

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Financial Statements**  
**(With Supplementary Information)**  
**and Independent Auditor's Reports**

**June 30, 2020**

---

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

Index

	<u>Page</u>
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Financial Statements	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10
Supplementary Information	
Schedule of Project Allocations	20
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Schedule of Findings	23

## Independent Auditor's Report

To the Board of Directors  
Connecticut Port Authority  
Old Saybrook, Connecticut

### Report on the Financial Statements

We have audited the accompanying financial statements of Connecticut Port Authority, a component unit of the State of Connecticut, as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise Connecticut Port Authority's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Connecticut Port Authority as of June 30, 2020, and the changes in its 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 on pages 4 through 6 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 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Connecticut Port Authority's basic financial statements. The schedule of project allocations is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of project allocations 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. Such 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 auditing standards generally accepted in the United States of America. In our opinion, the schedule of project allocations 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 April 26, 2021 on our consideration of Connecticut Port 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 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 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 Connecticut Port Authority's internal control over financial reporting and compliance.



Hartford, Connecticut  
April 26, 2021

**Connecticut Port Authority  
(A Component Unit of the State of Connecticut)**

**Management's Discussion and Analysis  
June 30, 2020**

As management of the Connecticut Port Authority (the "Authority"), a component unit of the State of Connecticut (the "State"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2020. The Authority's financial statements, accompanying notes and supplementary information should be read in conjunction with the following discussion.

*Introduction*

The Authority was created by the State of Connecticut General Assembly pursuant to Public Act 14-222. The Authority constitutes a body corporate and politic and a public instrumentality of the State having a distinct legal existence from the State.

The purposes of the Connecticut Port Authority shall be to coordinate port development, with a focus on private and public investments, pursue federal and state funds for dredging and other infrastructure improvements to increase cargo movement through Connecticut ports, market the advantages of such ports to the domestic and international shipping industry, coordinate the planning and funding of capital projects promoting the development of such ports, and develop strategic entrepreneurial initiatives that may be available to the State.

The Authority's Board of Directors approved a Memorandum of Understanding (MOU) with the Office of Policy and Management (OPM) in September 2019 that provided for OPM to oversee all financial decisions made by the Authority, engage such consultants and resources as needed to oversee and evaluate the Authority's fiscal, organizational and administrative practices and activities and to recommend and assist in the implementation of needed improvements in the Authority's organizational and business practices. Beginning in September 2019, throughout 2020 and 8 months of fiscal year 2021, OPM contracted with a former municipal finance director who worked with staff to create a chart of accounts and implement the transition to QuickBooks, the Authority's accounting system and software. Assisting in this effort was a Certified Public Accountant from a local accounting firm who has expertise and certification as a trainer in QuickBooks. The OPM consultant further assisted the Authority in the implementation of the accounting of the Authority's capital projects into QuickBooks.

*Overview of the Financial Statements*

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements.

The Authority engages only in business-type activities, that is, activities that are financed in whole or in part by charges to external parties for services. As a result, the Authority's basic financial statements include the statement of net position; the statement of revenues, expenses and changes in net position; the statement of cash flows; and the notes to the financial statements. These basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents detail on the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Changes in the Authority's net position serve as a useful indicator of whether the Authority's net position is improving or deteriorating. Readers should also consider other nonfinancial factors when evaluating the Authority's net position. The statement of revenues, expenses and changes in net position presents information on how the Authority's net position changed during the year.

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Management's Discussion and Analysis**  
**June 30, 2020**

All assets, liabilities and changes in net position are reported as soon as the underlying event affecting the asset or liability and resulting change in net position occurs, regardless of the timing of when the cash is received or paid (accrual basis of accounting for governmental entities). Consequently, certain revenues and expenses reported in the statement of revenues, expenses and changes in net position will result in cash flows in future periods.

*2020 Financial Highlights*

Total assets exceeded total liabilities by \$65,047,121 (net position) at June 30, 2020 due primarily to state appropriations of \$57,718,242 and Deepwater wind revenue of \$22,500,000 received during the fiscal year to fund various capital projects of the Authority. Additionally, operating revenues exceeded operating expenses for the fiscal year.

Operating income for 2020 was \$62,148,483, nonoperating revenues were \$27,293 and the change in net position was \$62,175,776.

*Condensed Information*

The following table reflects a summary of certain balances in the statements of net position and revenues, expenses and changes in net position:

<b>Statements of Net Position</b>			
<b>June 30, 2020 and 2019</b>			
	<b>6/30/2020</b>	<b>6/30/2019</b>	<b>Increase/Decrease 2020 v 2019</b>
Net position			
Current and other assets	\$ 75,668,335	\$ 2,222,680	\$ 73,445,655
Capital assets (net)	7,504,674	1,980,980	5,523,694
Total assets	83,173,009	4,203,660	78,969,349
Current liabilities	18,125,888	1,332,315	16,793,573
Net position			
Net investment in capital assets	7,504,674	1,980,980	5,523,694
Net position, restricted	56,216,880	-	56,216,880
Net position, unrestricted	1,325,567	890,365	435,202
Total net position	\$ 65,047,121	\$ 2,871,345	\$ 62,175,776

**Connecticut Port Authority  
(A Component Unit of the State of Connecticut)**

**Management's Discussion and Analysis  
June 30, 2020**

**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2020 and 2019**

	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>Increase/Decrease 2020 v 2019</u>
Changes in net position			
Operating revenues	\$ 66,933,445	\$ 3,579,200	\$ 63,354,245
Operating expenses	<u>4,784,962</u>	<u>1,608,896</u>	<u>3,176,066</u>
Operating income	62,148,483	1,970,304	60,178,179
Nonoperating revenues (expenses)	<u>27,293</u>	<u>542</u>	<u>26,751</u>
Change in net position	<u>\$ 62,175,776</u>	<u>\$ 1,970,846</u>	<u>\$ 60,204,930</u>

*2020 Financial Analysis*

Total assets of the Authority were \$83,173,009 at June 30, 2020, which represents an increase of \$78,969,349 over the prior year. Restricted cash of \$72,074,539 represents the largest asset. In addition, capital assets increased in the current year by \$5,523,694 related to the Harbor Development Project, as well as other capital projects of the Authority. The Authority has entered into a commitment with a contractor to spend \$5,250,841 on the harbor development project as of June 30, 2020.

Total liabilities of the Authority at June 30, 2020 were \$18,125,888, which represents an increase of \$16,793,573 over the prior year. Unearned revenue of \$15,857,659 related to the Harbor Development Project revenue received in excess of project expenses. In addition, accounts payable of \$2,240,291 includes significant construction payables related to this project.

*2020 Operating Activity*

Operating revenues of the Authority were \$66,933,445, an increase of \$63,354,245 when compared to the prior year. State of Connecticut appropriations and Harbor development revenue of \$64,360,583 make up the largest sources of revenues.

Total operating expenses were \$4,784,962. The majority of the expenses were for winddown costs related to salaries, fringe benefits and contractual services.

Operating revenues exceeded operating expenses by \$62,148,483. This represents an increase of \$60,178,179 compared to the prior period.

*2020 Nonoperating Activity*

Investment income of \$27,293 is reported in nonoperating revenues for the year ended June 30, 2020, an increase of \$26,751 compared to the prior period.

*Requests for Information*

This financial report is designed as a general overview of the Authority's financial picture for external and internal stakeholders. Questions concerning any of the information provided in this report or public requests for information should be addressed to the Executive Director, Connecticut Port Authority, 455 Boston Post Rd., Suite 204, Old Saybrook, CT 06475.

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Statement of Net Position**  
**June 30, 2020**

Assets

Assets

Current assets

Cash and cash equivalents	\$ 3,171,338
Restricted cash	72,074,539
Due from State of Connecticut	27,575
Deposits and prepaid expenses	394,883

75,668,335

Noncurrent assets

Capital assets, net of accumulated depreciation	7,504,674
---	-----------

\$ 83,173,009

Liabilities and Net Position

Liabilities

Current liabilities

Accounts payable	\$ 2,240,291
Accrued expenses and other	27,938
Unearned revenue	15,857,659

18,125,888

Net position

Net investment in capital assets	7,504,674
Restricted	
Harbor development	56,216,880
Unrestricted	1,325,567

65,047,121

\$ 83,173,009

See Notes to Financial Statements.

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2020**

Operating revenues	
State Pier rent	\$ 1,991,912
State Pier operating fees	415,616
Pilotage and licensing fees	87,084
Appropriations from State	57,718,242
Harbor development revenue	6,642,341
Miscellaneous - other	<u>78,250</u>
Total operating revenues	<u>66,933,445</u>
Operating expenses	
Salaries and related expense	378,455
Contractual services	4,142,562
Administrative and general	255,112
Depreciation	<u>8,833</u>
Total operating expenses	<u>4,784,962</u>
Operating income	62,148,483
Nonoperating revenues	
Investment income	<u>27,293</u>
Change in net position	62,175,776
Net position, beginning of year	<u>2,871,345</u>
Net position, end of year	<u><u>\$ 65,047,121</u></u>

See Notes to Financial Statements.

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Statement of Cash Flows**  
**Year Ended June 30, 2020**

Cash flows from operating activities	
Cash received for services	\$ 2,274,149
State of Connecticut appropriations and bond funding received	58,510,624
Deepwater wind revenue received	22,500,000
Cash payments for customers	(2,031,936)
Cash payments to suppliers	(3,011,076)
Cash payments to employees	(412,472)
	<u>77,829,289</u>
Net cash provided by operating activities	<u>77,829,289</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(3,894,341)
	<u>(3,894,341)</u>
Cash flows from investing activities	
Interest on investments	27,293
	<u>27,293</u>
Net increase in cash, cash equivalents and restricted cash	73,962,241
Cash, cash equivalents and restricted cash, beginning of year	1,283,636
	<u>1,283,636</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 75,245,877</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 62,148,483
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	8,833
Changes in assets and liabilities	
Accounts receivable	117,954
Due from State of Connecticut	792,382
Deposits and prepaid expenses	(393,750)
Accounts payable	(251,588)
Accrued expenses and other	(34,017)
Unearned revenue	15,440,992
	<u>15,440,992</u>
Net cash provided by operating activities	<u>\$ 77,829,289</u>
Noncash capital and related financing activities	
Acquisition of capital assets in accounts payable	<u>\$ 1,638,186</u>

See Notes to Financial Statements.

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements**  
**June 30, 2020**

**Note 1 - Summary of Significant Accounting Policies**

The accompanying financial statements of Connecticut Port Authority (the "Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed in pronouncements of the Governmental Accounting Standards Board ("GASB"). Following is a summary of significant accounting policies of the Authority.

**Reporting Entity**

The Authority was created by the State of Connecticut General Assembly pursuant to Public Act 14-222. The Authority constitutes a body corporate and politic and a public instrumentality of the State having a distinct legal existence from the State.

The purposes of the Connecticut Port Authority shall be to coordinate port development, with a focus on private and public investments, pursue federal and state funds for dredging and other infrastructure improvements to increase cargo movement through Connecticut ports, market the advantages of such ports to the domestic and international shipping industry, coordinate the planning and funding of capital projects promoting the development of such ports, and develop strategic entrepreneurial initiatives that may be available to the State of Connecticut (the "State").

The Authority is exempt from federal and state income taxes.

**Financial Statement Presentation, Measurement Focus and Basis of Accounting**

The Authority engages only in business-type activities. Business-type activities are activities that are financed in whole or in part by fees charged to external parties.

The Authority uses the economic resources measurement focus and accrual basis of accounting.

The Authority distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services relating to the Authority's principal ongoing operations. Operating expenses include the cost of services provided and administrative expenses. All other revenues and expenses are reported as nonoperating revenues and expenses.

**Cash and Cash Equivalents**

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Capital Assets and Depreciation**

Capital assets are stated at cost except for capital assets conveyed to the Authority by the State which are stated at fair value as of the date of contribution. Expenditures in excess of \$5,000 which substantially increase the useful lives of existing assets are capitalized; routine maintenance and repairs are expensed as incurred. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives of the assets.

**Unearned Revenue**

Unearned revenue is comprised of unspent proceeds from Deepwater Wind related to the Harbor Development Project; these amounts will be recognized as revenue in subsequent years as the project expenditures are incurred.

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements**  
**June 30, 2020**

**Net Position**

Net Investment in Capital Assets

This category presents the net position that reflects capital assets net of only the debt applicable to the acquisition or construction of these assets.

Restricted Net Position

Restricted net position results when constraints placed on net position are either externally imposed by creditors, grantors, contributors, and others, or are imposed by law through constitutional provisions or enabling legislation. When an expenditure is incurred for purposes for which both restricted and unrestricted net position is available, the Authority considers restricted funds to have been spent first.

Unrestricted Net Position

This category presents the net position of the Authority, which is not restricted.

**Revenues**

Revenue recognition policies are as follows:

**Connecticut State Pier Rents and Operating Fee Revenues**

Rental and operating fees are generated by an operation and management agreement that was assigned to the Authority by the State of Connecticut. Rental revenue is recognized over the term of the lease and operating fee revenue is recognized based on reported assessable revenues as outlined in the operation and management agreement.

**Harbor Development Revenues**

Harbor Development revenues were generated by two awards, the Clean Energy Purchase Power Award in the amount of \$15,000,000, and the Zero Carbon Award in the amount of \$7,500,000. These funds were awarded to the Authority as part of the Harbor Development Agreement and are to be used exclusively on Harbor Development Project (the "Project") expenditures. This revenue is recognized when earned. Any amounts unspent are reported as unearned revenue.

**Other Revenue**

All other types of revenues are recognized when earned.

**Compensated Absences**

Employees of the Authority are considered State employees for purposes of employee benefits. Employees hired by the Authority can only accumulate one year's worth of earned vacation time. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. All vacation and sick pay that would be payable, assuming termination at year end, is accrued on the statement of net position. The related liability is based upon current compensation levels.

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements**  
**June 30, 2020**

**Allocation of Expenses**

The financial statements include certain allocations of expenses incurred jointly by the Authority and the State. Fringe benefits costs, which are incurred at the State level, are charged to the Authority based on each employee's actual benefit costs. Total fringe benefit charges to the Authority were \$160,883 for the year ended June 30, 2020.

**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 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.

**Note 2 - Cash and Investments**

**Custodial Credit Risk - Deposits**

In the case of deposits, this represents the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk on deposits.

As of June 30, 2020, \$74,748,015 of the Authority's bank balance of \$75,248,015 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 67,540,561
Uninsured and collateral held by the pledging bank's trust department, in the Authority's name	<u>7,207,454</u>
Total amount subject to custodial credit risk	<u><u>\$ 74,748,015</u></u>

**Interest Rate Risk**

The Authority manages its exposure to declines in fair value by limiting the average maturity of its cash and cash equivalents to no more than one year. The Authority does not have a formal policy relating to a specific investment related risk.

**Statement of Cash Flows**

The following table provides a reconciliation of cash and restricted cash reported within the statement of net position that sum to the total of the same such amounts in the statement of cash flows:

Cash and cash equivalents	\$ 3,171,338
Restricted cash	<u>72,074,539</u>
	<u><u>\$ 75,245,877</u></u>

The amount included in restricted cash consists of funds restricted for the harbor development project.

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements**  
**June 30, 2020**

**Note 3 - Capital Assets**

	Depreciable Life	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital assets not being depreciated					
Construction in progress		\$ 1,895,724	\$ 5,532,527	\$ -	\$ 7,428,251
Capital assets being depreciated					
Furniture and fixtures	15	59,079	-	-	59,079
Equipment	5	8,736	-	-	8,736
Vehicles	9	28,326	-	-	28,326
Total capital assets being depreciated		<u>96,141</u>	<u>-</u>	<u>-</u>	<u>96,141</u>
Less accumulated depreciation for					
Furniture and fixtures		5,350	3,939	-	9,289
Equipment		2,912	1,747	-	4,659
Vehicles		2,623	3,147	-	5,770
Total accumulated depreciation		<u>10,885</u>	<u>8,833</u>	<u>-</u>	<u>19,718</u>
Total Capital Assets Being Depreciated, Net		<u>85,256</u>	<u>(8,833)</u>	<u>-</u>	<u>76,423</u>
Total capital assets, net		<u>\$ 1,980,980</u>	<u>\$ 5,523,694</u>	<u>\$ -</u>	<u>\$ 7,504,674</u>

**Construction Commitments**

The Authority has an active construction project as of June 30, 2020. At year end, the Authority's commitments with contractors are as follows:

Project Name	Total Contracts	Expenditures through June 30, 2020	Balance of Contracts
Harbor Development Project	<u>\$ 10,712,377</u>	<u>\$ 5,461,536</u>	<u>\$ 5,250,841</u>

**Note 4 - State Appropriations and Allocations**

During the year ended June 30, 2020, the Authority was appropriated \$400,000 by the General Assembly of the State to fund operating expenses. In addition, the Authority was appropriated \$57,318,242 for various bonded projects by the State. These appropriations are made in connection with the State's annual budgetary process and are nonlapsing. The Authority is dependent upon such annual appropriations to fund its capital and operating expenses.

The State Bond Commission has approved and allocated funding to the Authority for several purposes as noted on the Schedule of Project Allocations in this report. For the year ended June 30, 2020, \$1,299,430 was expended by the Authority on the projects noted.

**Note 5 - Harbor Development Agreement**

On February 11, 2020, the Authority entered into the Harbor Development Agreement (the "Agreement") with Gateway New London LLC ("Gateway") and North East Offshore LLC ("NEO"). The Agreement sets forth the terms and conditions of the redevelopment of the New London State Pier Facility (the "Facility") to be utilized as an offshore wind turbine generator hub (the "Project"), as well as the future long-term operations and lease agreements related to the Facility. Gateway, a fully licensed and bonded deep-water marine terminal operator in the business of operating ports, is

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements**  
**June 30, 2020**

expected to subcontract and operate the redeveloped site. NEO is an off-shore wind developer providing funding to support the Authority's execution of the Project and it is anticipated that in the future will enter into a sublease agreement with Gateway upon redevelopment of the site.

In fiscal year 2020, the Authority received \$22,500,000 of funding from the Deepwater Wind Funding Commitment paid pursuant to the Connecticut Clean Energy and Connecticut Zero Carbon Requests for Proposals. The funding was paid to the Authority by NEO as of June 30, 2020. The funding is designated to pay wind-down costs of the Facility as well as pre-development and development costs as outlined in the Agreement. Additional funding from NEO per the Agreement totals \$70,000,000, which includes \$20,000,000 of lease payments to be funded in equal installments of \$2,000,000 for a ten-year term. As outlined in the Agreement, if substantial completion is reached on or before August 12, 2022, NEO will fund up to an additional \$10,000,000.

The Authority received from the State \$55,000,000 to fund this Project as of June 30, 2020.

As of June 30, 2020, the Project is currently in the infancy stages and the costs incurred to date are primarily related to the wind-down of the Facility and pre-development costs.

The Authority's Concession Agreement with Gateway (executed in January of 2019) remains active, with certain exclusions or modifications as outlined in the Agreement. The Concession Agreement has a 20-year term, with two additional 10-year options for a total maximum term of 40 years.

**Note 6 - Related Party Transactions**

The State is responsible for processing the Authority's payroll, including related benefits. Funds are applied against the Authority's annual appropriation on a biweekly basis as the payroll is processed.

Amounts due from the State as presented in the statement of net position totaled \$27,575 at June 30, 2020.

**Note 7 - Operating leases**

The Authority has entered into an operating lease with an unrelated entity for its office space through June 30, 2020 which was not renewed. The Authority is currently occupying the space on a month-to-month basis. The lease calls for payments of \$24,768 per annum. Payments under the lease were \$24,768 for the year ended June 30, 2020.

A Land and Tracklease agreement was entered into in March 2020 for the lease of property near the City of New London, Connecticut through March 31, 2032. The agreement requires annual payments of \$525,000 in advance and will increase by 4% annually. An additional 1.5% per month is due if the fee is not received within 30 days of the due date. The lease contains an option to renew for 10 years. Rent expense for the year ended June 30, 2020 was \$131,250. Future minimum lease payments are as follows:

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements**  
**June 30, 2020**

2021	\$	530,250
2022		551,460
2023		573,518
2024		596,459
2025		620,318
2026-2030		3,494,233
2030-2032		<u>1,391,060</u>
	\$	<u>7,757,298</u>

**Note 8 - Pension plan**

**Plan Description**

Eligible employees of the Authority participate in the State Employees' Retirement System ("SERS"). SERS is the single employer defined benefit pension plan of the State's primary government and its component units, covering substantially all of the full-time employees who are not eligible for another state-sponsored retirement plan. The plan is administered by the State Employees' Retirement Commission and governed by Sections 5-152 to 5-192 of the Connecticut General Statutes.

As of June 30, 2020, two Authority employees were participants in the plan.

**Contributions**

Contributions made by the State on behalf of the Authority were determined on a pay period basis through the Authority's use of the State's system for payroll processing and reporting. Payroll for employees of the Authority for the year ended June 30, 2020 was \$229,885.

The Authority has made total pension payments in the amount of \$137,908 to the State, which are recorded in the Authority's salaries and related expense in the accompanying statement of revenues, expenses and changes in net position for the year ended June 30, 2020.

Administrative costs of the plan are funded by the State.

The total net pension liability of the SERS as of June 30, 2019 was \$22.812 billion, the most recent available reporting provided by the Plan. The portion that was associated with the Authority totaled approximately \$1,904,138 or approximately 0.00835% of the total estimated net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The portion of the net pension liability associated with the Authority was based on a projection of the long-term share of contributions to the plan related to the Authority relative to the projected contributions of all participants, actuarially determined. The pension expense attributed to the Authority totaled \$231,325 for the year ended June 30, 2019.

As of June 30, 2019, the latest measurement date for which plan information is currently available, the Authority's proportionate share is as follows:

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements**  
**June 30, 2020**

Total SERS Contributions	Contribution Rate	Covered Payroll	Authority Contributions	Authority Proportionate Share
\$1,578,323,000	42.82%	\$ 229,885	\$ 137,908	0.01%

The components of the net pension liability of the Authority is based on the Authority's proportionate share of 0.00835% as of June 30, 2019, the latest measurement date for which plan information is currently available, and is as follows:

Total pension liability	\$ 2,014,990
Plan fiduciary net position	110,852
Net pension liability	\$ 1,904,138

Plan fiduciary net position as a percentage of the total pension liability was 36.79% as of June 30, 2019.

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation		3.00%
Salary increases	3.50% - 19.50% (includes inflation)	
Investment rate of return	6.90% (includes inflation)	

Mortality rates based on the RP-2014 White Collar Mortality Table projected to 2020 by scale BB at 100% for males and 95% for females is used for the period after service retirement and for dependent beneficiaries. The RP-2014 Disabled Retiree Mortality Table at 65% for males and 85% for females is used for the period after disability. The projection of the mortality rates with Scale BB provides a sufficient margin in the assumed rates of mortality to allow for additional improvement in mortality experience.

The long-term expected rate of return on pension plan 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 plan 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**Connecticut Port Authority**  
**(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements**  
**June 30, 2020**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Fund	20.0%	5.6%
Developed Market International Stock Fund	11.0%	6.0%
Emerging Market International Stock Fund	9.0%	7.9%
Core Fixed Income Fund	16.0%	2.1%
Inflation Linked Bond fund	5.0%	1.1%
Emerging Market Debt Fund	5.0%	2.7%
High Yield Bond Fund	6.0%	4.0%
Real Estate Fund	10.0%	4.5%
Private Equity Fund	10.0%	7.3%
Alternative Investments	7.0%	2.9%
Liquidity Fund	1.0%	0.4%

**Deferred Outflows/Inflows of Resources**

Deferred inflows and outflows of resources represent an acquisition of net position that applies to a future period(s) and such amounts will not be recognized as an inflow or outflow of resources until that time. The State recognizes deferred inflows and outflows of resources in its government-wide statement of net position for deferred amounts on pension benefits resulting from changes in the components of the SERS's net pension liability. These amounts are deferred and amortized as a component of pension expense.

The Authority's share of deferred outflows of resources for the difference between expected and actual experience, the net difference between projected and actual investment earnings on the plan's investments, changes in assumptions, changes in proportion and differences between employer contributions and proportionate share of contributions total \$249,830 as of June 30, 2019.

The net deferred outflows are expected to be amortized over the next five years in the amounts of \$111,742, \$74,956, \$27,035, \$25,474 and \$10,623.

**Discount Rate**

The discount rate used to measure the total pension liability of the SERS was 6.90%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the State contributes at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the SERS Plan'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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Connecticut Port Authority  
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements  
June 30, 2020**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate:**

The following presents the net pension liability of the Authority's proportionate share of the Plan, calculated using the discount rate of 6.90% as well as what the Authority's proportionate share of the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.90%) or 1-percentage-point higher (7.90%) than the current rate:

	1% Decrease -5.90%	Current Discount Rate -6.90%	1% Increase -7.90%
Net Pension Liability			
As of June 30, 2019	\$ 2,274,048	\$ 1,904,138	\$ 1,595,574

Detailed information about the Plan's fiduciary net position is included in the State of Connecticut's basic financial statements.

**Note 9 - Postretirement Benefits**

As employees of the State, the Authority's personnel are eligible to receive postretirement medical and life insurance coverage. The accounting for and funding of these benefits is done on a cash basis.

The costs of these benefits to the Authority for the year ended June 30, 2020 cannot be determined because postretirement benefits are paid by the State and included in the state-calculated fringe rate charged to the Authority.

**Note 10 - Concentrations**

The Authority received 88% of its funding from the State during the year ended June 30, 2020.

**Note 11 - Risk Management**

The Authority is subject to normal risks associated with its operations, including property damage, personal injury and employee dishonesty. Risks are managed through the purchase of commercial insurance. There have been no losses exceeding insurance coverage during the last year.

**Note 12 - Contingency**

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity. As of June 30, 2020, there was no significant impact to the Authority's operations. However, the Authority is not able to reliably estimate the length or severity of this outbreak. If the length of the outbreak and related effects on the Authority's operations continues for an extended period of time, there could be a loss of revenue and other material adverse effects to the Authority's financial position, results of operations and cash flows.

## **Supplementary Information**

**Connecticut Port Authority**  
**(A Component Unit of The State of Connecticut)**

**Schedule of Project Allocations**  
**June 30, 2020**

Project Name	Allocated as of June 30, 2020*	Expended through June 30, 2019	Expended July 1, 2019 through June 30, 2020	Cumulative Expenditures through June 30, 2020	Remaining Allocation as of June 30, 2020
<b>State Appropriated Bond Allocations</b>					
Small Harbor Improvement Projects Program (SHIPP)	\$ 4,011,650	\$ 3,191,650	\$ -	\$ 3,191,650	\$ 820,000
State Pier - Infrastructure Improvement and Long Term Capital Maintenance	4,560,000	2,408,993	1,234,966	3,643,959	916,041
Pier 7 Design	750,000	47,053	59,512	106,565	643,435
East Shore Properties Purchase	751,000	-	-	-	751,000
New Haven Port Authority Freight Study	500,000	-	-	-	500,000
Improvements at the State Pier in New London	55,500,000	-	-	-	55,500,000
Eastern LI Sound Planning	641,106	16,336	531	16,867	624,239
Piping Plovers	99,465	35,365	4,421	39,786	59,679
Statewide Economic Development Strategies	522,821	189,410	-	189,410	333,411
<b>Total State Appropriated Bond Allocations</b>	<b>\$ 67,336,042</b>	<b>\$ 5,888,807</b>	<b>\$ 1,299,430</b>	<b>\$ 7,188,237</b>	<b>\$ 60,147,805</b>
<b>Harbor Development Project</b>	<b>\$ 22,500,000</b>	<b>\$ -</b>	<b>\$ 6,642,341</b>	<b>\$ 6,642,341</b>	<b>\$ 15,857,659</b>

\* Project allocations are based on information received from the State of Connecticut. These allocations may not be verified within the CORE-CT system. The Authority plans to review these authorizations, in addition to funding source allocations.

See Independent Auditor's Report.

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Board of Directors  
Connecticut Port Authority  
Old Saybrook, Connecticut

We have audited, 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, the financial statements of the Connecticut Port Authority ( "Authority"), a component unit of the State of Connecticut, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 26, 2021.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Connecticut Port Authority's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weakness or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2020-001, that we consider to be a material weakness.

#### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

*The Connecticut Port Authority's Response to Finding*

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CohnReznick LLP*

Hartford, Connecticut  
April 26, 2021

**Connecticut Port Authority  
(A Component Unit of the State of Connecticut)**

**Schedule of Findings  
June 30, 2020**

**2020-001      Financial Reporting**

**Criteria**

The Authority is responsible for financial reporting in accordance with accounting principles generally accepted in the United States of America in the form of financial statements that present fairly, in all material respects, the financial position of the Authority.

**Condition**

Several material journal entries were made as a result of the audit process. Financial information was found to contain misstatements that had to be corrected during the audit process. As a result, management did not have accurate financial data available in a timely manner.

**Context**

Material audit adjustments were required.

**Effect**

Material adjustments result in delays in accurate financial reporting to management. Potential material misstatements could have been reported.

**Cause**

Limited resources in the Finance Department.

**Recommendation**

We recommend the Authority adhere to its developed process related to financial statement close procedures in order to facilitate an effective year-end close. In addition, the Authority should reconcile all significant account balances to supporting documentation and record material construction payables in the appropriate fiscal year.

**Management's Response**

During the audit year, the Connecticut Port Authority (CPA) took numerous steps to strengthen the oversight and management of its finances and operations. Following audit reports issued in 2019 by an independent consultant and state auditors, the CPA Board of Directors approved a Memorandum of Understanding (MOU) with the Office of Policy and Management (OPM) in September 2019 that provided for OPM to oversee all financial decisions made by the CPA, engage such consultants and resources as needed to oversee and evaluate the CPA's fiscal, organizational and administrative practices and activities and to recommend and assist in the implementation of needed improvements in the CPA's organizational and business practices. In September 2019, the CPA Board also reconstituted its Finance Committee with new members including ex-officio representation by both OPM and the Treasurer's Office.

The CPA's Board was behind in the finalization and adoption of the full complement of policies and procedures necessary to govern CPA actions. The consultant engaged by OPM evaluated the sufficiency of CPA's business and organizational practices and structures and completed a report of findings and recommendations in early December of 2019. Since then, the Authority has worked closely with OPM and its consultants to develop and approve revised policies and procedures across a wide-variety of operational areas.

Beginning in September 2019, throughout 2020 and 8 months of fiscal year 2021, OPM contracted with a former municipal finance director who worked with staff to create a chart of accounts and implement the transition to QuickBooks, the CPA's accounting system and software. Assisting in

**Connecticut Port Authority  
(A Component Unit of the State of Connecticut)**

**Schedule of Findings  
June 30, 2020**

this effort was a Certified Public Accountant from a local accounting firm who has expertise and certification as a trainer in QuickBooks. The OPM consultant further assisted the CPA in the implementation of the accounting of CPA's capital projects into QuickBooks.

As the Authority had been without an executive director since July of 2019, an exhaustive search was conducted and assistance provided by the Governor's Office and OPM to vet candidates, resulting in the hiring of an executive director in September 2020.

At the recommendation of OPM, the Authority posted a hiring notice in Fall of 2020 for a finance director. OPM assisted in the drafting of the job description, role and responsibilities, as well as the interview process. A finance director was hired in November 2020.

As a result of the above hires, the CPA was able to commit the staff resources and experience necessary to complete the fiscal year 2020 audit. Further rounding out the financial support staff at CPA, a Fiscal Administrative Assistant was hired in March 2021, to fill a position vacated in October 2020.

At the recommendation of OPM, the CPA set up several new standing committees, including an Audit, Compliance and Governance Committee, which held its first meeting in March 2021.

CPA's engagement with OPM is nearing its end, with the term of the MOU expected to conclude at the end of June 2021. Following the sunset of the MOU, OPM will be issuing a final report summarizing its actions, recommendations and policy revisions to-date, as well as concluding comments.

As a result of the CPA's close collaboration with OPM from September 2019 to present, adoption of a multitude of foundational policy and procedure documents and an increase in staff capacity and experience, the CPA is confident it is well positioned to adhere to its developed process related to financial statement close procedures in order to facilitate an effective year-end close. In addition, the CPA is now capable of reconciling all significant account balances to supporting documentation and record material construction payables in the appropriate fiscal year.



**Independent Member of Nexia International**

**[cohnreznick.com](http://cohnreznick.com)**