end of the respective terms. As of June 30, 2022, the Department has obligations in place through 2031. Expense under the contracts totaled \$6,005,771 during the year ended June 30, 2022.

Power Sales Contract - Connecticut Municipal Electric Energy Cooperative

CMEEC supplies power to the Department under a Power Sales Contract that became effective April 25, 2013. The contract obligates the Department to pay a percentage of CMEEC's fixed costs obligations, including debt service and administrative and general costs. Under the power sales agreement, the Department is required to pay its percentage of CMEEC's fixed cost obligations whether or not they purchase power from CMEEC. The contract will remain in effect until the date when all of the indebtedness and fixed cost obligations of CMEEC have been paid in full and thereafter until terminated by either party following not less than three years prior written notice to the other party of its intention to terminate, provided, however, CMEEC shall not incur or issue any indebtedness with a maturity date later than December 31, 2052.

The Department has rate stabilization funds held by CMEEC that were previously collected in conjunction with the purchase of energy to stabilize the price of energy. The Department's current rate structure to purchase power from CMEEC includes a rate stabilization component. Under the rate stabilization premise, the principal repayment of debt service is deferred and amortized over the life of the related debt and recoverable from future billings. Under this premise, the shortfall between the current rate stabilization funds held by CMEEC and the percentage of unfunded CMEEC debt allocated to the Department represents an unfunded debt obligation recoverable by future billings.

The Department's net deferred debt fixed cost obligation to CMEEC as of June 30, 2022 is summarized as follows:

CMEEC - debt service fixed cost obligation	\$ 18,700,300
Department - rate stabilization funds on deposit with CMEEC	<u>(10,753,984)</u>
Net Deferred Fixed Cost Obligation	\$ <u>7,946,316</u>

The rate stabilization funds held by CMEEC and the allocated percentage of CMEEC's debt obligation are not reported on the Department's statement of net position. The fixed cost obligation paid by the Department to CMEEC included in the cost to purchase power for the current year was \$2,056,474.

All payments due to CMEEC under the Power Sales Contract may not be subordinated to any other obligation of the City.

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

Combined Sewer Overflows

Under various consent decrees issued by the State of Connecticut Department of Environmental Protection (consent decrees), the Department is required to eliminate certain combined storm and sanitary sewers. The estimated cost of these improvements is \$53,000,000. As of June 30, 2022, \$4,319,441 relating to these projects, including capitalized interest, has been incurred and included in property, plant and equipment. Based on current engineering estimates, completion of these projects will be within the next 15 years. Funding for these improvements is being provided by the State of Connecticut's Clean Water Fund in the form of loans and grants.

14. LITIGATION

There are lawsuits pending against the Department. The outcome and eventual liability of the Department, if any, in these cases is not known at this time. The Department's management, based upon consultation with legal counsel, estimates that potential claims against the Department, not covered by insurance, resulting from such litigation would not materially affect the financial position of the Department.

15. NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

As of June 30, 2022 and 2021, the Department has purchased \$622,748 and \$853,075 in capital assets on account, respectively, which are included in accounts payable and accrued liabilities in the accompanying statement of net position.

16. LEASES

A. Lessee

The Department leases equipment, land, and office equipment for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through June 30, 2030 and provide for renewal options ranging from two to five years.

Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases.

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS**

Total future minimum lease payments under lease agreements are as follows:

Business-Type Activities			
<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
FY 2023	\$ 145,476	\$ 22,347	\$ 167,823
FY 2024	131,686	16,852	148,538
FY 2025	61,061	13,229	74,290
FY 2026	60,469	10,853	71,322
FY 2027	62,521	8,392	70,913
FY 2028 - FY 2032	<u>181,794</u>	<u>9,846</u>	<u>191,640</u>
Total	<u>\$ 643,007</u>	<u>\$ 81,519</u>	<u>\$ 724,526</u>

The Department, acting as lessor, leases space on and/or adjacent to two water tanks for the purpose of the tenants' transmission and reception of communications signals under long-term, noncancelable lease agreements. The leases expire at various dates through June 30, 2036 inclusive of renewal options ranging from ten to fifteen years from transition date of July 1, 2021. During the year ended June 30, 2022, the Department recognized \$103,513 and \$0 in lease revenue and interest revenue respectively, pursuant to these contracts.

Total future minimum lease payments to be received under lease agreements are as follows:

Business-Type Activities			
<u>Fiscal Year Ending June 30</u>	<u>Revenue</u>	<u>Interest</u>	<u>Total</u>
FY 2023	\$ 103,513	\$ -	\$ 103,513
FY 2024	103,513	-	103,513
FY 2025	103,513	-	103,513
FY 2026	69,894	-	69,894
FY 2027	26,787	-	26,787
FY 2028 - FY 2032	133,934	-	133,934
FY 2033 - FY 2037	<u>98,181</u>	<u>-</u>	<u>98,181</u>
Total	<u>\$ 639,335</u>	<u>\$ -</u>	<u>\$ 639,335</u>

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
COMBINING STATEMENT OF NET POSITION BY DIVISION
JUNE 30, 2022**

	<u>Gas</u>	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets:					
Current:					
Cash and cash equivalents	\$ 9,514,975	\$ 27,950,527	\$ 11,202,101	\$ 11,478,057	\$ 60,145,660
Receivables, net:					
User charges	2,402,303	8,944,200	1,440,422	1,233,190	14,020,115
Other	3,777		402,631		406,408
Lease receivable			100,550		100,550
Due from City of Norwich	28,276		-	-	28,276
Inventories	1,259,577	600,608	255,213	76,128	2,191,526
Other assets	191,442	1,788,374	143,580	95,720	2,219,116
Total current assets	<u>13,400,350</u>	<u>39,283,709</u>	<u>13,544,497</u>	<u>12,883,095</u>	<u>79,111,651</u>
Noncurrent assets:					
Leases receivable			544,585		544,585
Capital assets, net	35,734,573	20,860,543	47,652,678	51,898,209	156,146,003
Total current assets	<u>35,734,573</u>	<u>20,860,543</u>	<u>48,197,263</u>	<u>51,898,209</u>	<u>156,690,588</u>
Total assets	<u>49,134,923</u>	<u>60,144,252</u>	<u>61,741,760</u>	<u>64,781,304</u>	<u>235,802,239</u>
Deferred Outflows of Resources:					
Deferred outflow of resources related to pensions	5,547,558	10,074,006	4,067,894	3,947,346	23,636,804
Deferred outflow of resources related to OPEB	490,649	890,987	359,781	349,120	2,090,537
Total deferred outflows of resources	<u>6,038,207</u>	<u>10,964,993</u>	<u>4,427,675</u>	<u>4,296,466</u>	<u>25,727,341</u>
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	1,364,949	5,934,554	665,054	303,494	8,268,051
Notes payable		411,848	834,102	603,637	1,849,587
Compensated absences	568,931	879,156	352,892	332,684	2,133,663
Risk management claims	124,508	74,654	36,814	16,783	252,759
Lease liability	50,638	8,392	31,331	55,115	145,476
Cash advances from other funds	1,512,655	700,091	296,174	249,836	2,758,756
Due to City of Norwich		10,465	5,007	24,711	40,183
Total current liabilities	<u>3,621,681</u>	<u>8,019,160</u>	<u>2,221,374</u>	<u>1,586,260</u>	<u>15,448,475</u>
Noncurrent liabilities:					
Customer deposits		3,390,658			3,390,658
Notes payable		346,824	17,147,063	6,472,506	23,966,393
Bonds payable					-
Capital leases payable					-
Compensated absences	867,074	1,299,769	537,958	587,564	3,292,365
Risk management claims	447,343	267,716	134,780	62,296	912,135
Lease liability	407,497	3,137	25,805	61,092	497,531
Cash advances from other funds	23,097,396	22,214,870	9,398,006	7,927,639	62,637,911
Net pension liability	3,726,845	6,767,709	2,732,808	2,651,823	15,879,185
Net OPEB liability	1,620,519	2,942,757	1,188,288	1,153,075	6,904,639
Total noncurrent liabilities	<u>30,166,674</u>	<u>37,233,440</u>	<u>31,164,708</u>	<u>18,915,995</u>	<u>117,480,817</u>
Total liabilities	<u>33,788,355</u>	<u>45,252,600</u>	<u>33,386,082</u>	<u>20,502,255</u>	<u>132,929,292</u>
Deferred Inflows of Resources:					
Deferred inflow of resources related to leases			639,335		639,335
Deferred inflow of resources related to pensions	1,710	3,105	1,254	1,216	7,285
Deferred inflow of resources related to OPEB	417,935	758,942	306,462	297,379	1,780,718
Total deferred inflows of resources	<u>419,645</u>	<u>762,047</u>	<u>947,051</u>	<u>298,595</u>	<u>2,427,338</u>
Net Position:					
Net investment in capital assets	35,734,573	20,101,871	29,671,513	44,822,066	130,330,023
Restricted for energy efficiency program		1,122,212			1,122,212
Unrestricted	<u>(14,769,443)</u>	<u>3,870,515</u>	<u>2,164,789</u>	<u>3,454,854</u>	<u>(5,279,285)</u>
Total Net Position	<u>\$ 20,965,130</u>	<u>\$ 25,094,598</u>	<u>\$ 31,836,302</u>	<u>\$ 48,276,920</u>	<u>\$ 126,172,950</u>

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
COMBINING STATEMENT OF ACTIVITIES BY DIVISION
FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Gas</u>	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues:					
Charges for services	\$ 22,777,266	\$ 53,637,278	\$ 11,023,292	\$ 8,815,960	\$ 96,253,796
Use of property	24,000	972,258	103,939		1,100,197
Other services	237,843	652,953	69,222	137,867	1,097,885
Total operating revenues	<u>23,039,109</u>	<u>55,262,489</u>	<u>11,196,453</u>	<u>8,953,827</u>	<u>98,451,878</u>
Operating Expenses:					
Purchased gas and electric	8,907,488	28,033,159			36,940,647
Operations and maintenance	2,686,815	5,667,574	3,423,101	3,857,650	15,635,140
General and administrative	4,822,055	10,866,972	3,142,375	2,152,808	20,984,210
Depreciation and amortization	2,904,673	1,996,386	1,620,442	2,080,875	8,602,376
Pension expense	1,932,854	3,509,937	1,417,316	1,375,316	8,235,423
Customer accounts	503,780	2,896,095	341,280	227,569	3,968,724
Gross revenue and property taxes	1,023,052	2,006,398	161,306		3,190,756
OPEB expense	316,214	574,224	231,872	225,000	1,347,310
Total operating expenses	<u>23,096,931</u>	<u>55,550,745</u>	<u>10,337,692</u>	<u>9,919,218</u>	<u>98,904,586</u>
Operating Income (Loss)	<u>(57,822)</u>	<u>(288,256)</u>	<u>858,761</u>	<u>(965,391)</u>	<u>(452,708)</u>
Nonoperating Income (Expenses):					
Interest income	2,009	24,365	3,244	7,807	37,425
Interest expense	(343,337)	(85,075)	(262,562)	(167,610)	(858,584)
Loss on disposal of capital assets	141,225	5,134	9,072	6,662	162,093
Other nonoperating revenue (expenses)	122,045	631,669		(33)	753,681
Net nonoperating expenses	<u>(78,058)</u>	<u>576,093</u>	<u>(250,246)</u>	<u>(153,174)</u>	<u>94,615</u>
Income (Loss) Before Contributions and Transfers	(135,880)	287,837	608,515	(1,118,565)	(358,093)
Capital Contributions	66,680	48,654	606,025	36,227	757,586
Transfers out to City of Norwich	<u>(2,050,248)</u>	<u>(5,470,536)</u>	<u>(1,127,520)</u>		<u>(8,648,304)</u>
Change in Net Position	(2,119,448)	(5,134,045)	87,020	(1,082,338)	(8,248,811)
Net Position at Beginning of Year	<u>23,084,578</u>	<u>30,228,643</u>	<u>31,749,282</u>	<u>49,359,258</u>	<u>134,421,761</u>
Net Position at End of Year	<u>\$ 20,965,130</u>	<u>\$ 25,094,598</u>	<u>\$ 31,836,302</u>	<u>\$ 48,276,920</u>	<u>\$ 126,172,950</u>

**CITY OF NORWICH, CONNECTICUT
DEPARTMENT OF PUBLIC UTILITIES
COMBINING STATEMENT OF CASH FLOWS BY DIVISION
FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Gas</u>	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash Flows from Operating Activities:					
Cash received from charges for services	\$ 23,022,851	\$ 54,498,675	\$ 10,812,276	\$ 8,866,376	\$ 97,200,178
Cash paid to vendors	(12,409,616)	(36,680,707)	(2,753,313)	(2,935,242)	(54,778,878)
Cash paid to employees for services	<u>(18,240,165)</u>	<u>(35,023,899)</u>	<u>(14,112,666)</u>	<u>(11,828,404)</u>	<u>(79,205,134)</u>
Net cash provided by (used in) operating activities	<u>(7,626,930)</u>	<u>(17,205,931)</u>	<u>(6,053,703)</u>	<u>(5,897,270)</u>	<u>(36,783,834)</u>
Cash Flows from Noncapital and Related Financing Activities:					
Transfers to City of Norwich	(2,050,248)	(5,470,536)	(1,127,520)		(8,648,304)
Customer deposits	(10,000)	382,260			372,260
Cash advance from (to) other funds	<u>178,896</u>	<u>(16,205)</u>	<u>(2,343)</u>	<u>(18,097)</u>	<u>142,251</u>
Net cash provided by (used in) noncapital and related financing activities	<u>(1,881,352)</u>	<u>(5,104,481)</u>	<u>(1,129,863)</u>	<u>(18,097)</u>	<u>(8,133,793)</u>
Cash Flows from Capital and Related Financing Activities:					
Capital contributions	66,680	48,654	606,025	36,227	757,586
Purchases of capital assets	(3,148,935)	(1,801,109)	(1,807,912)	(4,554,498)	(11,312,454)
Proceeds from sale of capital assets	12,055	230,588	9,718	8,422	260,783
Proceeds from lease arrangements	507,315	21,032	88,931	165,213	782,491
Proceeds from long-term debt			467,139		467,139
Principal payment on bonds and notes	(49,180)	(404,970)	(926,507)	(703,144)	(2,083,801)
Interest payment on debt	(343,337)	(85,075)	(262,562)	(167,610)	(858,584)
Cash advances from the City of Norwich	11,565,192	22,914,961	9,694,180	8,177,475	52,351,808
Other nonoperating revenue (expenses)	<u>122,045</u>	<u>631,669</u>		<u>(33)</u>	<u>753,681</u>
Net cash provided by (used in) capital and related financing activities	<u>8,731,835</u>	<u>21,555,750</u>	<u>7,869,012</u>	<u>2,962,052</u>	<u>41,118,649</u>
Cash Flows from Investing Activities:					
Income on investments	<u>2,009</u>	<u>24,365</u>	<u>3,244</u>	<u>7,807</u>	<u>37,425</u>
Net cash provided by (used in) investing activities	<u>2,009</u>	<u>24,365</u>	<u>3,244</u>	<u>7,807</u>	<u>37,425</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(774,438)	(730,297)	688,690	(2,945,508)	(3,761,553)
Cash and Cash Equivalents at Beginning of Year	<u>10,289,413</u>	<u>28,680,824</u>	<u>10,513,411</u>	<u>14,423,565</u>	<u>63,907,213</u>
Cash and Cash Equivalents at End of Year	<u>\$ 9,514,975</u>	<u>\$ 27,950,527</u>	<u>\$ 11,202,101</u>	<u>\$ 11,478,057</u>	<u>\$ 60,145,660</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating Income (Loss)	\$ (57,822)	\$ (288,256)	\$ 858,761	\$ (965,391)	\$ (452,708)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	2,904,673	1,996,386	1,620,442	2,080,875	8,602,376
Change in deferred outflow of resources related to pensions	(4,091,987)	(7,350,092)	(2,915,542)	(2,975,284)	(17,332,905)
Change in deferred outflow of resources related to OPEB	(28,962)	(26,998)	5,730	(40,794)	(91,024)
Change in net pension liability	(4,898,796)	(9,374,082)	(4,095,980)	(3,108,567)	(21,477,425)
Change in net OPEB liability	(241,225)	(541,260)	(285,626)	(90,238)	(1,158,349)
Change in deferred inflow of resources related to leases			639,335		639,335
Change in deferred inflow of resources related to pensions	(1,350,220)	(2,526,861)	(1,069,049)	(901,633)	(5,847,763)
Change in deferred inflow of resources related to OPEB	383,820	695,100	279,454	274,596	1,632,970
(Increase) decrease in receivables	(16,258)	(763,814)	(378,377)	(87,451)	(1,245,900)
(Increase) decrease in lease receivable			(645,135)		(645,135)
(Increase) decrease in inventories and other assets	(355,856)	65,798	(39,608)	(36,865)	(366,531)
Increase (decrease) in accounts payable and accrued liabilities	125,703	908,148	(28,108)	(46,518)	959,225
Total adjustments	<u>(7,569,108)</u>	<u>(16,917,675)</u>	<u>(6,912,464)</u>	<u>(4,931,879)</u>	<u>(36,331,126)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (7,626,930)</u>	<u>\$ (17,205,931)</u>	<u>\$ (6,053,703)</u>	<u>\$ (5,897,270)</u>	<u>\$ (36,783,834)</u>