

THE METROPOLITAN DISTRICT

**Hartford County
Hartford, Connecticut**

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Year Ended December 31, 2016

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DISTRICT**

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Finance Department

John M. Zinzarella

Chief Financial Officer

**THE METROPOLITAN DISTRICT
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DECEMBER 31, 2016**

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INTRODUCTORY SECTION



The Metropolitan District

water supply • environmental services • geographic information

June 28, 2017

District Chairman
Members of the Board of Finance
Members of the District Board
The Metropolitan District
Hartford, Connecticut

Dear Commissioners and Citizen Members:

State law requires that every governmental unit publish, within six months of the close of each fiscal year, a complete set of audited financial statements conforming to generally accepted accounting principles (GAAP) for governmental units and audited by a firm of licensed public accountants in accordance with auditing standards generally accepted in the United States of America. We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of The Metropolitan District (hereafter, “the District” or “the MDC”) for the year ending December 31, 2016.

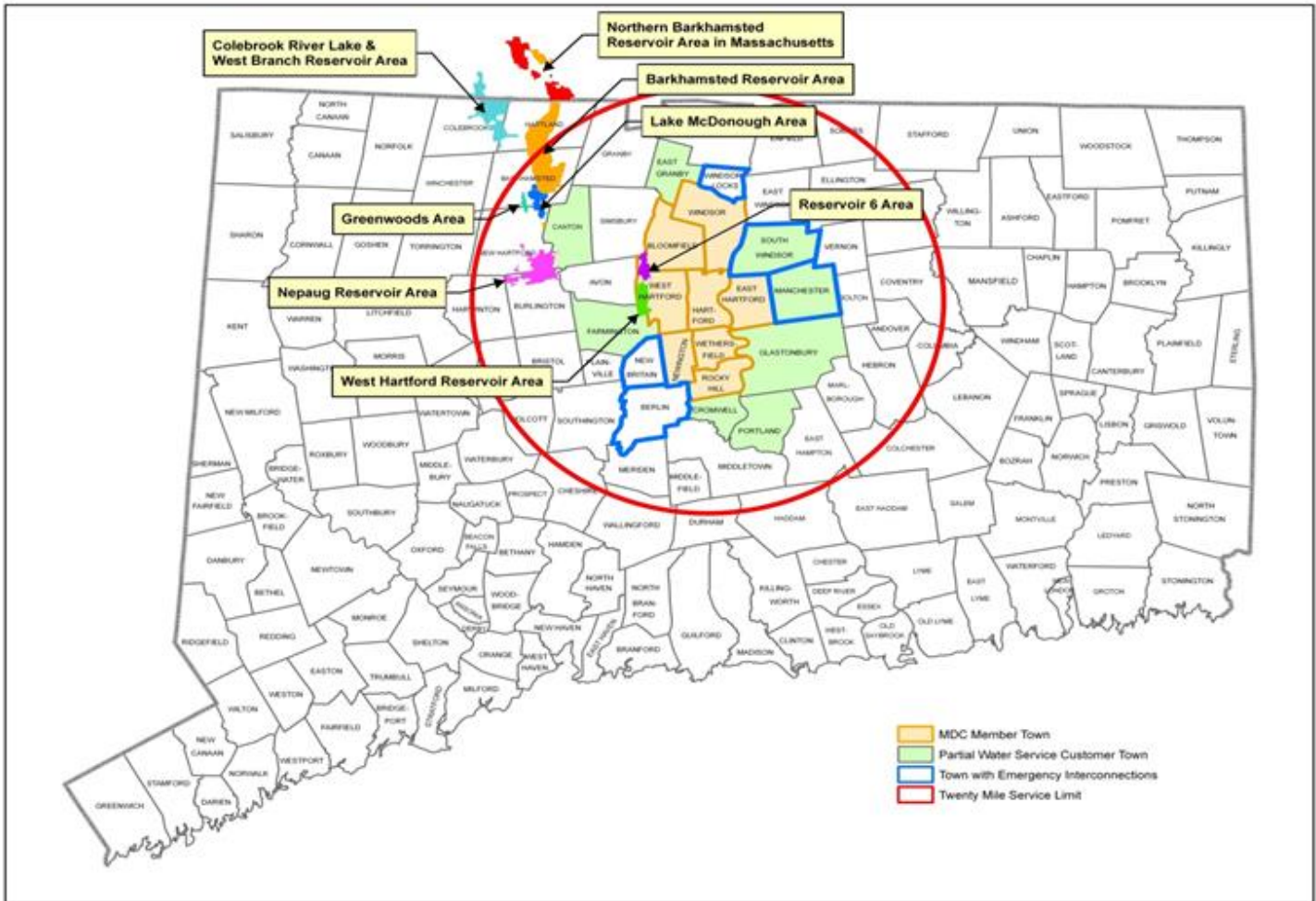
Management assumes full responsibility for the completeness and reliability of the information contained in this report, based on a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal controls should not exceed their anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Blum, Shapiro & Company, P.C., licensed certified public accountants, has issued an unmodified (“clean”) opinion of the District’s financial statements for the year ended December 31, 2016. The independent accountant’s report is located in the front of the financial statement section of this report.

The MDC’s fiscal year 2016 audit includes an audit of all federal grants in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), which provides, in part, that state and local governments expending more than \$750,000 in federal financial assistance must have a single audit for the fiscal year. The single audit is in lieu of any financial and compliance audits required by any federal agency.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE DISTRICT



Description of the District

The District was created by the Connecticut General Assembly in 1929 and operates as a specially chartered municipal corporation of the State of Connecticut under Act No. 511 of the 1929 Special Acts of the State of Connecticut, as amended (the “MDC Charter”). The Member Municipalities incorporated in the District are the City of Hartford and the Towns of Bloomfield, East Hartford, Newington, Rocky Hill, West Hartford, Wethersfield and Windsor (the “Member Municipalities”). The District’s purpose is to provide a complete, adequate and modern system of water supply and sewage collection, treatment and disposal for its Member Municipalities. Additionally, because of a Charter amendment approved by the Connecticut General Assembly in 1979, the District is also empowered to construct, maintain, and operate hydroelectric dams. The District also provides sewage disposal and supplies water, under special agreements, to all or portions of several non-member towns as well as various state facilities. These towns currently include Berlin, East Granby, Farmington, Glastonbury, Manchester, New Britain, Portland, South Windsor, Unionville and Windsor Locks.

The District Board

A 33-member Board of Commissioners, referred to as the District Board, governs the District. The Member Municipalities appoint seventeen of the commissioners, eight are appointed by the Governor, and four are appointed by the leadership of the Connecticut State Legislature. Four nonvoting commissioners are appointed from the nonmember municipalities of Glastonbury, South Windsor, East Granby and Farmington. Appointments made by municipalities having three or more members are subject to the minority representation provisions of Section 9-167a of the Connecticut General Statutes. All commissioners serve without remuneration for a term of six years.

DISTRIBUTION OF DISTRICT BOARD MEMBERSHIP

	Commissioners	Appointed By:			
		Member Municipality	Non-Member Municipality	Governor	Connecticut State Legislature
Bloomfield.....	1	1	0	0	0
East Hartford.....	4	3	0	1	0
Hartford.....	9	6	0	3	0
Newington.....	2	1	0	1	0
Rocky Hill.....	1	1	0	0	0
West Hartford.....	4	3	0	1	0
Wethersfield.....	2	1	0	1	0
Windsor.....	2	1	0	1	0
District at Large....	4	0	0	0	4
Farmington.....	1*	0	1	0	0
Glastonbury.....	1*	0	1	0	0
South Windsor.....	1*	0	1	0	0
East Granby.....	1*	0	1	0	0
Total.....	33	17	4	8	4

* - non voting

Powers and Responsibilities of the District Board

The District Board is authorized to establish ordinances and bylaws; organize committees and bureaus; define the powers and duties of such bodies; fix salaries and define the duties of all officers and employees; appoint deputies to any officers or agents of the District; and issue negotiable bonds, notes or other certificates of debt to meet the cost of public improvements or to raise funds in anticipation of taxes or water revenue, which debt shall be an obligation of the District and its inhabitants. The District Board has the power to levy a tax upon the Member Municipalities to finance the operational and capital budget of the General Fund.

The District Board refers a proposed budget of revenues and expenditures to the Board of Finance annually. The Board of Finance reviews the proposed budget, makes adjustments if desired, and refers it back to the District Board for final enactment.

Capital project appropriations to be financed by the issuance of bonds, notes and other obligations of the District are subject to approval of the District Board upon recommendation of the Board of Finance.

Administration

Responsibility for the overall administration and management of the District policy, operations and services rests with the Chief Executive Officer. The Chief Executive Officer has direct responsibility for the Human Resources and Information Technology functions and manages the remaining functions through the Deputy CEO of Engineering and Operations and Deputy CEO of Business Services. The Deputy CEO of Engineering and Operations has responsibility for design and construction of the District's Clean Water Project, Asset Management and capital planning programs, engineering, maintenance operations, water pollution control, water treatment and supply, and environment, health and safety functions of the District. The responsibilities of the Deputy CEO of Engineering and Operations have largely been assumed by the Director of Engineering on an interim basis. It is anticipated that the position of Director of Operations is expected to be filled during FY 2017. The Deputy CEO of Business Services has responsibility for the District's accounting, budgeting, treasury, procurement, risk management, and customer service functions.

District Chairs and District Officials (as of December 31, 2016)

<u>Function</u>	<u>Chair</u>	<u>Date Term Ends</u>
District Board.....	William A. DiBella	2017
Water Bureau.....	Vacant	
Bureau of Public Works.....	Richard W. Vicino	2017
Personnel, Pension & Insurance.....	Alvin E. Taylor	2017
Board of Finance.....	Pasquale J. Salemi	2017

<u>Position</u>	<u>District Officials</u>
Chief Executive Officer.....	Scott W. Jellison
District Clerk.....	John S. Mirtle
District Counsel.....	R. Bartley Halloran
Deputy CEO of Engineering & Operations..	Open
Deputy CEO of Business Services.....	John M. Zinzarella
Director of Human Resources.....	Robert J. Zaik
Director of Engineering.....	Susan Negrelli
Director of Operations.....	Open
Director of Finance.....	Robert Constable
Director of Procurement.....	Kelly J. Shane

Source: District Officials.

District Employees

As of December 31, 2016, there were 509 full-time employees at the MDC.

District Employees Covered by Collective Bargaining Unit Agreements - 2016

<u>Bargaining Groups</u>	<u>Positions Covered</u>	<u>Current Contract Expiration Date</u>
Clerks, Technicians and Non-Supervisory Engineers – Local 3713	109	December 31, 2018
Supervisors – Local 1026	58	December 31, 2018
Operational – Local 184	<u>237</u>	December 31, 2018
Total Collective Bargaining Unit Employees	404	

District Functions

Principal functions of the District are the development and maintenance of sewer and water systems within the boundaries of its Member Municipalities. Additionally, as a result of Charter amendments approved by the Connecticut General Assembly, the District is also empowered to construct, maintain and operate hydroelectric dams.

The District's **Bureau of Public Works** is responsible for the sanitary sewer system, which includes collection, transmission and treatment of sewage from within boundaries of the Member Municipalities and treatment of sewage received from non-member municipalities by special agreement. The Bureau of Public Works is empowered to authorize the layout and construction of additions and improvements to the sewer system, assess the betterments to property abutting the sanitary sewer line, defer assessments as authorized by ordinance, and act on such other matters that, by MDC Charter, Ordinances or By-Laws, must first be voted upon by the Bureau and then referred to the District Board for final authorization. Public hearings are held as needed. The Bureau of Public Works acts as a court for the assessment of betterments and appraisal of damages. Any party claiming to be aggrieved may take an appeal to the Superior Court of the Judicial District of Hartford.

The District's **Water Bureau** is responsible for the water system that includes storage, transmission, treatment and distribution of water to customers. In addition, the Water Bureau is responsible for acquisition, construction and operation of hydroelectric plants. This bureau is empowered to make such bylaws or regulations for the preservation, protection and management of the water operations as may be deemed advisable. These include the power to establish rates for the use of water and adopt rates for the assessment of benefits upon lands and buildings resulting from installation of water mains and service pipes.

Several other committees are created by the MDC Charter or established by the District Board to carry out various other functions.

Additionally, the General Assembly of the State of Connecticut passed special legislation enabling the District to maintain a series of parks (developed by Riverfront Recapture) along the Connecticut River. The cost of maintaining Riverfront Recapture's parks is incorporated into the District's water budget and recovered through water rates. The District also engages in surveying and mapping as a service to its Member Municipalities and its own operations.

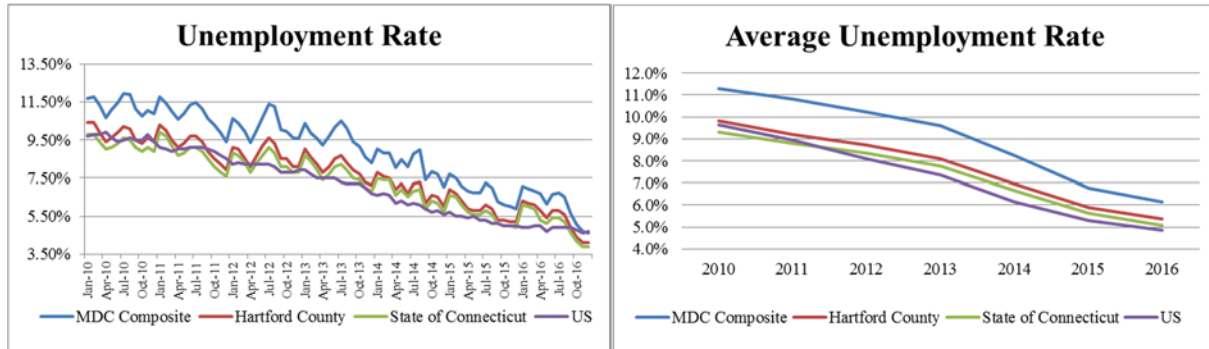
ECONOMIC CONDITION AND OUTLOOK

Local Economy

The Member Municipalities of the MDC are a mixture of urban and suburban communities with an aggregate population of approximately 366,000 people, and median family incomes ranging from \$34,628 to \$113,332. These diverse Member Municipalities comprise a strong and stable service area as evidenced by positive compound annual growth rates in the combined grand lists over the past five and ten-year periods (0.73% and 1.31%, respectively). The combined grand lists not only reflect single family residences and multifamily housing units, but also include major industries such as manufacturers of technology products, building systems and aerospace industries, hospitals, universities, utilities and several financial institutions and insurance companies.

Economic conditions generally affecting the State of Connecticut have a significant impact on the District's Member Municipalities and on employment opportunities for area residents. Within the last decade, as a result of the national recession combined with the continuing budget difficulties within the State of Connecticut, the local MDC labor market area experienced its highest recorded unemployment rates. Over the past ten years, the unemployment rate low was 5.3% recorded in 2007 and the high was 11.9% recorded in 2010, with a ten-year average rate of 8.6%. At the end of 2016, the MDC composite service area unemployment rate was 4.6%, which was the lowest recorded point since 2001.

As depicted in the graphs below, the MDC composite service area unemployment rate has followed the same downward trend as the United States national unemployment rate since the beginning of 2010; however, the MDC composite service area unemployment rate had been approximately 20% higher than the national average, reflecting the area’s slower recovery from the national recession. During the fourth quarter of 2016, this spread narrowed as the MDC composite service area experienced rates consistent with the national average.



Recently, the Member Municipalities had to adapt to reduced funding from the State of Connecticut for various programs to address its own budgetary issues. Municipal services are being reduced to focus on core programs while spending increases have been offset by concession agreements with unions, cost containment strategies such as hiring freezes, re-engineering service delivery methodologies, reduction in capital programs and debt refinancing to take advantage of low municipal bond market rates. The Member Municipalities, for the most part, have retained their strong financial positions by adopting a proactive approach to dealing with the economic downturn.

The City of Hartford is facing significant fiscal structural challenges and these issues have impacted the MDC. During October 2016, the MDC received downgrades from both Moody’s and Standard and Poor’s (Aa2 Negative Outlook and AA Negative Outlook, respectively) due in large part to the potential exposure of the MDC to the City of Hartford’s unresolved financial distress.

Fiscal Responsibility, Strategic Outlook and Long Term Financial Planning

Consistent with our adopted Strategic Plan, the MDC proactively monitors the current business and statutory environment in which the MDC operates, and continually evaluates its operating policies and procedures and rate structure as well as how the MDC interacts with its customers and key stakeholders. As discussed above, the City of Hartford is facing fiscal challenges due to its structural fiscal imbalance, causing some to question Hartford’s continuing ability and willingness to meet its financial obligations to the MDC.

In response, the MDC’s Adopted 2017 budget incorporated a contingency plan focused on the possibility that the City of Hartford might be unwilling or unable to meet its Ad Valorem tax obligations to the District in the second half of calendar year 2017. Under the Adopted Plan, the MDC assessed an additional component of its annual tax due at the end of October 2017, in an amount sufficient to raise from the other seven Member Municipalities all or part of the taxes assessed against, but unpaid by, the City of Hartford due in mid-July and mid-October, 2017. If the City of Hartford paid all or a portion of those tax installments by December 31, 2017, the additional component would be promptly reduced or returned in full to the other seven Member Municipalities. The contingency plan was necessitated by the MDC’s fixed annual budget cycle and limited tools for addressing a possible default. In turn, it presented challenges for the MDC’s Member Municipalities’ own budgets.

To enhance its ability to respond to a possible default by any Member Municipality, the MDC sought changes to its Charter in the recently concluded legislative session of the General Assembly. With the support of the Member Municipalities, on May 16, 2017, Public Act 17-1 was signed into law by the Governor. In addition to the MDC's already existing powers outlined in its Charter, the new legislation grants the MDC:

- Authority to levy additional taxes on the Member Municipalities during the fiscal year if a Member Municipality was late, or did not pay its portion of Ad Valorem tax.
- Expands the MDC's ability to borrow on a short-term basis to include working capital (operational) purposes, in addition to funding for capital projects, for a term up to three years.
- Redirects State of Connecticut PILOT payments under Section 12-18b, otherwise payable to a Member Municipality, to the MDC if the Member Municipality fails to pay Ad Valorem tax to the MDC within the MDC's fiscal year.

The MDC expects that these tools will allow it to react to a mid-year default by a Member Municipality in a timely, less disruptive and more accommodating fashion.

Given the increased complexity and demands of the Clean Water Project, the MDC has developed and maintained complex and sophisticated forecasting models to plan future short- and long-term debt issuances, develop comprehensive cash flow projections, and determine impacts on future rate structures. Utilizing these tools proactively has enabled the MDC to model numerous scenarios and communicate effectively with its commissioners, customers, key stakeholders, the State and members of the investment community about the MDC's financial position, progress of the Clean Water Project and the MDC's future financing plans.

Over the past several years, the MDC has operated within a soft economy created by the economic recession and has managed to work through this difficult period while experiencing both operating expense increases and increased capital obligations related to the Clean Water Project and the Asset Management Program. As noted in the Local Economy section, the MDC composite service area unemployment rate has been tracking higher than both the national and the State of Connecticut data. In addition, approximately 14.4% of the people in the MDC current service area live at or below the poverty level. Understanding what our obligations are under the Clean Water Project and the impact on future cost of service to our customers, the MDC is vigilant in its efforts to offset operating expense increases.

The MDC has explored structural efficiencies and cost reduction initiatives over the past several years and these efficiency gains have allowed the District to moderate increases in Ad Valorem rates although the level of wastewater construction activity has increased exponentially since 2007. The modest increases in the Ad Valorem rate structure (3.0% CAGR since 2007, inclusive of the adopted 2017 rate structure) has provided stability and predictability to the Member Municipalities, whose budgets have been strained. The MDC Sewer Operations, with \$1.5 billion in net capital assets as of December 31, 2016, is a capital intensive business. To maintain the appropriate level of service for Member Municipalities, capital infrastructure reinvestment is required as that infrastructure ages. Since 2007, the Sewer Operations debt service has experienced a CAGR of 6.7%, a rate more than double the CAGR of the MDC Ad Valorem tax over the same period. The ability of the MDC to access cost effective financing combined with its ability to develop and implement efficiency gains and cost reduction initiatives has enabled the MDC to soften the financial burden on its Member Municipalities from the full cost of Sewer Operations facility reinvestment. In all likelihood, recent increases in interest rates will challenge the MDC's continued ability to do so.

At the same time, the base water rate has also increased moderately over the past several years (3.5% CAGR since 2007, inclusive of the adopted 2017 rate structure) while overall consumption has decreased (-2.35% CAGR since 2007, inclusive of the 2016 actual consumption) due to end user conservation activities as well as the introduction of more water efficient commercial processes and consumer appliances. In absolute terms, water consumption has decreased 4.6M ccfs since 2007 to the consumption level of 19.3M ccfs in 2016. During 2016, the MDC service area experienced the worst drought conditions since the mid-1960's and as a result, the MDC reached its first drought trigger of reservoir capacity of 75%. This trigger did not result in any mandatory water restrictions on MDC customers, primarily due to the vast surface water supply engineered and constructed decades ago. At the lowest reservoir levels recorded during 2016, and even without additional rainfall, the MDC still had in excess of one year's supply capacity based upon average daily consumption. More recently, the MDC's reservoirs are at 100% of capacity and excess water is spilling over through the dam's spillways. Like its sewer operations, the MDC Water Utility Operations is a capital intensive business with \$0.55 billion in net capital assets as of December 31, 2016. In order to support the aging infrastructure that enabled the MDC to maintain more than adequate water supplies during the recent drought, capital infrastructure reinvestment is required. Since 2007, the Water Utility Operations debt service has experienced a CAGR of 19.16%, more than five times the CAGR of the base water rate over the same period, even considering the decline in consumption over the same period. Again, the MDC's ability to access cost effective financing combined with its ability to develop and implement efficiency gains and cost reduction initiatives has enabled the MDC to soften the financial burden on its water customers from the full cost of Water Utility facility reinvestment. Even with this level of infrastructure reinvestment, the MDC base water rate remains one of the lowest among water utilities within the State of Connecticut. In all likelihood, recent increases in interest rates will challenge the MDC's continued ability to do so.

Consistent with our adopted Strategic Plan, the MDC commenced its Business Transformation Process. This program is a critical review of all business and operating processes at the MDC while simultaneously upgrading and re-implementing the current enterprise resource planning (ERP) system. The current ERP system was installed in 1999 and it has served the MDC well over the past decade and a half. The Business Transformation Process is expected to continue through 2017. The new ERP system will enable the MDC to provide better customer service to our customer base as well as facilitate operational efficiency gains, and more accurate metering, billing and collections.

As a result of these proactive actions, the MDC maintains a positive unassigned fund balance in the general fund (26.0% of total general fund revenues), and an unrestricted net asset balance in the water utility fund (13.1% of total water utility revenues). Through prudent planning and funding, the Metropolitan District Employee's Retirement System (MDERS), under GASB 67, has a plan fiduciary net position as a percentage of total pension liability of 79.6% as of December 31, 2016. Collectively, these measurements illustrate the financial strength of the District.

In addition, based upon the Debt Limitation as outlined in the MDC Charter, as of December 31, 2016, the District has \$336.8 million of available borrowing capacity. Due to its strong financial footing, the District continues to execute not only the Clean Water Project, but also the essential elements of its Strategic Plan. As it does so, its available borrowing capacity will narrow significantly.

With this focus and self-awareness, the District has resourced and staffed itself to manage both its core operations as well as the projected Clean Water Project activities. These efforts will assist the District to continue to meet its significant operational and capital obligations while striving to maintain one of the region's lowest water and sewerage rate structures.

MAJOR INITIATIVES

Clean Water Project

The MDC has entered into a consent decree of the United States District Court of the District of Connecticut, with the United States Department of Justice, the U.S. Attorney's Office, the United States Environmental Protection Agency and the State of Connecticut Attorney General (the "U.S. Consent Decree"), and a consent order, general permit for nitrogen discharges, and existing municipal national pollutant discharge elimination system permits of the State of Connecticut Department of Energy and Environmental Protection, all entered into with the Commissioner of the CTDEEP (the "Connecticut Consent Order", and together with the U.S. Consent Decree, the "Governmental Orders"). These set forth the obligation of the MDC to achieve Federal Clean Water Act goals of eliminating sanitary sewer overflows (SSOs), reducing combined sewer overflows (CSOs) and reducing nitrogen discharges from our water pollution control facilities into state waterways. The Governmental Orders provide for milestones and goals, with expenditures and budgets monitored by the EPA and CTDEEP, but with the means of achieving those milestones and goals resting with the MDC.

The MDC has developed a multi-year program to comply with its obligations under the Governmental Orders, referred to as the "Clean Water Project". The Clean Water Project will address the approximately one billion gallons of combined wastewater and storm water currently released each year to area waterways. To date, the MDC is in current compliance with all aspects of the Governmental Orders. All revenues and expenditures associated with the Clean Water Project are recorded in its own unique major governmental fund.

The Clean Water Project is an expansion in the capacity and efficiency of the MDC's existing sanitary waste treatment systems, but does not represent an expansion of the system into new areas. The Clean Water Project is expected to be undertaken in such a manner that the overall system will remain in continuous operation. The MDC is confident that the Clean Water Project will be completed successfully through the ongoing active management of scope, schedule and risk by its project teams.

As the Clean Water Project has progressed, the MDC has revised the original design concept. The MDC has refined certain design elements to achieve cost savings and alter some aspects of the original design, and continue to examine the Clean Water Project for efficiencies that can be achieved through value engineering. The Long-Term Control Plan, which sets out the details of the Clean Water Project, was resubmitted in 2012 and revised further in 2015. It incorporates longer underground storage tunnels with greater capacity and less sewer separation work than original planned, and sets forth a completion of Phase II in 2024 and Phase III in 2029. The revised plan was approved in April 2015. The delays occasioned by the redesign and permitting process, particularly with respect to the South Tunnel, now lead the MDC to expect an increase in projected costs of the Clean Water Project as a whole, but the MDC has not revised its overall cost estimates, in part because design and siting work for Phase III has not yet been conducted in sufficient detail. For planning purposes, the MDC is currently projecting a total cost of the Clean Water Project of \$2.5 billion. Accordingly, the MDC has refocused the goals of the Clean Water Project to be consistent with the approved LTCP and established new milestone dates which are incorporated in the revised LTCP. The MDC awarded a contract on June 30, 2016 for the South Tunnel and entered into a funding agreement with the State of Connecticut for the bulk of the contract through grants and loans from the State's Clean Water Fund.

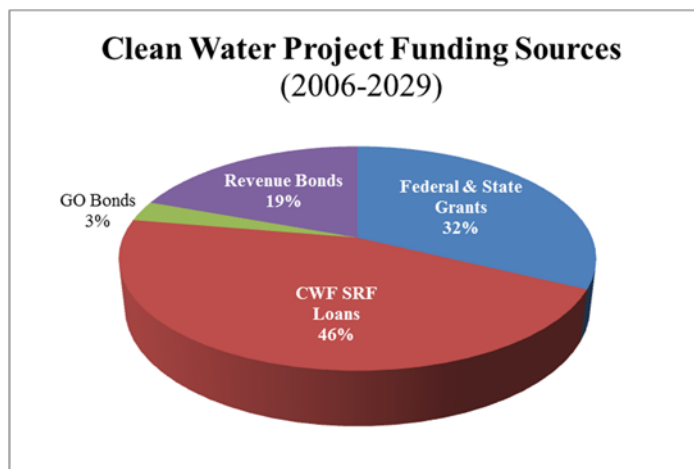
Connecticut DEEP has confirmed that the MDC's next submission for an update to the Long-Term Control Plan is in 2017. The MDC intends to comply with such request. Data from recent testing performed by the MDC indicates there are other sources of pollution affecting the North Branch of the Park River, which is causing the MDC to revisit the utility of the North Tunnel for its intended purposes and may result in the MDC proposing changes to its Long-Term Control Plan in its 2017 submission.

Large appropriations not funded by grants, such as for the costs of the Clean Water Project, must be approved by referendum vote of the voters of the Member Municipalities. To date, the MDC has received cumulative authorizations to expend \$1.74 billion. The MDC has made no determination as to when any additional referendum will be held. The MDC expects that all projects contemplated within the cumulative authorization of \$1.74 billion will be completed within the authorized appropriations, and to be placed in service without regard to the outcome of any additional referendum. Through the end of 2016, the MDC has expended \$889.0M against the \$1.74 billion in authorizations.

As noted, the MDC has proactively sought and achieved cost savings, and continues to examine the Clean Water Project in search of more efficient and effective ways to complete the project and comply with the Governmental Orders. In addition, some individual projects within the Long-Term Control Plan have been completed at lower than estimated costs, in large part due to a competitive construction market. Notwithstanding, giving the fluidity of the market and circumstances largely outside our control, the MDC cannot give any assurances as to when the Clean Water Project will be completed or its total cost.

Plan of Finance

The District's goal is to fund the Clean Water Project with revenue bonds, general obligation debt and State and Federal low-cost, State Revolving Fund Program loans from the State of Connecticut Clean Water Revolving Fund Program ("Clean Water Fund") supported by the Clean Water Project Charge or "Special Sewer Service Surcharge". It is also expected that upwards of 32% of the entire project will be funded with State and Federal grants, which require no repayment from the MDC. The largest funding source for the project will be the State of Connecticut Clean Water Fund loans at upwards of 46% of the entire project cost with the balance being funded through the issuance of MDC open market debt instruments (primarily revenue bonds). The chart below details the anticipated funding sources for the Clean Water Project.

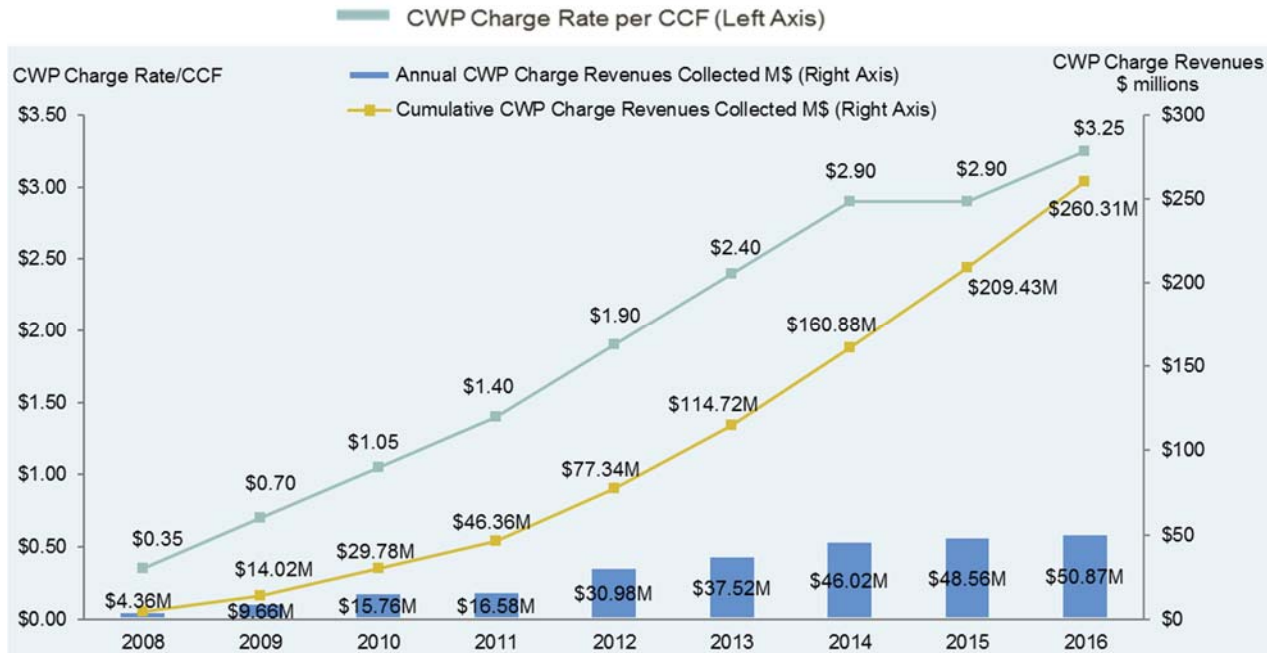


The revenue bonds are issued under the Special Obligation Indenture. The debt service of the Clean Water Project as shown in the above chart will also include Clean Water Fund loans and general obligation borrowings that will be issued only to finance the Clean Water Project and are expected to be paid from the Special Sewer Service Surcharge, but can also be supported by the MDC's general resources as needed.

To date the State's Clean Water Fund program has committed approximately \$361.4 million in State and Federal grants to the Clean Water Project, and committed approximately \$537.4 million in State and Federal loans, which bear interest at 2% per year. To date the MDC has issued \$71.2 million in general obligation bonds to finance the Clean Water Project, and \$225 million in revenue bonds. It is expected that further bonds issued to finance the Clean Water Project will be revenue bonds issued pursuant to the Special Obligation Indenture.

The Special Sewer Service Surcharge, established by ordinance, may be used to pay principal and interest on indebtedness issued for the purpose of financing the Clean Water Project (including general obligation bonds, revenue bonds and Clean Water Fund borrowings) as well as to pay for Clean Water Project capital expenditures within the limitation of the Special Obligation Indenture. It is not available to pay operating expenses.

Historical Clean Water Project Rates and Revenues



The MDC’s general obligation borrowings, whether for the Clean Water Project or its other capital purposes, are subject to an overall debt limit set out in the MDC Charter. The MDC could not borrow sufficient funds for purposes of the Clean Water Project without exceeding this debt limit. By statute, however, sewer indebtedness payable solely from sewer charges is not counted against the debt limit, and accordingly, all revenue bonds issued under the Special Obligation Indenture may be issued by the MDC without limiting its ability to borrow for its other capital purposes.

The Special Sewer Service Surcharge is established annually as part of the MDC’s budget process. It therefore cannot be pre-established for future periods, and while it is expected to be comparatively stable in terms of collectability, it is nevertheless subject to collection risk. The MDC believes it is good business practice to escalate this charge smoothly in the future as it borrows for the Clean Water Project, hold it level, and decrease it smoothly as it repays the indebtedness. Accordingly, it has created a fund within the Indenture - the Rate Stabilization Fund - to allow the MDC to hold Pledged Revenues not theretofore used for debt service on borrowings for the Clean Water Project for the purposes of paying debt service on Clean Water Project indebtedness in future periods and to guard against shortfalls in collections.

The overall plan of finance thus contemplates the issuance of revenue bonds under the Special Obligation Indenture, subject to an additional bonds test, which would be outside the MDC’s debt limit contained in the MDC Charter. Such bonds are secured by a gross pledge of revenues from the Special Sewer Service Surcharge. Any such revenues not required for payment of principal and interest on the Bonds could be released from the pledge of the Indenture to pay subordinate revenue bonds issued for the Clean Water Project, Clean Water Fund borrowings for purposes of the Clean Water Project, or general obligation borrowing for purposes of the Clean Water Project, or retained within the Rate Stabilization Fund to pay future Clean Water Project capital expenditures, principal and interest.

The MDC believes this plan of finance will allow it to fulfill the aims of the Clean Water Project, comply with its debt limit under the MDC Charter, fund its other capital requirements, and maintain good business practices with respect to its customers.

FUTURE PLANS

The District will continue to focus on its strategic vision and values through the following key initiatives:

- Asset Management – Continue to operate the State’s most advanced system of enhanced technology to more efficiently prioritize future repair, replacement and maintenance of MDC infrastructure, thereby optimizing short and long-range infrastructure investment to balance cost of service to the members towns and customer base;
- Contracting and Procurement – Establish an effective, efficient and scalable process that ensures procurement integrity and utilizes available best practices to enable the MDC to address the growing demands of its core operations as well as the Clean Water Project, while providing improved service and equity to a growing and increasingly diverse vendor community;
- Continued Enhancement of Customer Service – Continue our transformation towards a more “Customer Centric” focused organizational culture. Provide improved communication portals/mediums to transmit and receive customer communications and to further improve our process to resolve customer issues and concerns;
- Human Capital/Succession Planning – Proactively evaluate and prioritize the organizational needs of the MDC, including plans for the transfer of institutional knowledge to ensure a stable, dedicated, skilled and diverse workforce responsive to changing demands in technology and customer expectations;
- Environmental Stewardship/Compliance – Maintain continual environmental and regulatory compliance, consent order/deed compliance and natural resource management consistent with regulatory requirements and all existing agreements;
- Performance Assessment/Process Re-Engineering – Maintain the enhanced program to continually assess and improve our performance. Continue to realign the organization and its processes to support the strategic vision of the District Board;
- Continued Enhancement of Stakeholder Communications – Maintain and enhance an internal and external communications plan which continues to establish more open communications and transparency with our member towns, customers and stakeholders; and
- Development of Water Supply Resources and New Water Business Opportunities- Further development of the water supply resource (includes both subsurface and surface water supply sources) and expansion of the customer base to optimize use of our water assets and revenue growth from increased water sales.

We hope that our continued fiscally and environmentally responsible actions demonstrate our concern and commitment to our customers, member towns, stakeholders, investors and the citizens of the State of Connecticut. We pride ourselves in knowing that our customers enjoy the highest quality drinking water in the region at a cost that is consistently lower than any public or private water supply provider of similar size, anywhere in Connecticut. At the same time, we also take great pride in engineering and constructing the largest public works project in New England, the Clean Water Project, with the overwhelming support of our Member Municipality constituents. Looking forward, the MDC will continue to develop sound business goals and adopt implementation plans that fulfill the performance objectives set forth in the Strategic Plan.

AWARDS AND ACKNOWLEDGMENTS

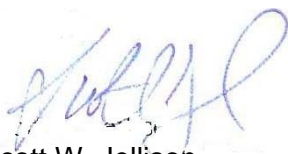
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the MDC for its CAFR for the fiscal year ended December 31, 2015. This prestigious award is conveyed to government entities who publish an easily readable and efficiently organized CAFR that satisfies all GAAP and applicable legal reporting requirements. This Certificate of Achievement is valid for a period of one year, however, we believe that our current CAFR continues to meet the rigorous standards that the Certificate of Achievement Program requires and the MDC is submitting to the GFOA to determine its eligibility for a certificate for this current year's report.

Again, the employees in the Finance Department have joined their many talents to produce this Comprehensive Annual Financial Report, and we thank them.

Special thanks to members of the Board of Finance and District Board for the guidance and support they provide year after year. The District's financial strength reflects their vigilance and stewardship.

The District is committed to remaining focused on the efficient fulfillment of its core mission. In pursuit of that objective, we remain fully committed to providing our customers with safe, pure drinking water, environmentally protective wastewater collection and treatment and other services that benefit the member towns.

Sincerely,



Scott W. Jellison
Chief Executive Officer



John M. Zinzarella
Deputy CEO of Business Services, Treasurer &
Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

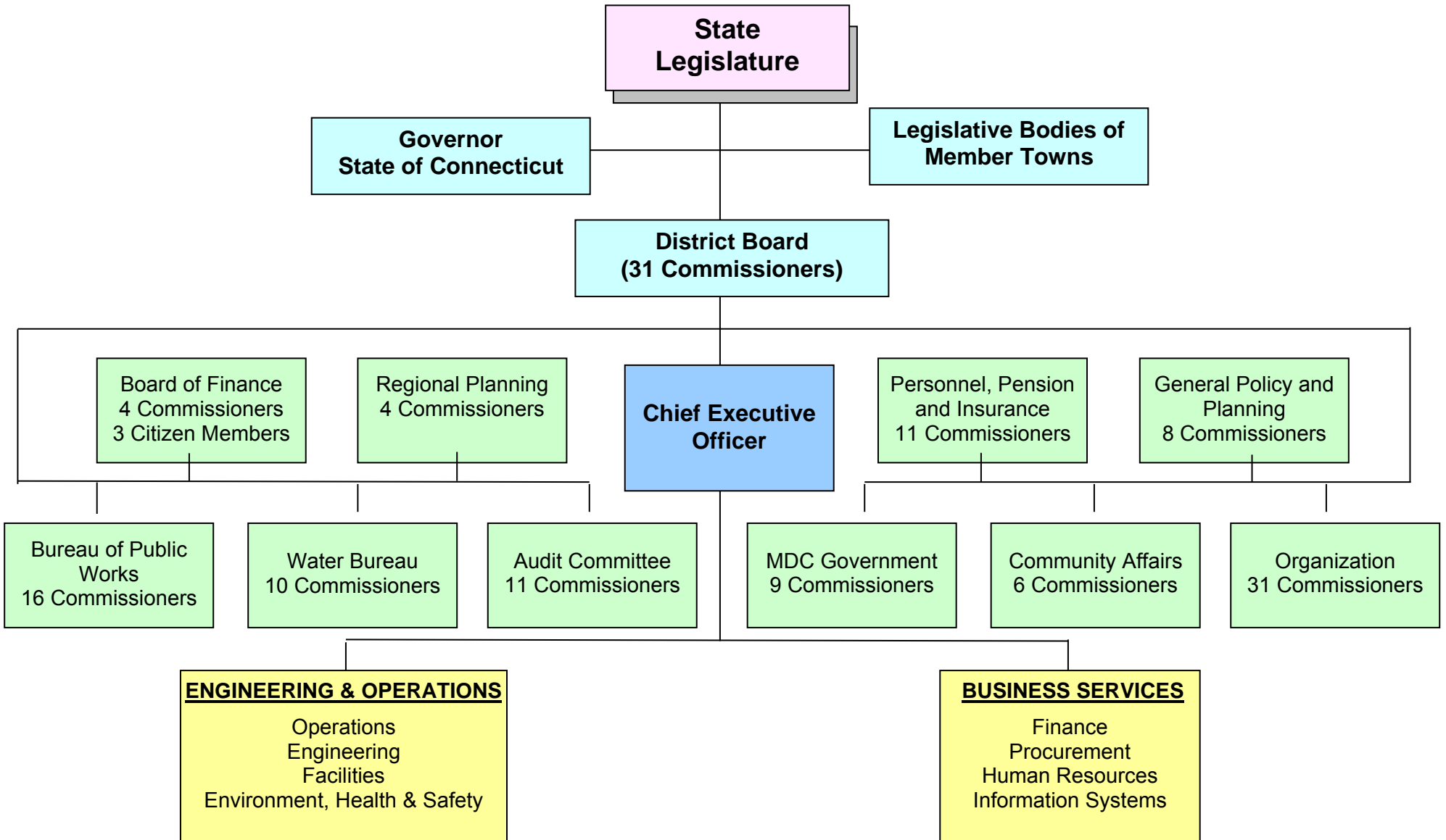
**The Metropolitan District
Connecticut**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2015

Executive Director/CEO

**The Metropolitan District
Hartford County
Organization Chart**



**THE METROPOLITAN DISTRICT
THE DISTRICT BOARD**

Name	Primary Occupation	Municipality Represented	Term Expires	Bureaus, Boards, Committees
William A. DiBella, Chairman	Consultant	Hartford	12-31-2020	Ex-Officio Member of all Bureaus, Boards, Commissions and Standing Committees
Maureen Magnan, Vice Chairman	Government Relations	West Hartford	12-31-2020	Bureau of Public Works, MDC Government, Personnel, Pension & Insurance, Community Affairs, CRRA Steering Committee
Andrew Adil	Investment Advisor	Wethersfield	04-28-2019	Bureau of Public Works, Strategic Planning Committee
Daniel Camilliere	Retired	Wethersfield	12-31-2020	Water Bureau, Committee on Organization, Personnel, Pension and Insurance, Commission on Regional Planning, Strategic Planning Committee
Luis Caban	Executive Director	Hartford	12-31-2016	Bureau of Public Works, General Policy & Planning, Board of Finance, Committee on Organization, Strategic Planning Committee
Mary Anne Charron	Attorney	West Hartford	04-28-2019	Water Bureau, Community Affairs, Audit Committee, Strategic Planning Committee
Donald Currey	Retired	East Hartford	04-28-2019	Bureau of Public Works, Organization, Personnel, Pension and Insurance, Audit Committee
Timothy Curtis	Retired	Windsor	12-31-2016	Water Bureau, General Policy & Planning, Personnel, Pension & Insurance, Commission on Regional Planning, Audit Committee, Strategic Planning Committee, Farmington River Watershed Committee
Janice Flemming-Butler	Executive Assistant	Hartford	04-28-2019	Bureau of Public Works, Community Affairs, Strategic Planning Committee
Matthew B. Galligan	Town Manager	South Windsor	12-31-2019	District Board Only
Allen Hoffman	Consultant	Legislative Appointee	12-31-2018	Bureau of Public Works, Board of Finance, Audit Committee, Committee on MDC Government, Committee on Organization
Georgiana E. Holloway	Executive Assistant	Hartford	12-31-2020	Committee on MDC Government

Name	Primary Occupation	Municipality Represented	Term Expires	Bureaus, Boards, Committees
William P. Horan	Attorney	East Hartford	12-31-2016	Bureau of Public Works, Board of Finance, Committee on MDC Government, CRRA Steering Committee, Committee on Organization
Sandra Johnson	Consultant	East Granby	12-31-2019	District Board Only
Joseph Klett	CT Marshall	Newington	12-31-2016	Bureau of Public Works, Water Bureau, Personnel, Pension & Insurance
Kathleen J. Kowalyshyn	Attorney	Hartford	04-28-2019	Water Bureau, Committee on Organization, Audit Committee, Personnel, Pension & Insurance
Byron Lester		Bloomfield	12-31-2018	Bureau of Public Works, Personnel, Pension & Insurance, Strategic Planning Committee
Alphonse Marotta	Retired	Hartford	12-31-2016	Bureau of Public Works, Committee on MDC Government, Commission on Regional Planning, Audit Committee, Strategic Planning Committee
James S. Needham	Attorney	West Hartford	12-31-2017	Water Bureau, General Policy & Planning Committee, Committee on MDC Government
Whit Osgood		Glastonbury	12-31-2019	District Board Only
Mark A. Pappa	Financial Advisor/Life Insurance	Legislative Appointee	12-31-2020	Water Bureau, General Policy & Planning, Audit Committee, Energy Committee, Strategic Planning Committee, Farmington River Watershed Committee
Bhupen Patel	Director, Construction Assurance	Newington	12-31-2020	District Board Only
J. Lawrence Price	Attorney	West Hartford	12-31-2018	Bureau of Public Works, General Policy & Planning, MDC Government, Personnel, Pension & Insurance, Audit Committee, Strategic Planning Committee
Kennard Ray		Hartford	12-31-2014*	Bureau of Public Works, Strategic Planning Committee

Name	Primary Occupation	Municipality Represented	Term Expires	Bureaus, Boards, Committees
Hector M. Rivera	Retired	Hartford	12-31-2016	Bureau of Public Works, MDC Government, Committee on Organization, Community Affairs, Energy Committee, Farmington River Watershed Committee
Pasquale J. Salemi	Engineer	East Hartford	12-31-2016	Water Bureau, Personnel, Pension & Insurance, CRRRA Steering Committee, Energy Committee, General Policy & Planning, Board of Finance
Helene H. Shay	Labor Arbitrator	Windsor	04-28-2019	Water Bureau, Community Affairs
Michael Solomonides	Marketing Manager	Farmington	12-31-2020	District Board Only
Raymond Sweezy	Retired	Rocky Hill	12-31-2018	Bureau of Public Works, Water Bureau, General Policy & Planning, Committee on Organization, Personnel, Pension & Insurance, Community Affairs, Commission on Regional Planning, Audit Committee
Alvin E. Taylor	Retired	Legislative Appointee	12-31-2021	Bureau of Public Works, General Policy & Planning, MDC Government, Committee on Organization, Personnel, Pension & Insurance, Audit Committee, CRRRA Steering Committee, Strategic Planning Committee
Richard V. Vicino	Construction Management	Legislative Appointee	12-31-2021	Bureau of Public Works, Committee on Organization, Audit Committee, Strategic Planning Committee, Energy Committee
Michael Carrier		Representative from New Britain	12-31-2010*	Ex-Officio Member of the Water Bureau of District Board

*Commissioners appointed by Municipalities continue to serve until a successor is selected.

THE METROPOLITAN DISTRICT
HARTFORD COUNTY
DISTRIBUTION OF DISTRICT BOARD MEMBERSHIP
AS OF DECEMBER 31, 2016*

	Total Commissioners	Appointed By		
		Municipality	Governor	Legislature
Hartford	8	6	2	
East Hartford	3	2	1	
West Hartford	4	3	1	
Windsor	2	1	1	
Bloomfield	1	1		
Wethersfield	2	1	1	
Newington	2	1	1	
Rocky Hill	1	1		
East Granby	1	1		
Farmington	1	1		
Glastonbury	1	1		
South Windsor	1	1		
Legislative Appointment	4			4
	<u>31</u>	<u>20</u>	<u>7</u>	<u>4</u>

*The Hartford Commissioner appointed by the Governor and East Hartford Commissioner appointed by the municipality were vacant as of December 31, 2016.

THE METROPOLITAN DISTRICT

**HARTFORD COUNTY
BOARD OF FINANCE**

	Term <u>Expires</u>
William A. DiBella (Ex-Officio)	12-31-2020
Luis Caban	12-31-2016
Allen Hoffman	12-31-2018
William P. Horan	12-31-2016
Pasquale J. Salemi	12-31-2016
Ronald F. Angelo	12-31-2017
Martin B. Courneen	12-31-2017
Linda A. King-Corbin	12-31-2017

FINANCIAL SECTION

BlumShapiro

Accounting | Tax | Business Consulting

Independent Auditors' Report

To the Board of Finance
The Metropolitan District
Hartford, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of The Metropolitan District as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise The Metropolitan District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of The Metropolitan District as of December 31, 2016 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.

Change in Accounting Principle

As discussed in Note 3 to the financial statements, during the fiscal year ended December 31, 2016, the Town adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

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 13, the budgetary comparison information on pages 65 through 67 and the pension and OPEB schedules on pages 68 through 71 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Metropolitan District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017 on our consideration of The Metropolitan District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Metropolitan District's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
June 28, 2017

**The Metropolitan District
Management's Discussion and Analysis
December 31, 2016**

The management of the Metropolitan District (the District) offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- On a government-wide basis, the assets of the District exceeded its liabilities at the close of the current year by \$665,698,299 and \$224,061,632 for the Governmental Activities and the Business-Type Activities, respectively.
- As of the close of the current year, the District's governmental funds reported combined ending fund balances of \$121,089,296, an increase of \$47,859,854 in comparison with the prior year, which is primarily due to the timing of reimbursements and significant permanent financing.
- On a government-wide basis, the District's total net position increased by \$82,166,246 and decreased by \$25,342,628 for the Governmental Activities and Business-Type Activities, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the current year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes, charges for services, operating grants and contributions, capital grants and contributions (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges and capital grants and contributions (business-type activities). The governmental activities of the District include general government, operations, plants and maintenance, and Interest on long-term debt. The business-type activities of the District include Water and Hydroelectricity facilities as well as the Mid-Connecticut Project.

The government-wide financial statements can be found on pages 14-15 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains 4 individual funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Debt Service Fund, the Clean Water Project Fund and the Capital Project Fund, of which all of them are considered to be major funds.

The District adopts an annual appropriated budget for its General Fund and Water Utility Fund. Budgetary comparison schedules have been provided for the General Fund and Water Utility Fund to demonstrate compliance with this budget. These can be found on pages 65-67 and 76-78 of this report.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary Funds - The District maintains three enterprise type funds. Enterprise funds report the same functions as presented by the business-type activities in the government-wide financial statements. The District uses enterprise funds to account for its water and hydroelectricity operations and Mid-Connecticut Project.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water operations and the Mid-Connecticut Project, which are considered to be major funds of the District, and hydroelectricity operations, which is nonmajor.

The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the District in a trustee capacity for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 23-24 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-64 of this report.

The notes to this report also contain certain supplementary information concerning the District's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. In the case of the District, assets exceeded liabilities by \$665,698,299 and \$224,061,632 for the governmental activities and business-type activities, respectively, at the close of the most recent fiscal year.

By far, the largest portion of the District's assets is its investment in capital assets (e.g., infrastructure, plants, machinery and equipment). It is presented in the statement of net position less any related debt used to acquire those assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets, net of accumulated depreciation, is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Metropolitan District Commission NET POSITION December 31, 2016 and 2015

	2016			2015		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Current and other assets	\$ 220,607,273	\$ 101,477,130	\$ 322,084,403	\$ 222,160,632	\$ 113,072,636	\$ 335,233,268
Capital assets, net of accumulated depreciation	1,477,341,669	555,389,868	2,032,731,537	1,289,127,930	529,985,144	1,819,113,074
Total assets	<u>1,697,948,942</u>	<u>656,866,998</u>	<u>2,354,815,940</u>	<u>1,511,288,562</u>	<u>643,057,780</u>	<u>2,154,346,342</u>
Deferred outflows of resources	6,790,019	8,118,574	14,908,593	12,946,772	3,464,844	16,411,616
Current liabilities	103,833,203	56,953,092	160,786,295	153,113,322	87,706,590	240,819,912
Long-term liabilities outstanding	935,111,668	383,838,358	1,318,950,026	787,362,734	309,350,646	1,096,713,380
Total liabilities	<u>1,038,944,871</u>	<u>440,791,450</u>	<u>1,479,736,321</u>	<u>940,476,056</u>	<u>397,057,236</u>	<u>1,337,533,292</u>
Deferred inflows of resources	95,791	132,490	228,281	227,225	61,128	288,353
Net Position:						
Net investment in capital assets	586,568,408	262,043,055	848,611,463	470,151,347	282,495,291	752,646,638
Unrestricted	<u>79,129,891</u>	<u>(37,981,423)</u>	<u>41,148,468</u>	<u>113,380,706</u>	<u>(33,091,031)</u>	<u>80,289,675</u>
Total Net Position	<u>\$ 665,698,299</u>	<u>\$ 224,061,632</u>	<u>\$ 889,759,931</u>	<u>\$ 583,532,053</u>	<u>\$ 249,404,260</u>	<u>\$ 832,936,313</u>

The District's total net position increased by \$56,823,618 during the current year.

Metropolitan District Commission
CHANGES IN NET POSITION
For the Years Ended December 31, 2016 and 2015

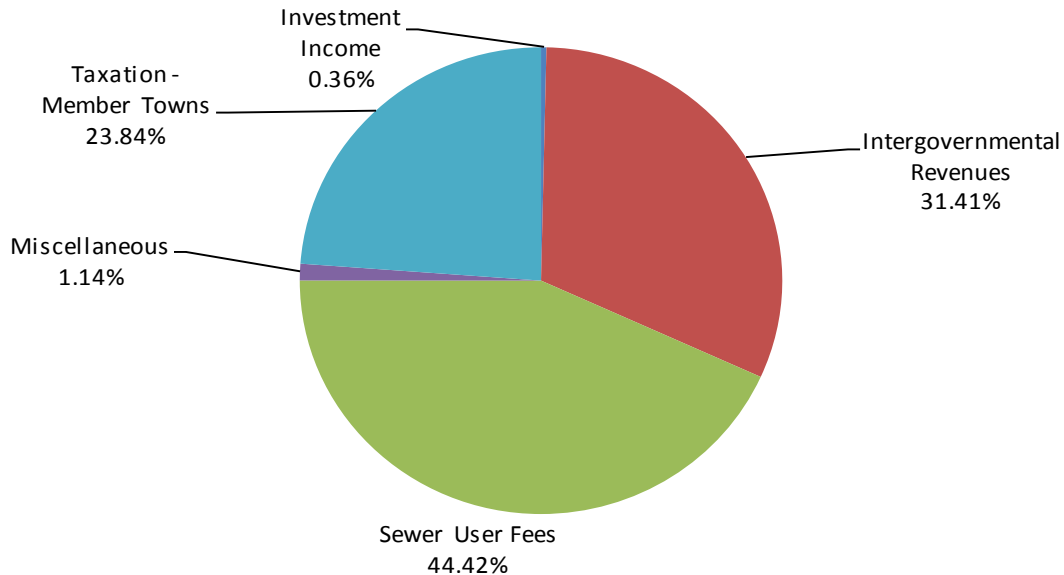
	2016			2015		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 70,629,736	\$ 75,606,571	\$ 146,236,307	\$ 61,592,665	\$ 74,198,011	\$ 135,790,676
Operating grants and contributions			-	3,992,310		3,992,310
Capital grants and contributions	51,301,142	12,285,315	63,586,457	32,768,216	4,827,274	37,595,490
General revenues:						
Sewer taxation - member municipalities	38,944,300		38,944,300	37,446,400		37,446,400
Unrestricted investment earnings	586,401	40,783	627,184	272,361	15,338	287,699
Miscellaneous income	1,864,076	2,130,684	3,994,760	116,577	2,204,726	2,321,303
Total revenues	<u>163,325,655</u>	<u>90,063,353</u>	<u>253,389,008</u>	<u>136,188,529</u>	<u>81,245,349</u>	<u>217,433,878</u>
Expenses:						
General government	13,683,241		13,683,241	12,337,881		12,337,881
Operations	25,441,446		25,441,446	6,151,830		6,151,830
Plants and maintenance	46,577,522		46,577,522	29,189,681		29,189,681
Interest on long-term debt	24,217,631		24,217,631	19,489,920		19,489,920
Water		84,025,204	84,025,204		84,404,787	84,404,787
Hydroelectricity		827,100	827,100		479,326	479,326
Mid-Connecticut Project		1,793,246	1,793,246		761,311	761,311
Total expenses	<u>109,919,840</u>	<u>86,645,550</u>	<u>196,565,390</u>	<u>67,169,312</u>	<u>85,645,424</u>	<u>152,814,736</u>
Excess of Revenues over Expenditures before Transfers	53,405,815	3,417,803	56,823,618	69,019,217	(4,400,075)	64,619,142
Transfers	<u>28,760,431</u>	<u>(28,760,431)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Net Position	82,166,246	(25,342,628)	56,823,618	69,019,217	(4,400,075)	64,619,142
Net Position at Beginning of Year, as Restated	<u>583,532,053</u>	<u>249,404,260</u>	<u>832,936,313</u>	<u>514,512,836</u>	<u>253,804,335</u>	<u>768,317,171</u>
Net Position at End of Year	<u>\$ 665,698,299</u>	<u>\$ 224,061,632</u>	<u>\$ 889,759,931</u>	<u>\$ 583,532,053</u>	<u>\$ 249,404,260</u>	<u>\$ 832,936,313</u>

The District's net position increased by \$56,823,618 overall during the fiscal year with ending net position of Governmental Activities and Business-Type Activities of \$665,698,299 and \$224,061,632, respectively.

Governmental Activities

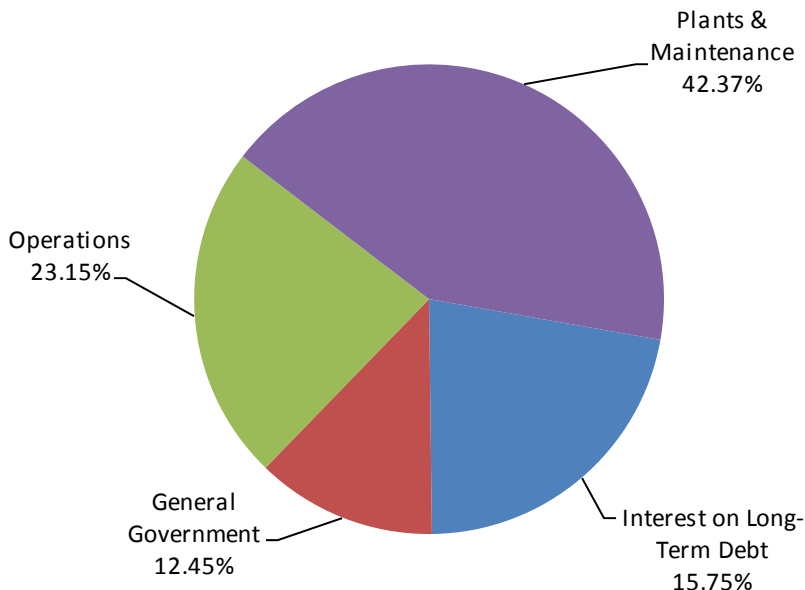
Net position of governmental activities increased by \$82,166,246 in 2016.

Major Revenue Factors Include:



- Approximately 24% of the governmental activity revenues were derived from taxes levied on our member towns. These taxes increased 4% from the prior year.
- The primary component of charges for services consists of sewer user fees of \$70,629,736, which increased by \$9,037,071 due to increased consumption.
- The primary component of operating and capital grants and contributions consists of intergovernmental revenues of \$51,301,142, which increased by \$14,540,616 from the prior year. The intergovernmental revenue increase is due to increased project activity receiving The State of Connecticut Clean Water Fund grants to fund the MDC's Clean Water Project.

Major Expenditure Factors Include:

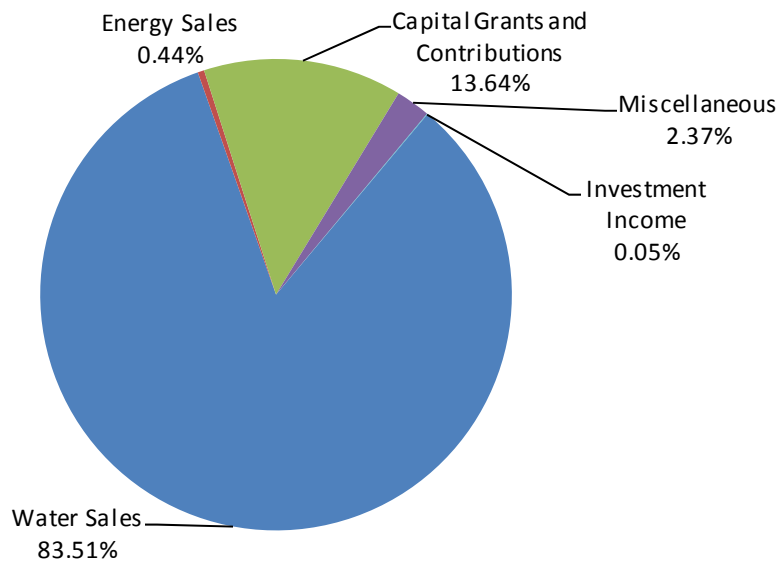


- During 2016, expenses increased by \$42,750,528 of which \$4.7M is due to increased interest on long term debt, and the balance of expenses increase is allocated over general government, operations and plants and maintenance due to write down of capitalized costs, increased pension expenses due to adoption of the new accounting pronouncements, and increased medical expense costs.

Business-Type Activities

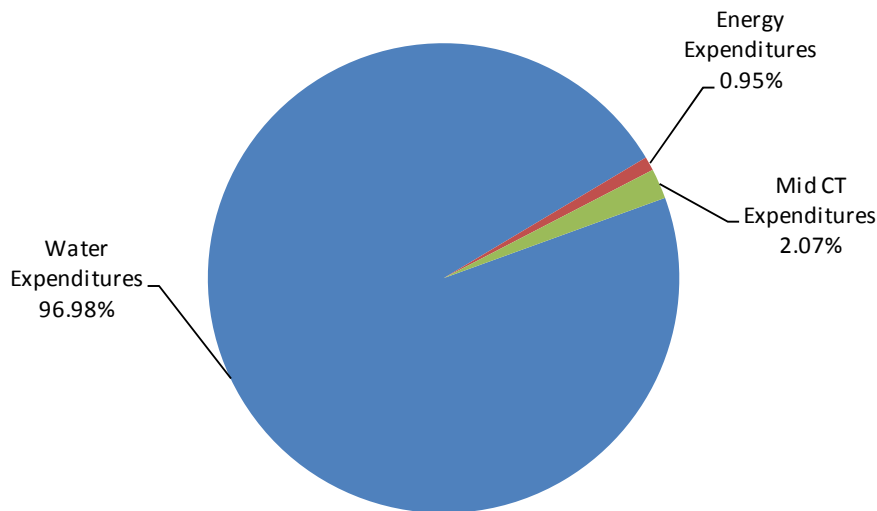
Net position of business-type activities decreased by \$25,342,628 in 2016.

Major Revenue Factors Include:



- Water sales revenue increased by \$12,168,735 or 16% due to an increase in the water rate. Capital grants and contributions increased \$7,458,041 due to increased project activity for the State of Connecticut Drinking Water Fund grants as well as capital projects that were transferred to the Water Utility Fund from the Capital Projects Fund. During 2016, there were \$0 charges for services due to a contract termination affecting the operation of the Mid-Connecticut Project. Energy sales decreased by \$514,330 due to lower precipitation/drought conditions resulting in a lower production of electricity as a result of reduced stream flow.

Major Expense Factors Include:



- Water expenses remained relatively flat with a decrease of \$379,583 or .45%

Financial Analysis of the Government’s Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District’s governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government’s net resources available for spending at the end of the year.

As of the end of the current year, the District’s governmental funds reported combined ending fund balance of \$121,089,296, an increase of \$47,859,854 in comparison with the prior year. Of the fund balances, \$129,078,070 is restricted for debt service, \$3,231,131 is nonspendable and reserved for inventory and prepaid assets, and \$50,808,229 is committed for other capital improvements. The remaining capital projects show a deficit unassigned balance of \$62,028,134.

The General Fund is the chief operating fund of the District. At the end of the current year, the General Fund total fund balance was \$17,456,018, of which \$3,047,848 is nonspendable and reserved for inventory and prepaid assets. The remaining balance is an unassigned fund balance of \$14,498,170. There was a small fund balance increase in the General Fund of \$56,851.

The Debt Service fund decrease of \$1,525,863 in fund balance is mainly a result of the payoff of interest on the BAN.

The Clean Water Project Fund has a decrease in fund balance of \$24,671,603, which is a result of increased project activity and the timing of Clean Water Fund loans issued.

The Capital Project Fund has an increase in fund balance of \$74,000,469, which is a result of the issuance of bonds.

Proprietary Funds

The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Overall proprietary funds net position total \$224,061,632 at the end of the year.

Unrestricted net position of the Water Utility Fund at the end of the year amounted to \$625,655, or .24% of total net position of the fund. Net investment in capital assets amounted to \$254,900,035, or 99.76% of the total net position of the fund. The Hydroelectricity Fund has unrestricted net position of \$1,156,776, or 13.94% of total net position. Net investment in capital assets amounted to \$7,143,020, or 86.06% of total net position of the fund.

General Fund Budgetary Highlights

During the 2016 budget year, total revenues and other financing sources were below the budget by \$2,177,897 or 3.19%, and expenditures were less than budget by \$6,410,134 or 9.38%.

Some of the major highlights are as follows:

- Revenues were unfavorable to budget due to lower than expected use of contributions from other funds because revenues from sludge and septage handling as well as sewer user charge revenue were favorable to budget.
- Lower expenditures were attributable to favorable debt service and lower payroll expenditures associated with vacancy levels versus budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of December 31, 2016 amounted to \$1,477,341,669 and \$555,389,868, respectively. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, and sewer and water pipes.

Major capital asset additions in 2016 consisted of infrastructure improvements, contributions of capital assets by developers and continued construction in progress, including the continuation of the Clean Water Project.

**Metropolitan District Commission
CAPITAL ASSETS (net of depreciation)
December 31, 2016 and 2015**

	2016			2015		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 10,206,473	\$ 10,181,885	\$ 20,388,358	\$ 643,754	\$ 10,181,885	\$ 10,825,639
Buildings	267,429,425	74,354,020	341,783,445	128,579,038	77,716,153	206,295,191
Machinery and equipment	23,951,495	10,771,797	34,723,292	22,968,159	11,259,217	34,227,376
Infrastructure	398,600,786	215,831,715	614,432,501	248,067,150	216,848,502	464,915,652
Construction in progress	777,153,490	244,250,451	1,021,403,941	888,869,829	213,979,387	1,102,849,216
Total	<u>\$ 1,477,341,669</u>	<u>\$ 555,389,868</u>	<u>\$ 2,032,731,537</u>	<u>\$ 1,289,127,930</u>	<u>\$ 529,985,144</u>	<u>\$ 1,819,113,074</u>

Additional information on the District's capital assets can be found in Note 3D on pages 36-43 of this report.

Long-Term Debt

At the end of the current year, the District had total bonded debt outstanding of \$785,874,856. All of the Governmental Activities debt, \$935,111,668, is backed by the full faith and credit of the District's member towns.

**Metropolitan District Commission
OUTSTANDING DEBT
December 31, 2016 and 2015**

	2016			2015		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
General obligation/ Revenue bonds	\$ 543,868,235	\$ 242,006,621	\$ 785,874,856	\$ 468,476,973	\$ 191,049,541	\$ 659,526,514
Clean/drinking water loans	348,839,161	52,742,532	401,581,693	274,299,755	40,354,348	314,654,103
Compensated absences	2,009,223	1,804,314	3,813,537	2,430,440	2,656,548	5,086,988
Net pension liability	13,040,848	38,465,251	51,506,099	15,428,353	36,486,376	51,914,729
OPEB obligation	27,354,201	48,819,640	76,173,841	26,727,213	38,803,833	65,531,046
Total	<u>\$ 935,111,668</u>	<u>\$ 383,838,358</u>	<u>\$ 1,318,950,026</u>	<u>\$ 787,362,734</u>	<u>\$ 309,350,646</u>	<u>\$ 1,096,713,380</u>

The District's bond rating dropped slightly to an AA rating from Standard & Poor's and to an Aa2 rating from Moody's for general obligation debt.

The District's Charter limits the amount of general obligation debt it may issue up to 5% of the combined Grand List of its member towns. The current debt limitation for the District is \$1,243,899,020, which is significantly more than the District's outstanding general obligation debt.

Additional information on the District's long-term debt can be found in Note 3G on pages 45-48 of this report.

Economic Factors

- The District strives to minimize the tax impact to its member municipalities by limiting increases in General Fund expenditures.
- Inflationary trends in the region are consistent with budgeted General Fund expenditure increases.
- Water consumption continues to decline due to weather patterns and poor economic conditions in the greater Hartford area.

All of these factors were considered in preparing the District's 2016 year budget.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Metropolitan District Commission.

BASIC FINANCIAL STATEMENTS

**THE METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 158,728,995	\$ 41,770,505	\$ 200,499,500
Receivables, net of allowance for uncollectibles	53,267,327	60,993,536	114,260,863
Internal balances	5,379,820	(5,379,820)	-
Inventory	2,723,105	3,299,668	6,022,773
Prepaid items	508,026	748,241	1,256,267
Capital assets, nondepreciable	787,359,963	254,432,336	1,041,792,299
Capital assets, net of accumulated depreciation	689,981,706	300,957,532	990,939,238
Other assets	-	45,000	45,000
Total assets	<u>1,697,948,942</u>	<u>656,866,998</u>	<u>2,354,815,940</u>
Deferred Outflows of Resources:			
Difference between projected and actual earnings on pension plan investments	2,603,365	3,600,746	6,204,111
Change in pension assumptions	2,197,308	3,039,124	5,236,432
Difference between expected and actual pension plan experience	55,211	76,364	131,575
Deferred charge on refunding	1,934,135	1,402,340	3,336,475
Total deferred outflows of resources	<u>6,790,019</u>	<u>8,118,574</u>	<u>14,908,593</u>
Liabilities:			
Accounts payable and accrued items	101,133,095	48,546,956	149,680,051
Customer advances for construction	2,700,108	2,899,265	5,599,373
Claims incurred but not reported	-	5,506,871	5,506,871
Noncurrent liabilities:			
Due within one year	106,850,523	24,891,174	131,741,697
Due in more than one year	828,261,145	358,947,184	1,187,208,329
Total liabilities	<u>1,038,944,871</u>	<u>440,791,450</u>	<u>1,479,736,321</u>
Deferred Inflows of Resources:			
Difference between expected and actual pension plan experience	95,791	132,490	228,281
Net Position:			
Net investment in capital assets	586,568,408	262,043,055	848,611,463
Unrestricted	79,129,891	(37,981,423)	41,148,468
Total Net Position	<u>\$ 665,698,299</u>	<u>\$ 224,061,632</u>	<u>\$ 889,759,931</u>

The accompanying notes are an integral part of the financial statements

**THE METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 13,683,241			\$ 71,036	\$ (13,612,205)		\$ (13,612,205)
Operations	25,441,446	13,563,500		551,566	(11,326,380)		(11,326,380)
Plants and maintenance	46,577,522	57,066,236		50,678,540	61,167,254		61,167,254
Interest on long-term debt	24,217,631				(24,217,631)		(24,217,631)
Total governmental activities	<u>109,919,840</u>	<u>70,629,736</u>	<u>-</u>	<u>51,301,142</u>	<u>12,011,038</u>	<u>-</u>	<u>12,011,038</u>
Business-type activities:							
Water	84,025,204	75,208,739		12,285,315		3,468,850	3,468,850
Hydroelectricity	827,100	397,832				(429,268)	(429,268)
Mid-Connecticut Project	1,793,246					(1,793,246)	(1,793,246)
Total business-type activities	<u>86,645,550</u>	<u>75,606,571</u>	<u>-</u>	<u>12,285,315</u>	<u>-</u>	<u>1,246,336</u>	<u>1,246,336</u>
Total	<u>\$ 196,565,390</u>	<u>\$ 146,236,307</u>	<u>\$ -</u>	<u>\$ 63,586,457</u>	<u>12,011,038</u>	<u>1,246,336</u>	<u>13,257,374</u>
General revenues:							
Sewer taxation - member municipalities					38,944,300		38,944,300
Miscellaneous					1,864,076	2,130,684	3,994,760
Unrestricted investment earnings					586,401	40,783	627,184
Transfers					28,760,431	(28,760,431)	-
Total general revenues and transfers					<u>70,155,208</u>	<u>(26,588,964)</u>	<u>43,566,244</u>
Change in Net Position					82,166,246	(25,342,628)	56,823,618
Net Position at Beginning of Year, as Restated					<u>583,532,053</u>	<u>249,404,260</u>	<u>832,936,313</u>
Net Position at End of Year					<u>\$ 665,698,299</u>	<u>\$ 224,061,632</u>	<u>\$ 889,759,931</u>

The accompanying notes are an integral part of the financial statements

**THE METROPOLITAN DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Clean Water Project</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 10,660,991	\$ 2,724,784	\$ 120,289,758	\$ 25,053,462	\$ 158,728,995
Receivables, net of allowance for uncollectibles	3,461,546		47,676,761	2,129,020	53,267,327
Due from other funds	5,379,820				5,379,820
Inventory	2,723,105				2,723,105
Prepaid items	<u>324,743</u>		<u>183,283</u>		<u>508,026</u>
Total Assets	<u>\$ 22,550,205</u>	<u>\$ 2,724,784</u>	<u>\$ 168,149,802</u>	<u>\$ 27,182,482</u>	<u>\$ 220,607,273</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued items	\$ 2,304,079	\$	\$ 41,613,233	\$ 50,828,880	\$ 94,746,192
Customer advances for construction	<u>2,700,108</u>				<u>2,700,108</u>
Total liabilities	<u>5,004,187</u>	<u>-</u>	<u>41,613,233</u>	<u>50,828,880</u>	<u>97,446,300</u>
Deferred inflows of resources:					
Unavailable revenue - special assessments				<u>2,071,677</u>	<u>2,071,677</u>
Fund balances:					
Nonspendable	3,047,848		183,283		3,231,131
Restricted		2,724,784	126,353,286		129,078,070
Committed				50,808,229	50,808,229
Unassigned	<u>14,498,170</u>			<u>(76,526,304)</u>	<u>(62,028,134)</u>
Total fund balances	<u>17,546,018</u>	<u>2,724,784</u>	<u>126,536,569</u>	<u>(25,718,075)</u>	<u>121,089,296</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 22,550,205</u>	<u>\$ 2,724,784</u>	<u>\$ 168,149,802</u>	<u>\$ 27,182,482</u>	<u>\$ 220,607,273</u>

The accompanying notes are an integral part of the financial statements

**THE METROPOLITAN DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Amounts reported for governmental activities in the statement of net position (page 14) are different because of the following:

Fund balances - total governmental funds (page 16) \$ 121,089,296

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 1,789,859,164	
Less accumulated depreciation	<u>(312,517,495)</u>	
Net capital assets		1,477,341,669

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.

Sewer assessment receivables	2,071,677
Deferred charge on refunding	1,934,135
Deferred outflows related to pension investment experience	2,603,365
Deferred outflows related to changes in pension assumptions	2,197,308
Deferred outflows related to difference between expected and actual pension plan experience	55,211

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	(497,202,899)
Premiums	(46,665,336)
Notes payable	(348,839,161)
Interest payable on long-term debt	(6,386,903)
Compensated absences	(2,009,223)
Net pension liability	(13,040,848)
Deferred inflows related to difference between expected and actual pension plan experience	(95,791)
OPEB obligation	<u>(27,354,201)</u>

Net Position of Governmental Activities (page 14) \$ 665,698,299

The accompanying notes are an integral part of the financial statements

**THE METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Clean Water Project</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxation - member towns	\$ 38,944,300	\$	\$	\$	\$ 38,944,300
Assessments				2,312,965	2,312,965
Sewer user fees	7,536,807		52,705,654		60,242,461
Intergovernmental revenues	5,599,705		49,632,421		55,232,126
Investment income	72,125		514,276		586,401
Other local revenues	3,692,370			329,973	4,022,343
Total revenues	<u>55,845,307</u>	<u>-</u>	<u>102,852,351</u>	<u>2,642,938</u>	<u>161,340,596</u>
Expenditures:					
Current:					
General government	3,918,725				3,918,725
Operations	6,343,886				6,343,886
Plants and maintenance	17,673,827				17,673,827
Employee benefits and other	11,034,670				11,034,670
Debt service:					
Principal retirement		32,141,853			32,141,853
Interest	1,375,311	24,023,332			25,398,643
Capital outlay			182,223,655	46,306,222	228,529,877
Total expenditures	<u>40,346,419</u>	<u>56,165,185</u>	<u>182,223,655</u>	<u>46,306,222</u>	<u>325,041,481</u>
Excess (Deficiency) of Revenues over Expenditures	<u>15,498,888</u>	<u>(56,165,185)</u>	<u>(79,371,304)</u>	<u>(43,663,284)</u>	<u>(163,700,885)</u>
Other Financing Sources (Uses):					
Issuance of bonds		1,000		85,330,650	85,331,650
Premium on issuance of bonds		2,432,537		3,500,920	5,933,457
Issuance of refunding bonds		18,301,300			18,301,300
Premium on refunding bonds		2,964,849			2,964,849
Payment to refunded bond escrow agent		(21,140,765)			(21,140,765)
Clean Water Fund loans issued			91,409,817		91,409,817
Transfers in		52,152,153		28,832,183	80,984,336
Transfers out	(15,442,037)	(71,752)	(36,710,116)		(52,223,905)
Total other financing sources (uses)	<u>(15,442,037)</u>	<u>54,639,322</u>	<u>54,699,701</u>	<u>117,663,753</u>	<u>211,560,739</u>
Net Change in Fund Balances	56,851	(1,525,863)	(24,671,603)	74,000,469	47,859,854
Fund Balances at Beginning of Year, as Restated	<u>17,489,167</u>	<u>4,250,647</u>	<u>151,208,172</u>	<u>(99,718,544)</u>	<u>73,229,442</u>
Fund Balances at End of Year	<u>\$ 17,546,018</u>	<u>\$ 2,724,784</u>	<u>\$ 126,536,569</u>	<u>\$ (25,718,075)</u>	<u>\$ 121,089,296</u>

The accompanying notes are an integral part of the financial statements

**THE METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Amounts reported for governmental activities in the statement of activities (page 15) are different because of the following:

Net change in fund balances - total governmental funds (page 18) \$ 47,859,854

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays, net	208,127,036
Depreciation expense	(18,734,649)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase net position. In the statement of activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold. (1,178,648)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Sewer assessment revenue	580,620
Change in deferred outflow related to pension investment experience	(4,363,990)
Change in deferred outflow related to changes in pension assumptions	(3,014,925)
Change in deferred inflows related to difference between expected and actual pension plan experience	55,211

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Proceeds from Clean Water Fund loan obligations	(91,409,817)
Proceeds from issuance of bonds	(85,331,650)
Premiums on issuance of bonds	(5,933,457)
Proceeds from issuance of refunding bonds	(18,301,300)
Premiums on issuance of refunding bonds	(2,964,849)
Bond payments	15,271,441
Payments to escrow agent	21,140,765
Amortization of bond premium and deferred charge on refunding	1,894,741
Clean Water Fund loan payments	16,870,411
Change in accrued interest	(713,716)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	421,217
Change in net pension liability	2,387,505
Change in deferred inflows related to difference between expected and actual pension plan experience	131,434
Change in OPEB obligation	<u>(626,988)</u>

Change in Net Position of Governmental Activities (page 15) \$ 82,166,246

The accompanying notes are an integral part of the financial statements

THE METROPOLITAN DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2016

	Business-Type Activities - Enterprise Funds				Business-Type Activities - Internal Service Fund
	Major		Nonmajor	Total	
	Water Utility	Mid-Connecticut Project	Hydroelectric Development Project		
Assets:					
Current assets:					
Cash and cash equivalents	\$ 40,572,415	\$	\$ 1,159,887	\$ 41,732,302	\$ 38,203
Accounts receivable, net of allowance for uncollectibles	20,567,356	40,373,544	7,726	60,948,626	44,910
Due from other funds	436,924			436,924	
Inventory	3,055,250		244,418	3,299,668	
Prepaid items	739,457		8,784	748,241	
Total current assets	<u>65,371,402</u>	<u>40,373,544</u>	<u>1,420,815</u>	<u>107,165,761</u>	<u>83,113</u>
Noncurrent assets:					
Capital assets, nondepreciable	254,432,336			254,432,336	
Capital assets, net of accumulated depreciation	293,814,512		7,143,020	300,957,532	
Other assets					45,000
Total noncurrent assets	<u>548,246,848</u>	<u>-</u>	<u>7,143,020</u>	<u>555,389,868</u>	<u>45,000</u>
Total assets	<u>613,618,250</u>	<u>40,373,544</u>	<u>8,563,835</u>	<u>662,555,629</u>	<u>128,113</u>
Deferred outflows of resources:					
Difference between projected and actual earnings on pension plan investments	3,582,556		18,190	3,600,746	
Change in pension assumptions	3,023,771		15,353	3,039,124	
Difference between expected and actual pension plan experience	75,978		386	76,364	
Deferred charge on refunding	1,402,340			1,402,340	
Total deferred outflows of resources	<u>8,084,645</u>	<u>-</u>	<u>33,929</u>	<u>8,118,574</u>	<u>-</u>
Liabilities:					
Current liabilities:					
Accounts payable and accrued expenses	11,003,995	35,952,266	15,062	46,971,323	1,575,633
Due to other funds		5,816,744		5,816,744	
Customer advances for construction	2,899,265			2,899,265	
Current portion of compensated absences	1,733,955			1,733,955	
Current portion of bonds and loans payable	23,157,219			23,157,219	
Total current liabilities	<u>38,794,434</u>	<u>41,769,010</u>	<u>15,062</u>	<u>80,578,506</u>	<u>1,575,633</u>
Noncurrent liabilities:					
Compensated absences	70,359			70,359	
Bonds and loans payable after one year	271,591,934			271,591,934	
Claims incurred but not reported				-	5,506,871
Net pension liability	17,945,841	20,428,295	91,115	38,465,251	
OPEB obligation	37,642,807	10,985,712	191,121	48,819,640	
Total noncurrent liabilities	<u>327,250,941</u>	<u>31,414,007</u>	<u>282,236</u>	<u>358,947,184</u>	<u>5,506,871</u>
Total liabilities	<u>366,045,375</u>	<u>73,183,017</u>	<u>297,298</u>	<u>439,525,690</u>	<u>7,082,504</u>
Deferred inflows of resources:					
Difference between expected and actual pension plan experience	131,820		670	132,490	
Net Position:					
Net investment in capital assets	254,900,035		7,143,020	262,043,055	
Unrestricted	625,665	(32,809,473)	1,156,776	(31,027,032)	(6,954,391)
Total Net Position	<u>\$ 255,525,700</u>	<u>\$ (32,809,473)</u>	<u>\$ 8,299,796</u>	<u>231,016,023</u>	<u>\$ (6,954,391)</u>
				Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds	(6,954,391)
				Net Position of Business-Type Activities	<u>\$ 224,061,632</u>

The accompanying notes are an integral part of the financial statements

**THE METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Business-Type Activities - Enterprise Funds				Business-Type Activities - Internal Service Fund
	Major		Nonmajor	Total	
	Water Utility	Mid-Connecticut Project	Hydroelectric Development Project		
Operating Revenues:					
Water sales	\$ 71,187,491	\$	\$ 397,832	\$ 71,187,491	\$
Energy sales				397,832	
Reimbursement				-	13,273,598
Miscellaneous	4,021,248			4,021,248	
Total operating revenues	<u>75,208,739</u>	<u>-</u>	<u>397,832</u>	<u>75,606,571</u>	<u>13,273,598</u>
Operating Expenses:					
General government	9,687,755	1,793,246		11,481,001	
Operations	12,381,049			12,381,049	13,185,617
Plants and maintenance	15,348,106			15,348,106	
Employee benefits and other	26,294,873		248,977	26,543,850	
Source of supply			425,393	425,393	
Depreciation expense	11,872,958		152,730	12,025,688	
Total operating expenses	<u>75,584,741</u>	<u>1,793,246</u>	<u>827,100</u>	<u>78,205,087</u>	<u>13,185,617</u>
Operating Income (Loss)	<u>(376,002)</u>	<u>(1,793,246)</u>	<u>(429,268)</u>	<u>(2,598,516)</u>	<u>87,981</u>
Nonoperating Revenues (Expenses):					
Investment income	40,783			40,783	
Miscellaneous nonoperating revenue	2,130,684			2,130,684	
Interest and fiscal charges	(8,528,444)			(8,528,444)	
Net nonoperating revenues (expenses)	<u>(6,356,977)</u>	<u>-</u>	<u>-</u>	<u>(6,356,977)</u>	<u>-</u>
Income (Loss) Before Transfers, Grants and Contributions	<u>(6,732,979)</u>	<u>(1,793,246)</u>	<u>(429,268)</u>	<u>(8,955,493)</u>	<u>87,981</u>
Grants and Contributions:					
Capital grants	862,307			862,307	
Capital contributions	11,423,008			11,423,008	
Total grants and contributions	<u>12,285,315</u>	<u>-</u>	<u>-</u>	<u>12,285,315</u>	<u>-</u>
Transfers	<u>(28,760,431)</u>			<u>(28,760,431)</u>	
Change in Net Position	(23,208,095)	(1,793,246)	(429,268)	(25,430,609)	87,981
Net Position at Beginning of Year, as Restated	<u>278,733,795</u>	<u>(31,016,227)</u>	<u>8,729,064</u>		<u>(7,042,372)</u>
Net Position at End of Year	<u>\$ 255,525,700</u>	<u>\$ (32,809,473)</u>	<u>\$ 8,299,796</u>		<u>\$ (6,954,391)</u>
				Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds	<u>87,981</u>
				Change in Net Position of Business-Type Activities	<u>\$ (25,342,628)</u>

The accompanying notes are an integral part of the financial statements

**THE METROPOLITAN DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Business-Type Activities - Enterprise Funds				Business-Type Activities - Internal Service Fund
	Major		Nonmajor		
	Water Utility	Mid-Connecticut Project	Hydroelectric Development Project	Total	
Cash Flows from Operating Activities:					
Receipts from customers, users and others	\$ 77,789,754	\$	\$ 476,966	\$ 78,266,720	\$ 13,251,681
Payments for interfund services provided	499,999	1,448,527		1,948,526	
Payments to suppliers	(16,908,757)	(1,448,527)	(663,697)	(19,020,981)	(13,249,201)
Payments to employees	(39,665,386)		248,977	(39,416,409)	
Net cash provided by (used in) operating activities	<u>21,715,610</u>	<u>-</u>	<u>62,246</u>	<u>21,777,856</u>	<u>2,480</u>
Cash Flows from Capital and Related Financing Activities:					
Purchase of capital assets/utility plant	(26,221,967)			(26,221,967)	
Proceeds from bonds	28,374,000			28,374,000	
Proceeds from bond premiums	3,452,024			3,452,024	
Proceeds from drinking water loans	15,797,814			15,797,814	
Proceeds from refunding bonds	29,733,700			29,733,700	
Proceeds from refunding bond premiums	3,975,893			3,975,893	
Proceeds from capital grant	862,307			862,307	
Payment of old bonds refunded	(32,191,965)			(32,191,965)	
Principal payments on bonds	(10,218,559)			(10,218,559)	
Proceeds from bond anticipation notes	33,356,000			33,356,000	
Principal payments on bond anticipation notes	(62,837,000)			(62,837,000)	
Principal payments on drinking water loans	(3,409,630)			(3,409,630)	
Interest payments on bonds and notes	(9,742,522)			(9,742,522)	
Net cash provided by (used in) capital and related financing activities	<u>(29,069,905)</u>	<u>-</u>	<u>-</u>	<u>(29,069,905)</u>	<u>-</u>
Cash Flows from Investing Activities:					
Interest on investments	40,783		-	40,783	
Net Increase (Decrease) in Cash and Cash Equivalents	(7,313,512)	-	62,246	(7,251,266)	2,480
Cash and Cash Equivalents at Beginning of Year	<u>47,885,927</u>	<u>-</u>	<u>1,097,641</u>	<u>48,983,568</u>	<u>35,723</u>
Cash and Cash Equivalents at End of Year	<u>\$ 40,572,415</u>	<u>\$ -</u>	<u>\$ 1,159,887</u>	<u>\$ 41,732,302</u>	<u>\$ 38,203</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ (376,002)	\$ (1,793,246)	\$ (429,268)	\$ (2,598,516)	\$ 87,981
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	10,944,515		152,730	11,097,245	
Miscellaneous nonoperating revenue	2,130,684			2,130,684	
(Gain) loss on disposal of capital assets	214,562			214,562	
Change in assets, deferred outflows of resources and liabilities:					
(Increase) decrease in accounts receivable	2,177,032	4,341,140	79,134	6,597,306	(21,917)
(Increase) decrease in due from other funds	499,999			499,999	
(Increase) decrease in inventory	37,090		1,019	38,109	
(Increase) decrease in prepaid items related to pensions	160,155		1,404	161,559	
Increase (decrease) in accounts payable and accrued expenses	(3,405,723)		(33,929)	(3,439,652)	
Increase (decrease) in due to other funds	(2,001,589)	344,719	8,250	(1,648,620)	(76,077)
Increase (decrease) in customer advances for construction	403,983	(2,892,613)		(2,892,613)	
Increase (decrease) in compensated absences	852,234			852,234	
Increase (decrease) in OPEB obligation	9,824,686		191,121	10,015,807	
Increase (decrease) in net pension liability	1,887,760		91,115	1,978,875	
Increase (decrease) in claims incurred but not reported					12,493
Increase (decrease) in deferred inflows of resources related to pensions	70,692		670	71,362	
Total adjustments	<u>22,091,612</u>	<u>1,793,246</u>	<u>491,514</u>	<u>24,376,372</u>	<u>(85,501)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 21,715,610</u>	<u>\$ -</u>	<u>\$ 62,246</u>	<u>\$ 21,777,856</u>	<u>\$ 2,480</u>

The accompanying notes are an integral part of the financial statements

**THE METROPOLITAN DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2016**

	Pension and Other Employee Benefit Trust Funds
ASSETS	
Cash and cash equivalents	\$ 766,234
Accounts receivable	35,768,793
Investments, at fair value:	
Mutual funds	143,923,824
Investment in limited partnership	7,527,688
Guaranteed investment contracts	24,907,820
Real estate	<u>15,101,048</u>
Total assets	<u>227,995,407</u>
LIABILITIES	
Accounts payable	13,164
Retiree expense reimbursement payable	<u>534,795</u>
Total liabilities	<u>547,959</u>
NET POSITION	
Restricted for Pension and OPEB Benefits	<u>\$ 227,447,448</u>

The accompanying notes are an integral part of the financial statements

**THE METROPOLITAN DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Pension and Other Employee Benefit Trust Funds
Additions:	
Contributions:	
Employer	\$ 11,361,424
Plan members	2,918,028
Reimbursements	225,496
Total contributions	<u>14,504,948</u>
Investment earnings:	
Net change in fair value of investments	11,155,764
Interest and dividends	4,328,180
Total investment earnings	<u>15,483,944</u>
Less investment expenses:	
Investment management fees	1,659,241
Net investment earnings	<u>13,824,703</u>
Total additions	<u>28,329,651</u>
Deductions:	
Benefits	22,286,534
Administrative expense	109,687
Total deductions	<u>22,396,221</u>
Change in Net Position	5,933,430
Net Position at Beginning of Year	<u>221,514,018</u>
Net Position at End of Year	<u>\$ 227,447,448</u>

The accompanying notes are an integral part of the financial statements

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The Metropolitan District (the District) was empowered in 1929 by the General Assembly of Connecticut. The District provides the following services as authorized by its Charter: design, construction and maintenance of sewage, hydroelectric and water systems and plants, stream and watercourse controls, the sale and delivery of water and hydroelectric power, and resources recovery.

The financial statements include all of the funds of the District that meet the criteria for inclusion as set forth in Statement of Governmental Accounting Standards No. 14 issued by the Governmental Accounting Standards Board (GASB).

Accounting principles generally accepted in the United States of America (GAAP) require that the reporting entity include the primary government and its component units, entities for which the government is considered to be financially accountable and other organizations, which by the nature and significance of their relationship with the primary government, would cause the financial statements to be incomplete or misleading if excluded. Blended component units, although legally separate entities, are, in substance, part of the government's operations; therefore, data from these units are combined with data of the primary government. Based on these criteria, there are no component units requiring inclusion in these financial statements.

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with the requirements of statements issued by the Governmental Accounting Standards Board. The more significant of the District's accounting policies are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District's primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those expenses that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or benefit directly from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sewer taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues, including sewer assessments, to be available if they are collected within 60 days after the end of the current fiscal period.

Taxes on member municipalities, sewer assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance. Revenues are recognized when the eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those resources required to be accounted for in another fund.

The *Debt Service Fund* is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Clean Water Project Fund* accounts for financial resources to be used for the Clean Water Project, which was first authorized on November 7, 2006. The first phase of the Clean Water Project includes programs to limit inflow and infiltration, separating certain existing combined sewer systems, construction of larger interceptor pipes and certain upgrades to the two large water pollution control facilities. The second phase of the Clean Water Project includes programs that continue the work of the first phase by upgrading and expanding the capacity of the Hartford water pollution control facility and includes the construction of a large storage tunnel to hold waste water for ultimate release and treatment at the Hartford water pollution control facility.

The *Capital Project Fund* is used for projects of greater than one year's duration. Most of the capital outlays are financed by the issuance of general obligation bonds and current tax revenues.

THE METROPOLITAN DISTRICT NOTES TO FINANCIAL STATEMENTS

The District reports the following major proprietary funds:

The *Water Utility Fund* and the *Mid-Connecticut Project Fund* are the District's funds used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Additionally, the District reports the following fund types:

The *Internal Service Fund* is used to account for the District's self-insurance program for accident and health insurance coverage of employees as well as natural disaster and liability claims for the District.

The *Pension and Other Employee Benefit Trust Funds* are used to account for the activities of the District's defined benefit plan, which accumulates resources for pension benefit payments to qualified employees, and to account for the activities of the District's postemployment welfare benefits (including retiree medical, dental and life insurance benefits) to the current and former eligible employees of the District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenue includes all taxes.

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed. Unrestricted resources are used in the following order: committed, assigned then unassigned.

C. Cash Equivalents

For purposes of reporting cash flows, all savings, checking, money market accounts and certificates of deposit with an original maturity of less than 90 days from the date of acquisition are considered to be cash equivalents.

D. Investments

Investments are stated at fair value.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

E. Inventories and Prepaid Items

All inventories are valued at the lower of cost (average cost) or market method. Inventory in the governmental and enterprise funds is recorded as an expenditure when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All receivables are presented net of an allowance for uncollectibles.

G. Compensated Absences

All vacation and sick pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets such as water and sewer mains, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recognized at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their lives are expensed currently.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50-75
Machinery and equipment	6-20
Infrastructure	50-150

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position may 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 expenditure until then. The District reports a deferred charge on refunding and deferred outflows related to pension in the government-wide statement of net position and statement of net position - proprietary funds. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs or contributions made to the plan after the measurement date. These amounts are deferred and included in pension 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 plan (active employees and inactive employees).

In addition to liabilities, the statement of net position may 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 until that time. The District reports deferred inflows of resources related to pensions in the government-wide statement of net position and statement of net position - proprietary funds. A deferred inflow of resources related to pension results from differences between expected and actual experience. These amounts are deferred and included in pension 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 plan (active employees and inactive employees). The District reports unavailable revenue for governmental funds which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

J. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums, discounts and losses on bond refundings are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and unamortized losses on bond refundings. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

L. Net OPEB Obligations

The net OPEB obligation represents the cumulative difference between the annual OPEB cost and the District's contributions to the plan. These amounts are calculated on an actuarial basis and are recorded as noncurrent liabilities, accordingly, in the government-wide financial statements.

M. Fund Equity

The equity of the fund financial statements is defined as "fund balance" and is classified in the following categories:

Nonspendable Fund Balance

This balance represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

Restricted Fund Balance

This balance represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributors or laws and regulations of their governments.

Committed Fund Balance

This balance represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority (District Board). Amounts remain committed until action is taken by the District Board (resolution) to remove or revise the limitations.

Assigned Fund Balance

This balance includes amounts constrained for the intent to be used for a specific purpose by the District Board that has been delegated authority to assign amounts by the Charter.

Unassigned Fund Balance

This balance represents fund balance in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets

This category represents all capital assets, net of accumulated depreciation and related debt.

Restricted Net Position

This category represents amounts restricted to use by outside parties. The District has no assets under restrictions as of December 31, 2016.

Unrestricted Net Position

This category represents the net position of the District not restricted for use.

N. Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

During the last quarter of the year, the ensuing year’s proposed operating budget, including proposed expenditures/expenses and the means of financing them, is compiled by the Finance Department based upon estimates submitted by the various departments.

The proposed operating budget is then published in line item format in one or more local newspapers servicing the District for a period of three consecutive days, excluding holidays and Sundays. Prior to January 1 of the new year, the published budget is submitted to the District Board for acceptance and adoption.

Annual operating budgets are legally adopted for the General Fund and the Water Utility Enterprise Fund. A fund budget was adopted for the Hydroelectric Development Project. Formal budgetary integration is employed as a management control device for these funds. The unencumbered balance of appropriations in the General Fund lapses at year end. Encumbered appropriations are carried forward. Except for encumbrance accounting, the General Fund budget is prepared on a modified accrual basis. Budgetary and actual data in this report have been presented on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, the reconciliation of resultant basis, timing and perspective differences appear at the bottom of the actual vs. budget schedule. The legal level of budgetary control is at the functional level. Any revisions that alter total appropriations at the level of control must have the prior approval of the Board of Finance and the District Board. The amendments were made in the legally permissible manner described above. During the year, supplemental budgetary appropriations of \$3,320,900 were made.

Budgetary integration is employed on a continuing (project length) basis for capital projects funds, in which appropriations do not lapse at year end, but rather at the completion of the construction relating to a specific improvement project. Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond and note indenture provisions.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year end recorded in budgetary reports as expenditures of the current year, whereas, on a GAAP basis, encumbrances are recorded as either restricted, committed or assigned fund balance depending on the level of restriction.

B. Deficit Fund Equity

Certain individual funds had fund balance deficits at December 31, 2016 as follows:

Capital Projects	\$	25,718,075
Mid-Connecticut Project		32,809,473
Internal Service		6,954,391

The Capital Projects Funds’ deficits have arisen because bonds and loans authorized for these projects have not yet been issued. When the bonds and loans are issued, or the General Fund appropriates and transfers amounts to these funds, the deficits will be eliminated.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

3. DETAILED NOTES ON ALL FUNDS

A. Cash, Cash Equivalents and Investments

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a “qualified public depository” as defined by Statute or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit, in an “out of state bank” as defined by the Statutes, which is not a “qualified public depository.”

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF) and the State Tax Exempt Proceeds Fund (TEPF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer’s Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

Deposits

Deposit Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposit will not be returned. The District does not have a deposit policy for custodial credit risk. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its principal place of business in the State of Connecticut. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository’s risk-based capital ratio.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$8,607,297 of the District’s bank balance of \$8,857,297 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 7,721,567
Uninsured and collateral held by the pledging bank’s trust department, not in the District’s name	<u>885,730</u>
Total Amount Subject to Custodial Credit Risk	<u>\$ 8,607,297</u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Cash Equivalents

At December 31, 2016, the District's cash equivalents amounted to \$149,336,865. The following table provides a summary of the District's cash equivalents as rated by nationally recognized statistical rating organizations. The pool has maturities of less than one year.

	Standard & Poor's
State Short-Term Investment Fund (STIF)	AAAm

Investments

The District adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application*. The new disclosure is presented below:

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements); followed by quoted prices in inactive markets or for similar assets or with observable inputs (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements). The District has the following recurring fair value measurements as of December 31, 2016:

	December 31, 2016	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Mutual funds	\$ 143,923,824	\$ 143,923,824	\$	\$
Guaranteed investment contracts	24,907,820		24,907,820	
Land	3,060,000			3,060,000
	<u>171,891,644</u>	<u>\$ 143,923,824</u>	<u>\$ 24,907,820</u>	<u>\$ 3,060,000</u>
Total investments by fair value level				
Investments measured at net asset value (NAV):				
Cornerstone Real Estate Fund X LP	3,117,045			
Limited partnerships	7,527,688			
Real estate funds	3,791,054			
U.S. Real Estate Investment Fund, LLC	5,132,949			
	<u>19,568,736</u>			
Total investments measured at NAV				
Total Investments Measured at Fair Value	<u>\$ 191,460,380</u>			

The above investments have no rating or maturity.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Guaranteed investment contracts classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Land classified in Level 3 is valued using discounted cash flow techniques.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Cornerstone Real Estate Fund X LP	\$ 3,117,045	\$ 1,972,037	Not eligible	Hold to maturity (7 years)
FIA Timber Growth & Value Partners, LP	7,527,688	2,222,739	Not eligible	Hold to maturity (6 years)
Madison Realty Capital Debt Fund III, LP	3,791,054	1,287,025	Not eligible	Hold to maturity (12 years)
U.S. Real Estate Investment Fund, LLC	<u>5,132,949</u>	-	Quarterly	1 Quarter prior
Total Investments Measured at NAV	<u>\$ 19,568,736</u>			

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. To the extent possible, the District attempts to match its investments with anticipated cash flow requirements.

Credit Risk - Investments

As indicated above, State Statutes limit the investment options of the District. The District has no investment policy that would limit its investment choices due to credit risk.

Concentration of Credit Risk

The District has no policy limiting an investment in any one issuer that is in excess of 5% of the District's total investments.

Custodial Credit Risk

Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the District or that sells investments to or buys them for the District), the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2016, the District did not have any uninsured and unregistered securities held by the counterparty, or by its trust department or agent that were not in the District's name.

B. Receivables

Receivables as of year end for the District's individual major funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	<u>General</u>	<u>Clean Water Project</u>	<u>Capital Projects Funds</u>	<u>Water Utility</u>	<u>Mid-Connecticut Project</u>	<u>Hydroelectric Development Project</u>	<u>Internal Service Fund</u>	<u>Trust Funds</u>	<u>Total</u>
Sewer use charges	\$ 2,918,604	\$ 15,302,872							\$ 18,221,476
Customers and employees	2,571,029			19,481,907		7,726			22,060,662
Assessments			2,119,697	903,923					3,023,620
Accrued interest			396,624	181,526					578,150
Intergovernmental		32,373,889						244,002	32,617,891
Other	250,140		19,938		50,237,956		90,757	35,524,791	86,123,582
Gross receivables	<u>5,739,773</u>	<u>47,676,761</u>	<u>2,536,259</u>	<u>20,567,356</u>	<u>50,237,956</u>	<u>7,726</u>	<u>90,757</u>	<u>35,768,793</u>	<u>162,625,381</u>
Less allowance for uncollectibles	<u>2,278,227</u>		<u>407,239</u>		<u>9,864,412</u>		<u>45,847</u>		<u>12,595,725</u>
Net Total Receivables	<u>\$ 3,461,546</u>	<u>\$ 47,676,761</u>	<u>\$ 2,129,020</u>	<u>\$ 20,567,356</u>	<u>\$ 40,373,544</u>	<u>\$ 7,726</u>	<u>\$ 44,910</u>	<u>\$ 35,768,793</u>	<u>\$ 150,029,656</u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

C. Interfund Receivables, Payables and Transfers

Interfund loans are generally used to transfer monies as a result of cash flow. Interfund receivables and payables balances at December 31, 2016 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Mid-Connecticut Project Fund	\$ 5,379,820
Water Utility Fund	Mid-Connecticut Project Fund	<u>436,924</u>
Total		<u>\$ 5,816,744</u>

Interfund transfers are generally used to supplement revenues of other funds. Interfund transfers for the year ended December 31, 2016 were as follows:

	<u>Transfers In</u>	
	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>
Transfers out:		
General Fund	\$	\$ 15,442,037
Clean Water Project Fund		36,710,116
Water Utility Fund	28,760,431	
Debt Service	<u>71,752</u>	
Total Transfers In	<u>\$ 28,832,183</u>	<u>\$ 52,152,153</u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

D. Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 643,754	\$ 9,562,719	\$ -	\$ -	\$ 10,206,473
Construction in progress	888,869,829	272,126,020	376,204,124	(7,638,235)	777,153,490
Total capital assets not being depreciated	<u>889,513,583</u>	<u>281,688,739</u>	<u>376,204,124</u>	<u>(7,638,235)</u>	<u>787,359,963</u>
Capital assets being depreciated:					
Buildings	250,862,054	149,517,330	4,102,979	-	396,276,405
Machinery and equipment	39,702,419	3,400,813	1,284,392	-	41,818,840
Infrastructure	407,817,519	157,362,513	776,076	-	564,403,956
Total capital assets being depreciated	<u>698,381,992</u>	<u>310,280,656</u>	<u>6,163,447</u>	<u>-</u>	<u>1,002,499,201</u>
Less accumulated depreciation for:					
Buildings	122,283,016	10,293,709	3,729,745	-	128,846,980
Machinery and equipment	16,734,260	2,351,050	1,217,965	-	17,867,345
Infrastructure	159,750,369	6,089,890	37,089	-	165,803,170
Total accumulated depreciation	<u>298,767,645</u>	<u>18,734,649</u>	<u>4,984,799</u>	<u>-</u>	<u>312,517,495</u>
Total capital assets being depreciated, net	<u>399,614,347</u>	<u>291,546,007</u>	<u>1,178,648</u>	<u>-</u>	<u>689,981,706</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,289,127,930</u>	<u>\$ 573,234,746</u>	<u>\$ 377,382,772</u>	<u>\$ (7,638,235)</u>	<u>\$ 1,477,341,669</u>
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 10,181,885	\$ -	\$ -	\$ -	\$ 10,181,885
Construction in progress	213,979,387	26,323,325	3,690,496	7,638,235	244,250,451
Total capital assets not being depreciated	<u>224,161,272</u>	<u>26,323,325</u>	<u>3,690,496</u>	<u>7,638,235</u>	<u>254,432,336</u>
Capital assets being depreciated:					
Buildings	128,049,839	24,667	758,163	-	127,316,343
Machinery and equipment	28,992,507	1,499,652	1,244,666	-	29,247,493
Infrastructure	341,076,378	5,849,591	335,702	-	346,590,267
Total capital assets being depreciated	<u>498,118,724</u>	<u>7,373,910</u>	<u>2,338,531</u>	<u>-</u>	<u>503,154,103</u>
Less accumulated depreciation for:					
Buildings	50,333,686	3,378,472	749,835	-	52,962,323
Machinery and equipment	17,733,290	1,980,477	1,238,071	-	18,475,696
Infrastructure	124,227,876	6,666,739	136,063	-	130,758,552
Total accumulated depreciation	<u>192,294,852</u>	<u>12,025,688</u>	<u>2,123,969</u>	<u>-</u>	<u>202,196,571</u>
Total capital assets being depreciated, net	<u>305,823,872</u>	<u>(4,651,778)</u>	<u>214,562</u>	<u>-</u>	<u>300,957,532</u>
Business-Type Activities Capital Assets, Net	<u>\$ 529,985,144</u>	<u>\$ 21,671,547</u>	<u>\$ 3,905,058</u>	<u>\$ 7,638,235</u>	<u>\$ 555,389,868</u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities:	
General government	\$ 947,587
Engineering	123,713
Operations	7,233,963
Plant and maintenance	<u>10,429,386</u>
 Total Depreciation Expense - Governmental Activities	 \$ <u><u>18,734,649</u></u>
 Business-type activities:	
Water	\$ 11,872,958
Hydroelectric	<u>152,730</u>
 Total Depreciation Expense - Business-Type Activities	 \$ <u><u>12,025,688</u></u>

Construction Commitments

The government has active construction projects as of December 31, 2016. At year end, the District's commitments with contractors for governmental activities are as follows:

<u>Project Name</u>	<u>Remaining Commitment</u>
2006 SSO Program-Rocky Hill	\$ 273,808
2006 SSO Program-Windsor	58,471
2008 WPC Infrastructure Repl & Imps	569,201
2009 Woodpond North Pump Station	44,911
2009 WPC INFRA REPLACE & IMPROVE	524,267
2009 Assessable SWR - Mountain Road, W.H.	60,343
2009 Pierson Lane, Windsor Assessble Sew	1,014
2010 AS- 1037 Windsor Ave.	9,749
2010 Facility & Equipment Improvements	4,186
2010 CMMS Phase II	43,282
2010 Dividend Brook Drainage Area RH	664,779
2010 General Purpose Sewer	37,784
2010 GPS New Park Ave	12,978
2010 Headquarters Renovation(3rd Floor)	1,815
2010 Huyshope Street Sewer Rehab, Hartfd	26,841
2010 Information System Improvements #2	177,150
2010 Sewer Pump Station Improvement Prog	30,232
2010 WPC EHWPCF Screen& Grit Replacement	70,752
2010 WPC Electrical SystemsModernization	1,750,196
2010 WPC Renewal & Replacements Program	70,236
2010 255 Back Lane, Newington	1,479
2011 WPC Electronic Development	83,906
2011 CMOM - Compliance	299,081
2011 Facility & Equipment Improvements	85,604
2011 GENERAL PURPOSE SEWER	13,474
2011 GPS EH Main St - High St	27,354
2011 Headquarters Renovation	40,915

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

<u>Project Name</u>	<u>Remaining Commitment</u>
2011 Pump Station Generators	\$ 4,494
2011 Sewer Pump Station Replacements	622,010
2011 SSO Pilot-Wethersfield 2011-11	413,359
2011 Wet Weather Expansion	139,659
2011 WPC Renewal & Replacements	86,103
2012 Backwater Valve Program	4,100
2012 CWP Newington Cedar St	30,487
2012 CWP WEST HARTFORD SSES	568,942
2012 EHWPC Wastewater Screening Install	146,421
2012 Facility Improvement Program	71,161
2012 General Purpose Sewer	397,975
2012 Hqtrs Parking Garage Renovations	16,820
2012 HWPC Solids Handling & Processing	695,748
2012 Information Technology	236,790
2012 Information Technology Security Imp	74,812
2012 Mohawk WWPS - East Hartford	1,046
2012 RH/Weth. SSES Lining	2,102,046
2012 Ridge Street WWPS - Windsor	5,637
2012 Rocky Hill Interceptor Relief Sewer	97,943
2012 Sanitary Sewer Replacement Prg	198,396
2012 Sanitary Sewer Retreat Ave Htfd	176,972
2012 Sewer Gate Replacement Program	417,999
2012 Sewer Infrastructure Design	89,625
2012 Sewer Replacement Montclair Dr WH	1,601,942
2012 WPC Equipment & Facilities Refurb	34,293
2012 WPC Renewal and Replacement	546,116
2013 388-390 Farmington Ave, Swr Repairs	65,945
2013 Brookside Street WWPS - Newington	260,850
2013 Chateau Woods/High Path Rd WWPS	9,933
2013 Curcombe Street WWPS - Hartford	6,486
2013 Facilities Improvement Program	91,796
2013 Folly Brook I/I Removal - Cntrct 1	11,328
2013 General Purpose Sewer - Various Swr	212,529
2013 Harvest Lane WWPS - Windsor	12,677
2013 INFORMATION TECHNOLOGY-APPLICATIONS	158,647
2013 INFORMATION TECHNOLOGY-HARDWARE	233,817
2013 INFORMATION TECHNOLOGY-SAP/ORACLE	9,950
2013 LAND IMPROVEMENTS	54,113
2013 Meadow Street WWPS - Newington	24,429
2013 Mohawk WWPS - East Hartford	36,061
2013 Motts WWPS - Wethersfield	25,940
2013 Oakwood Sewer Improvements, W Hart.	36,478
2013 Pheasant Lane Swr Main Construction	42,357
2013 RHWPCF Capacity & Upgrades	19,581,831
2013 Rocky Hill Interceptor	32,530
2013 SCADA Upgrades	406,421
2013 SSO Elimination Plan Update	101,835
2013 Various Sewr Pipe Replacement/Rehab	296,261
2013 Windsor I/I Removal Contract	11,328
2013 WPC Equipment & Facility Refurbish	25,383
2013 WPC HWPCF Cake Stg & Gravity Sys	1,834
2013 WPC Plant Infra. Renewal & Replace	217,862
2013 WWEP Contract #2012-20	14,271,392
2014 CWP PMC / CDM SMITH	310,247
2014 Equipment & Facilities Refurbishmnt	48,618
2014 Facilities Improvement Program	57,772

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

<u>Project Name</u>	<u>Remaining Commitment</u>
2014 General Purpose Sewer	\$ 166,469
2014 Gully Brook Conduit Connections	4,428
2014 Hrtfrd WPCF Sludge Mixing Tank Upgd	3,461,516
2014 Information Technology	14,488
2014 Land Improvement	154,342
2014 Levee Protect System Imprv EH & Har	262,585
2014 PS Upgrade-Burnside E. Hartford	386,293
2014 Pump Station Rainbow Trunk, Windsor	93,403
2014 Rehab/Repl NM-14 Overflow Hartford	1,490
2014 Sewer Ext. - Marsh St, Wethersfield	128,872
2014 Sewer Rehabilitation Program	408,074
2014 Sewer Rehab-Madison Ave, Hartford	3,882
2014 Sewer Renewable Energy Projects	47,982
2014 SSES Rocky Hill - II	4,773,733
2014 Various Sewer Pipe Replace/Rehab DW	1,763,305
2014 WPC Renewal & Replacements	2,004
2014 WW Pump Station Improvement	23,856
2014 WWEP #2012-21 Clarifier	99,445,079
2015 Admin Facilities Imprvmnt Program	113,791
2015 CCTV Generated Sewer Contracts	10,815
2015 EH WPCF Cmprsr, DO Control & SCADA	25,651
2015 Folly brook Sewershed, Wethersfield	11,336
2015 General Purpose Sewer	1,031,017
2015 Greenhurst Rd Area Sanitary Swr Imp	1,605,829
2015 Hartford WPCF SPB Electrical Upgrad	3,883,550
2015 Information Tech - Finance Modules	4,217,515
2015 Information Tech-Operational Module	4,999,349
2015 IS-Business Transform SAP Upgrade	7,940
2015 Kane Brook Design	983,090
2015 Member Towns New GIS Base Map Dtbse	48,872
2015 NM-1 Gate Structure	21,881
2015 NNBI Rel./Oxford Dsn.	1,675,310
2015 Poquonock WPCF Prmry & Scndry Tanks	440,942
2015 Sanitary Swr Easmnt Acquist & Imprv	332,929
2015 Sewer Paving Program	647,373
2015 Sewer Rehabilitation Program	572,838
2015 SHCST Construction	270,085,981
2015 SHCST Pump Station	1,916,797
2015 SHCST Utility Relocation	408,880
2015 Various Sewer Pipe Rplcmnt/Rehab-DW	505,420
2015 WPC Equipment & Facilities Imprvmnt	1,285,591
2015 WPC Plant Infrastructure Rnwl & Rpl	1,335,100
2016 Hartford WPCF-Air Permit Compliance	122,920
2016 Information Systems I/T Upgrades	3,083
ADA Handicapped Access Improvements	26,616
Airport Rd Htfd Pump Station Forced Main	516,751
ASH HANDLING & MERCURY CONTRO	446,527
Birchwood Rd Pumpstation	19,076
Braeburn Rd, West Hartford	19,439
CMOM Compliance	1,406
Franklin Proj #13-Package B Upper Frankl	3,614,611
Franklin Proj #5-Package D W. Preston St	1,053,909
Geotechnical Services - Consulting	78,043
Goff Brook - South Branch Phase II	55,425
HARTFORD ODOR CONTROL CONSTR.	604,876
Improvements to SCADA Systems	72,497
Juniper Rd., Bloomfield	120,046

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

<u>Project Name</u>	<u>Remaining Commitment</u>
Pump Station Radio/Antenna Upgrades	\$ 2,173
Ridge Rd. North of Wells Rd., Weth	14,486
South CSO Conveyance Tunnel/WH Intercept	706,369
Tower Avenue Area South	12,459
Wastewater Trt. Fac. Sec. & Comm. Imps	81,361
Other	255,759
2007 Wastewater Treatment Fac Imp.	282,324
Upper Albany Project #1	955,108
2016 LTCP Flow Metering	165,292
2016 RHWPCF Outfall and RHI Lining	4,067,097
2016 Bloomfield SSES	704,457
CMOM Plan Updates	85,519
2016 Ash Lagoon Closure	205,404
2017 Business Transformation	3,595,116
Large Diameter Cleaning Program	<u>84,964</u>
 Total	 \$ <u><u>475,704,065</u></u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

The District's commitments with contractors for construction in process for business-type activities are as follows:

<u>Project Name</u>	<u>Remaining Commitment</u>
2010 Watr Main Replace Farmingtn Av W Hrtfd	\$ 108,691
2001 Electrical Upgrades, Phase II, WH	4,692
2002 LAKE MCDONOUGH RECREATION AREA IMPR	14,995
2003 South Mill Pump Station	174,523
2004 Bloomfield Filter Expansion	37,000
2004 WH. Chemical Feed System	87,952
2008 Transmission Valve Replacement	114,647
2008 Water Supply Facility Improvements	110,028
2009 CSOFarmington1A Water Main Repl	230,352
2010 Dam Safety - Nepaug, Phelps, E Dike	56,564
2010 Dam Safety Res #1	3,046
2010 Dam Safety Res #3	116,936
2010 Dam Safety Reservoir #2	96,432
2010 General Purpose Water	522,906
2010 Hydraulic Computer Modeling	116,023
2010 Radio Frequency Auto Metr Reading	87,076
2010 Water Dist Facility Security	218,289
2010 Water Main Replacement - Bloomfield	15,418
2010 Water Main Replacement - Hartford	28,519
2010 Water Main Replacement - Windsor	4,025
2010 Water Main Replacement-Wethersfield	2,324
2010 Water Pump Station Replace/Upgrade	388,190
2010 Water Supply Facility Improvements	49,762
2010 Water Treatment Facility Upgrade	150,139
2010 CWP Water Main Guilford Pliny Htfd	558,578
2010 CWP Watr Main Wethersfield #3 Hrtfd	71,077
2010 CWP Watr Main Cleveland/Main Htfd	30,951
2010 CWP Watr Main Repl Farmington A Htfd	270,397
2010 CWP Watr Main Repl Oxford St Htfd	160,278
2010 Water Main Replacement - W. Hartford	41,530
2010 Water Main Replacement-East Hartford	9,775
2011 ASSESSABLE WATER	279,153
2011 COLLINSVILLE WTPF	1,470
2011 CWP WMR-ENFIELD ST. , HARTFORD	24,459
2011 CWP WMR-FENWAY ST., HARTFORD	59,436
2011 DAM SAFETY IMPROVEMENTS-RES #6	10,819
2011 GENERAL PURPOSE WATER	1,791
2011 Linden Place Water Main Replacement	89,898
2011 RADIO FREQUENCY AUTOMATED METER REA	8,786
2011 TMR HAMILTON ST&PARK TERR,HTFD,PHII	454,614
2011 Water Pump Station Improvements	111,636
2011 WATER STORAGE UPGRADES-PHASE I	10,622
2011 WATER SUPPLY & WATERSHED LAND IMP.	133,846
2011 WATER TREATMENT FACILITY UPGRADES	40,624
2011 WHWTF-North Storage Tank Inst.	100,649
2011 WMR EAST HARTFORD	3,519
2011 WMR HARTFORD	280,012
2011 WMR MOUNTAIN RD& CLIFFORD DR, WH	19,172
2011 WMR SIMMONS RD., EAST HARTFORD	1,643
2011 WMR-COLONY ROAD, WEST HARTFORD	51,262
2011 WMR-COTTAGE GROVE RD, BLOOMFIELD	1,316,162
2011 WMR-LONGVIEW DR,TALCOTT AND PHEAS.	208,776
2011 WMR-PINE ST & AUBURN RD, WH	123,396
2012 Assessable Water Program	6,447

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

<u>Project Name</u>	<u>Remaining Commitment</u>
2012 Asset Management Construct. Admin.	\$ 5,349
2012 CWP W/M Replace-South Maple West	129,344
2012 Dam Safety Improv-Goodwin & Saville	8,986
2012 Frmgtn Ave W/M Install TB to WH Ln	452,245
2012 General Purpose Water	734,740
2012 Newington Pump Station	1,790
2012 Paving Program	245,725
2012 Radio Frequency Automated Meter	169,861
2012 Standpipe & Above Grade Storage Tan	509,367
2012 W/M Replacement-Montclair Dr. WH	351,943
2012 Water Storage Basin Upgrades	161,676
2012 Water Treatment Facilities Upgrades	395,359
2012 WTR Infrstrctr Design-District Wide	27,546
2012 Wtr Main Replacement - Four Mile Rd	7,139
2012 Wtr Main Replacement - Retreat Ave	186,061
2012 Wtr Main Replacement-Farmington Ave	35,333
2013 ASSET MGMT WATER MAIN REHAB	108,426
2013 BL WTR Filtered Water Basin Improv.	2,127
2013 Buckingham WPS - Glastonbury	14,712
2013 Center St Wtr Main Replace, Hrtfrd	42,283
2013 CWP-Church St-WM / Myrtle to High	160,575
2013 CWP-Church St-WM/Main St to High St	21,430
2013 General Purpose Water Program	255,132
2013 Jerome Ave Wtr Main Replace. Bloomf	72,827
2013 Newington PRV Service Area Upgrade	20,424
2013 Oakwood Wtr Main Replace, W. Hrtfrd	13,585
2013 Paving Program	612,324
2013 Pitkin St. Water Main Replace, EH	10,178
2013 Radio Frequency AMR	2,099
2013 Water Supply Generators	254,706
2013 Water Treatment Facilities Upgrades	140,149
2013 WMR-FRANKLIN #13, FRANKLIN AVE, HTF	72,970
2014 Collinsville WTP Emergency Gen Repl	30,425
2014 General Purpose Water	437,024
2014 Kilkenny Water Transmission Main	3,508,886
2014 Paving Program	10,820
2014 Phelps Brook Dam/ East Dike Rehab	476,753
2014 Various Trnsmsn Main Dsgn & Cnstrc	233,370
2014 Water Main Replacements W. Hartford	1,381,601
2014 Water Main Replacements Wethersfield	226,461
2014 Water Pump Station Improvements	4,737
2014 Water Renewable Energy Projects	72,694
2014 Water Treatment Facilities Upgrades	69,131
2014 Wethersfield Water Pump Station	1,423
2014 WH WTF 6 MG Filtered Wtr Basin Impr	24,244
2015 General Purpose Water Program	1,184,040
2015 Hydrant Replacement Program	12,453
2015 Paving Program	35,204
2015 Puddletown Booster Wat PS, New Hart	398,496
2015 Water Main Replacmnt-Bond St., Hart	18,505
2015 Water Main Rplcmnt-Buckingham St	320,051
2015 Water Supply Improvements	1,966
2015 Water Treatment Facilities Upgrades	40,654
2015 WHWTF Water Storage Improvements	2,965

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

<u>Project Name</u>	<u>Remaining Commitment</u>
2016 Paving Program	\$ 10,276
2016 WMR Simmons Road Area, EHftd	1,097,615
99 GPWPR-WATER BOTTLING PROJECT	42,525
AMR East Hartford and Hartford(FORM.903)	105,324
AW - Goodrich & South Rds. Farmington	43,752
Cedar Street Hartford Water Main Replace	51,919
Contingency Reserve(FORM. 195)	43,195
FARMINGTON WATER MAIN INSTALLATION W.H.	149,293
General Purpose Water	696,058
GPW2000 Consultant Engineering Services	23,251
Kilkenny Rocks Storage Tank(FORM.171)	22,801
NON-CSO RELATED ASSETS 2009 Adopted Appr	5,478
Oak Street East Hartford Water	17,693
Radio Frequency Automated Meter Reading	20,132
Rehab Old Res. #6 Washwtr Tank(FORM.170)	10,559
SIVL-PHELPS ST. (FORM. 140)	5,974
SIVL-RIDGEWOOD RD. (FORM. 165)	3,463
TRANSMISSION VALVE REPLACEMENTS 2009 Ado	322,969
WATER MAIN GATE VALVE REPLACEMENTS	105,742
WATER TREATMENT FACILITY IMPROVEMENTS WH	18,818
Other	2,794,267
Whiting Lane W.H. Water Main Replacement	<u>65,635</u>
Total	<u>\$ 26,594,360</u>

The commitments are being financed with general obligation bonds and state and federal grants.

E. Bond Anticipation Notes

The District uses bond anticipation notes during the construction period of various projects prior to the issuance of the bonds at the completion of the project.

The District issued the following bond anticipation notes during 2016:

<u>Issuance Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Premium</u>	<u>Maturity Date</u>
February 18, 2016	\$ 113,500,000	2.00%	\$ 1,440,315	December 1, 2016

Bond anticipation note transactions for the year ended December 31, 2016 were as follows:

Outstanding - December 31, 2015	\$ 106,500,000
New borrowings	113,500,000
Repayments	<u>(220,000,000)</u>
Outstanding - December 31, 2016	<u>\$ -</u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Subsequent Events

The District issued general obligation bond anticipation notes as follows:

<u>Date of issuance</u>	<u>Series</u>	<u>Amount</u>	<u>Premium</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
March 1, 2017	A	\$ 95,000,000	\$ 362,036	2.00%	August 30, 2017

F. Operating Leases

Total operating lease payments for the year ended December 31, 2016 were \$419,596. Commitments under an operating lease agreement with the Army Corps of Engineers for water storage rights require minimum annual rental payments, including interest at 3.14% over 50 years. The total cost of this lease was \$204,222 for the year ended December 31, 2016. Other operating lease payments for office equipment totaled \$215,374 for the year ended December 31, 2016. Future operating lease commitments are as follows:

	<u>Amount</u>
2017	\$ 406,145
2018	359,616
2019	<u>216,549</u>
Total	<u>\$ 982,310</u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

G. Long-Term Debt

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 208,159,423	\$ 103,632,950	\$ 31,399,474	\$ 280,392,899	\$ 12,791,568
Revenue bonds	220,490,000		3,680,000	216,810,000	3,760,000
Premiums	39,827,550	8,898,306	2,060,520	46,665,336	
Total bonds payable	468,476,973	112,531,256	37,139,994	543,868,235	16,551,568
Clean water fund loans	274,299,755	91,409,817	16,870,411	348,839,161	88,381,379
Compensated absences	2,430,440	1,991,577	2,412,794	2,009,223	1,917,576
Net pension liability	15,428,353		2,387,505	13,040,848	
OPEB obligation	26,727,213	626,988		27,354,201	
Total Governmental Activities Long-Term Liabilities	<u>\$ 787,362,734</u>	<u>\$ 206,559,638</u>	<u>\$ 58,810,704</u>	<u>\$ 935,111,668</u>	<u>\$ 106,850,523</u>
Business-Type Activities:					
General obligation bonds	\$ 179,515,563	\$ 85,742,050	\$ 42,410,524	\$ 222,847,089	\$ 11,378,432
Premiums	11,533,978	8,553,997	928,443	19,159,532	
Total bonds payable	191,049,541	94,296,047	43,338,967	242,006,621	11,378,432
Drinking water fund loans	40,354,348	15,797,817	3,409,633	52,742,532	11,778,787
Compensated absences	2,656,548	1,323,494	2,175,728	1,804,314	1,733,955
Net pension liability	36,486,376	1,978,875		38,465,251	
OPEB obligation	38,803,833	10,015,807		48,819,640	
Total Business-Type Activities Long-Term Liabilities	<u>\$ 309,350,646</u>	<u>\$ 123,412,040</u>	<u>\$ 48,924,328</u>	<u>\$ 383,838,358</u>	<u>\$ 24,891,174</u>

For the governmental activities, claims and judgments, pension obligation, OPEB obligation and compensated absences are generally liquidated by the General Fund.

General Obligation Bonds

General obligation bonds are direct obligations of the District for which full faith and credit are pledged and are payable from taxes levied on member towns and other operating revenues. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	Various	\$ 280,392,899
Business-type activities	Various	<u>222,847,089</u>
		<u>\$ 503,239,988</u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 12,791,568	\$ 11,402,923	\$ 11,378,432	\$ 9,027,721
2018	16,763,654	11,086,326	13,746,346	8,667,305
2019	16,946,206	10,270,213	13,863,794	7,994,118
2020	16,737,564	9,457,607	13,827,436	7,307,749
2021	16,210,524	8,669,942	13,694,476	6,634,013
2022-2026	76,853,244	32,884,307	67,001,758	23,769,183
2027-2031	69,667,092	18,211,267	56,582,908	11,222,733
2032-2036	44,493,047	6,205,399	32,751,939	2,444,475
2037-2040	9,930,000	1,141,875		
Total	<u>\$ 280,392,899</u>	<u>\$ 109,329,859</u>	<u>\$ 222,847,089</u>	<u>\$ 77,067,297</u>

Authorized But Unissued Bonds

The total of authorized but unissued bonds at December 31, 2016 is \$1,276,622,742. In most cases, interim financing is obtained through bond anticipation notes or other short-term borrowings until the issuance of long-term debt.

Revenue Bonds

Revenue bonds are direct obligations of the District for which full faith and credit are pledged and are payable from the Special Sewer Service Surcharge. Revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	Various	\$ <u>216,810,000</u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Annual debt service requirements to maturity for revenue bonds are as follows:

	Governmental Activities	
	Principal	Interest
2017	\$ 3,760,000	\$ 10,386,450
2018	3,870,000	10,239,800
2019	4,015,000	10,065,050
2020	4,075,000	9,959,750
2021	4,225,000	9,756,000
2022-2026	23,545,000	45,629,750
2027-2031	31,690,000	39,360,000
2032-2036	70,180,000	27,011,375
2037-2041	62,545,000	9,711,650
2042	8,905,000	445,250
Total	\$ 216,810,000	\$ 172,565,075

Clean Water Fund Loans

The District participates in the State of Connecticut’s Clean and Drinking Water programs, which provide low-interest loans bearing 2% interest for eligible waste water and 2% interest for eligible drinking water projects. Projects are financed by interim loan obligations until project completion, at which time internal loan obligations are replaced by permanent loan obligations. In the case of certain large projects, permanent loan obligations may be issued annually.

Clean Water Fund loans finance the sewer infrastructure and facility improvements (governmental activities) and will be repaid from future taxation and user fees.

Drinking Water Fund loans finance the water infrastructure and facility improvements (business-type activities) and will be financed by user charges.

Permanent loan obligations mature as follows:

	Governmental Activities	
	Principal	Interest
2017	\$ 17,749,492	\$ 5,261,893
2018	17,749,492	4,906,903
2019	17,569,606	4,553,086
2020	17,342,515	4,204,252
2021	17,342,515	3,857,402
2022-2026	82,502,056	14,272,005
2027-2031	73,456,064	6,313,650
2032-2036	27,518,094	908,746
	\$ 271,229,834	\$ 44,277,937

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

	Business-Type Activities	
	Principal	Interest
2017	\$ 2,667,350	\$ 825,136
2018	2,667,350	770,098
2019	2,667,350	715,060
2020	2,644,763	660,095
2021	2,404,092	608,564
2022-2026	11,512,324	2,340,904
2027-2031	11,088,661	1,210,342
2032-2036	6,578,034	222,634
	<u>\$ 42,229,924</u>	<u>\$ 7,352,833</u>

Interim loan obligations mature as follows:

	Governmental Activities	
	Principal	Interest
2017	\$ 70,631,887	\$ 812,440
2018	6,977,440	61,699
	<u>\$ 77,609,327</u>	<u>\$ 874,139</u>

	Principal	Interest
2017	\$ 9,111,437	\$ 34,041
2018	1,401,171	490
	<u>\$ 10,512,608</u>	<u>\$ 34,531</u>

General Obligation Bonds - Advance Refunding

On April 28, 2016, the District issued \$48,035,000 in general obligation bonds with interest rates ranging from 2%-5% to refund outstanding bonds with interest rates ranging from 3.25%-5%. The bonds refunded were \$52,000,000 of outstanding 2008 general obligation bonds. The net proceeds of \$54,646,651 (after payment of issuance costs of \$329,090) were deposited with an escrow agent in an irrevocable trust fund. The proceeds were used to buy a portfolio of direct obligations of, or obligations guaranteed by, the United States of America to provide all future debt service payments on the refunded bonds. The refunded bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The transaction generated a cash flow savings of \$5,535,285 and a present value savings of \$5,161,709.

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At December 31, 2016, \$48,000,000 of the defeased debt is outstanding. The balance in escrow at December 31, 2016 was \$48,825,671.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

H. Fund Balance

The components of fund balance for the governmental funds at December 31, 2016 are as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Clean Water Project</u>	<u>Capital Projects</u>	<u>Total</u>
Fund balances:					
Nonspendable:					
Prepays	\$ 2,723,105		\$ 183,283		\$ 2,906,388
Inventory	324,743				324,743
Restricted for:					
Debt service		2,724,784	126,353,286		129,078,070
Committed to:					
General purpose sewer				15,683,064	15,683,064
Information systems development				851,855	851,855
Vehicle and equipment replacement				1,424,888	1,424,888
Facility and building improvements				31,907,474	31,907,474
Inflow and infiltration master plan				940,948	940,948
Unassigned	<u>14,498,170</u>			<u>(76,526,304)</u>	<u>(62,028,134)</u>
Total Fund Balances	<u>\$ 17,546,018</u>	<u>\$ 2,724,784</u>	<u>\$ 126,536,569</u>	<u>(25,718,075)</u>	<u>\$ 121,089,296</u>

There were no outstanding encumbrances at December 31, 2016.

4. EMPLOYEE RETIREMENT PLAN

A. Plan Description and Benefits Provided

The District has an employee retirement system with a pension plan adopted January 1, 1944 and amended April 1, 1989. The Aetna Insurance Company is the administrator of the Metropolitan District Employees' Retirement System (MDERS), which is a defined benefit, single employer retirement system. The MDERS provides retirement, disability and death benefits to plan members and beneficiaries.

Management of the plans rests with the Personnel, Pension and Insurance Committee (PPI), which consists of 11 members.

The pension plan is included in the District's financial reporting entity and accounted for in the pension trust fund. The MDERS does not issue a stand-alone financial report.

At January 1, 2016, which is the last date of actuarial valuation, membership consisted of:

Retirees, disabled and beneficiaries currently receiving benefits	579
Terminated members entitled to but not yet receiving benefits	14
Current active members	516
Nonvested former participants	<u>23</u>
Total Members	<u><u>1,132</u></u>

Participation in the plan is immediate upon employment for all full-time employees. Vesting in benefits occurs after ten years of service. Termination of employment before that time results in forfeiture of the District's portion of the accrued benefit.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

The District's Personnel, Pension and Insurance Committee, as provided by the District's general ordinances, establishes the benefit provisions and the employer's and employees' obligations. Any bargaining or nonbargaining unit employee who becomes totally and permanently disabled and has completed 10 years of service will receive 100% of the pension that the employee would have been entitled to. Annual pension payments are determined at 2% times years of service times final average earnings subject to a maximum of 32 years.

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The Pension Trust Fund's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with plan provisions. Administrative costs of the plan are financed through investment earnings.

Valuation of Investments

Investments are valued at fair value. Securities traded on national exchanges are valued at the last reported sales price.

C. Funding Policy

Employees hired prior to October 4, 2015 are required to contribute 5% of their annual covered salary and employees hired thereafter are required to contribute 7% of their annual covered salary.

D. Investments

Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Personnel, Pension and Insurance Committee by a majority vote of its members. It is the policy of the Personnel, Pension and Insurance Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>
Core Fixed Income	15.00%
Global Funds	12.50%
Large Cap U.S. Equities	30.00%
Mid Cap U.S. Equities	10.00%
Small Cap U.S. Equities	10.00%
Developed Foreign Equities	10.00%
Real Estate (REITS)	6.00%
Private Real Estate Property	1.50%
Commodities	5.00%

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Rate of Return

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.48%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Receivables

The Pension Trust Fund has amounts owed from Mid-CT for amounts under contributed to fund the net pension obligation. Refer to Note 6C for additional information on this receivable.

E. Net Pension Liability of the District

The components of the net pension liability of the District at December 31, 2016 were as follows:

Total pension liability	\$ 252,793,496
Plan fiduciary net position	<u>201,287,397</u>
 Net Pension Liability	 <u>\$ 51,506,099</u>
 Plan fiduciary net position as a percentage of the total pension liability	 79.63%

The net pension liability is recorded in the Water Utility Fund, the Hydroelectric Development Project Fund, the Mid-Connecticut Project Fund (Major Proprietary Funds), and the Governmental Activities of the District. The Mid-Connecticut Project Fund net pension liability has remained static pending the outcome of ongoing litigation, and the District's governmental activities are accounting for the Mid-Connecticut Projects share of the additional liability.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%, average, including inflation
Investment rate of return	7.25%, net of pension plan investment expense, including inflation
Mortality rates	RP-2000 Combined Healthy Mortality tabled blended 75% Blue Collar, 25% White Collar, with generational projection per Scale AA.
Actuarial cost method	Entry Age Normal

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

The long-term expected rate of return on pension plan investments was determined using a building-block method 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Rate of Return
Core Fixed Income	2.69%
Global Funds	1.44%
Large Cap U.S. Equities	5.11%
Mid Cap U.S. Equities	5.66%
Small Cap U.S. Equities	6.26%
Developed Foreign Equities	6.04%
Real Estate (REITS)	5.22%
Private Real Estate Property	4.04%
Commodities	3.27%

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension 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.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Changes in the Net Pension Liability

Metropolitan District Employees' Retirement System			
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of December 31, 2015	\$ 246,828,827	\$ 194,914,098	\$ 51,914,729
Changes for the year:			
Service cost	4,121,036		4,121,036
Interest on total pension liability	17,634,276		17,634,276
Differences between expected and actual experience	159,570		159,570
Changes in assumptions			-
Employer contributions		6,361,424	(6,361,424)
Member contributions		2,247,072	(2,247,072)
Net investment income		13,824,703	(13,824,703)
Benefit payments, including refund to employee contributions	(15,950,213)	(15,950,213)	-
Administrative expenses		(109,687)	109,687
Net changes	<u>5,964,669</u>	<u>6,373,299</u>	<u>(408,630)</u>
Balances as of December 31, 2016	\$ <u>252,793,496</u>	\$ <u>201,287,397</u>	\$ <u>51,506,099</u>

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

The following presents the net pension liability of the District, calculated using the discount rate of 7.25%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's Net Pension Liability \$	79,320,559	\$ 51,506,099	\$ 27,883,370

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

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

For the year ended June 30, 2016, the District recognized pension expense of \$9,244,040, which is recorded within the Water Utility fund, Hydroelectric Development Project fund and the Governmental Activities of the District in the amounts of \$3,220,824, \$16,353 and \$6,006,863, respectively. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Metropolitan District Employees' Retirement System	
	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ (228,281)	\$ 131,575
Changes of assumptions		5,236,432
Net difference between projected and actual earning on pension plan investments		<u>6,204,111</u>
Total	<u>\$ (228,281)</u>	<u>\$ 11,572,118</u>

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

Year Ended December 31,

2017	\$ 3,449,567
2018	3,449,567
2019	3,449,568
2020	975,541
2021	19,594

F. 457(f) Nonqualified Deferred Compensation Plan

The District has a 457(f) Nonqualified Deferred Compensation Plan for certain qualified key employees as deemed eligible by the Personnel, Pension and Insurance Committee. The District will make contributions to the plan as deemed necessary. The District made no contributions to the plan during 2016.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

G. Combining Statement of Net Position

	<u>Pension Trust Fund</u>	<u>OPEB Trust Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 525,985	\$ 240,249	\$ 766,234
Accounts receivable	9,314,196	26,454,597	35,768,793
Investments, at fair value:			
Mutual funds	143,923,824		143,923,824
Investment in limited partnership	7,527,688		7,527,688
Guaranteed investment contracts	24,907,820		24,907,820
Real estate	15,101,048		15,101,048
Total assets	<u>201,300,561</u>	<u>26,694,846</u>	<u>227,995,407</u>
LIABILITIES			
Accounts payable	13,164		13,164
Retiree expense reimbursement payable		534,795	534,795
Total liabilities	<u>13,164</u>	<u>534,795</u>	<u>547,959</u>
NET POSITION			
Restricted for Pension and OPEB Benefits	<u>\$ 201,287,397</u>	<u>\$ 26,160,051</u>	<u>\$ 227,447,448</u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

H. Combining Statement of Revenue, Expenses and Changes in Net Position

	<u>Pension Trust Fund</u>	<u>OPEB Trust Fund</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 6,361,424	\$ 5,000,000	\$ 11,361,424
Plan members	2,247,072	670,956	2,918,028
Reimbursements	225,496	225,496	225,496
Total contributions	<u>8,608,496</u>	<u>5,896,452</u>	<u>14,504,948</u>
Investment earnings:			
Net change in fair value of investments	11,155,764		11,155,764
Interest and dividends	4,328,180		4,328,180
Total investment earnings	<u>15,483,944</u>	-	<u>15,483,944</u>
Less investment expenses:			
Investment management fees	1,659,241		1,659,241
Net investment earnings	<u>13,824,703</u>	-	<u>13,824,703</u>
Total additions	<u>22,433,199</u>	<u>5,896,452</u>	<u>28,329,651</u>
Deductions:			
Benefits	15,950,213	6,336,321	22,286,534
Administrative expense	109,687		109,687
Total deductions	<u>16,059,900</u>	<u>6,336,321</u>	<u>22,396,221</u>
Change in Net Position	6,373,299	(439,869)	5,933,430
Net Position at Beginning of Year	<u>194,914,098</u>	<u>26,599,920</u>	<u>221,514,018</u>
Net Position at End of Year	<u>\$ 201,287,397</u>	<u>\$ 26,160,051</u>	<u>\$ 227,447,448</u>

5. POSTEMPLOYMENT HEALTHCARE PLAN - RETIREE HEALTH PLAN

Plan Description

The Retiree Health Plan (RHP) is a single-employer defined benefit healthcare plan and provides medical, dental and life insurance benefits to eligible retirees and their spouses. Spouses and eligible dependents covered on medical and dental insurance only if the retiree declares at least a 90% pension annuity. District employees eligible to participate in the plan are as follows: 65 years old or 55 years old with 10 years of service or the sum of age and service is 85. Benefit provisions are established through negotiations between the District and the various unions representing the employees.

Expenses for postemployment benefits were paid out of the OPEB trust fund during fiscal year ended December 31, 2016. The plan does not issue a stand-alone financial report.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

At January 1, 2014, plan membership consisted of the following:

	Retiree Health Plan
Retired members	428
Spouses of retired members	459
Active plan members	<u>510</u>
Total Participants	<u><u>1,397</u></u>

Funding Policy

The contribution requirements of plan members and the District are also negotiated with the various unions representing the employees. Active employees hired prior to October 4, 2015 are required to contribute 0.5% of regular earnings and active employees hired after October 4, 2015 are required to contribute 1.0% of regular earnings into the OPEB Trust Fund. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly towards the cost of health insurance premiums.

The cost per month for District retiree plus one or family coverage is the full monthly allocation rate for that coverage, subtracting the cost for single coverage, and then subtracting \$19.65. The retiree then pays the balance. There is no cost for retiree-only coverage. Bargaining unit retirees are provided with \$5,000 in life insurance and the ability to buy additional coverage, up to ½ of the coverage they had as an active employee.

Employer contributions to the plan of \$5,000,000 were made in accordance with actuarially determined requirements.

Annual OPEB Cost and Net OPEB Obligations

The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	Retiree Health Plan
Annual required contribution (ARC)	\$ 15,855,000
Interest on net OPEB obligation	3,276,552
Adjustment to annual required contribution	<u>(3,488,757)</u>
Annual OPEB cost	15,642,795
Contributions made	<u>5,000,000</u>
Increase in net OPEB obligation	10,642,795
Net OPEB obligation, beginning of year	<u>65,531,046</u>
Net OPEB Obligation, End of Year	<u>\$ 76,173,841</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the three fiscal years ended December 31, 2016, 2015 and 2014 are presented below:

Fiscal Year Ended	Annual OPEB Cost (AOC)			Actual Contribution		
	District	Mid-Connecticut	Total	District	Mid-Connecticut	Total
12/31/2014	\$ 13,327,151	\$ 2,355,000	\$ 15,682,151	\$ 5,588,854		\$ 5,588,854
12/31/2015	12,334,454	2,355,000	14,689,454	5,000,000		5,000,000
12/31/2016	13,287,795	2,355,000	15,642,795	5,000,000		5,000,000

Fiscal Year Ended	Percentage of AOC Contributed			Net OPEB Obligation		
	District	Mid-Connecticut	Total	District	Mid-Connecticut	Total
12/31/2014	\$ 41.9%	0.0%	35.6%	\$ 44,855,880	10,985,712	\$ 55,841,592
12/31/2015	40.5%	0.0%	34.0%	54,545,334	10,985,712	65,531,046
12/31/2016	37.6%	0.0%	32.0%	65,188,129	10,985,712	76,173,841

As of January 1, 2014, the most recent actuarial valuation date, the plan was 13.02% funded. The actuarial accrued liability for benefits was approximately \$203 million, and the actuarial value of assets was approximately \$26 million, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$177 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$41 million.

THE METROPOLITAN DISTRICT NOTES TO FINANCIAL STATEMENTS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as accrual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections for benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, projected unit credit method was used. The annual medical cost trend rate is 7.1% initially, reduced by decrements to an ultimate rate of 4.7% for pre-65 and 4.8% for post-65. Years until ultimate medical inflation rate are 70 for pre-65 and 72 for post-65. The discount rate assumption is 5.0%. The actuarial value of assets was determined using the closed group method. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at January 1, 2014 was 25 years.

6. OTHER INFORMATION

A. Clean Water Project

The Clean Water Project includes all the programs needed to comply with the Consent Decree from the United States Department of Justice, the EPA and CT DEEP to eliminate eight SSOs and the Consent Order from CT DEEP to implement the Long-Term Control Plan for Combined Sewer Overflow Abatement and to reduce nitrogen from the District's water pollution control facilities as required by CT DEEP general permit. The District is utilizing the State of Connecticut Clean Water Fund to finance the eligible portions of these projects to the extent funding is available. The Clean Water Fund provides a grant and loan combination for some of this work and a loan only for certain projects.

The Consent Decree issued on August 23, 2006 by the U.S. Department of Justice, the EPA and CT DEEP for the elimination of SSOs requires the overflows to be eliminated within five years of the approval of an elimination plan by the EPA in Wethersfield, Rocky Hill and Windsor, and within ten years in West Hartford and Newington. The Consent Decree also carried an \$850,000 civil penalty that was paid in 2006. The Consent Decree requires many interim action reports and construction necessary to reduce the infiltration and inflow of clean water into the sewer systems in the towns outside Hartford including individual homeowner actions. The Clean Water Fund can supply loans at 2% interest for this design and construction.

A Consent Order issued on November 6, 2006 by CT DEEP establishes a compliance schedule for the full implementation of the Long-Term Control Plan for Combined Sewer Overflow Abatement by 2021. The work includes separation of sewers in portions of Hartford to eliminate certain overflows, construction of new conveyance sewers, treatment plant expansion for wet weather flows and a large storage tunnel for retention of flow for later treatment. Meeting the schedule will require extensive and timely capital expenditures, currently projected to be more than \$1 billion over the next 15 years. Construction costs for portions of the sewer separation projects and for construction of

THE METROPOLITAN DISTRICT NOTES TO FINANCIAL STATEMENTS

conveyance and storage tunnels are eligible for State Clean Water Fund financing with a 50% grant and loan at 2% for the balance to the extent funding is available. Funding for the treatment plant expansion work is eligible for State Clean Water Fund support with a 20% grant and a 2% loan for the balance. In the case that funding was unavailable through the Clean Water Fund, the District would be obligated to issue bonds for the construction, adding increased debt service to its budget.

The third component of the Clean Water Project includes the reduction of nitrogen in the treatment facilities' effluent to meet the state general permit to reduce nitrogen to Long Island Sound. The current permit, effective January 1, 2016, maintains 2014 nitrogen discharge limits through 2018. New facilities are eligible for financing by the Clean Water Fund with a 30% grant and loan at 2% for the balance.

The Clean Water Project will address approximately one billion gallons of combined wastewater and storm water currently released each year to area waterways. The project is in response to an EPA SSO federal consent decree and a Connecticut DEEP CSO consent order to achieve the federal Clean Water Act goals. The District's goal is to maximize the funding of the entire project with State and Federal grants; the use of State and Federal low-cost loans, and then fund the remainder with open market debt. Project financing is expected to be repaid with a Special Sewer Service Surcharge to customers' water bills. The Special Sewer Service Surcharge is expected to increase annually up to a maximum, currently estimated at less than \$5.00 per hundred cubic feet of usage by Fiscal Year 2021, and then decline.

Cost Estimates

The total cost of the Clean Water Project was originally estimated to be approximately \$2.1 billion, comprised of three phases, and assumed to be completed in 2021, based on assumptions about, among other things, the design as originally conceived and the pace of design and construction and regulatory review and approval. Phase I features projects to control inflow and infiltration, sewer separation projects, projects to increase interceptors, and upgrades to the two treatment plants; it is nearing completion. Phase II features wet weather capacity improvements at the District's treatment plants and a large storage and conveyance tunnel in the south of the District (the South Tunnel). Phase III currently features a large storage and conveyance tunnel in the north of the District running down to the South Tunnel (the North Tunnel). This tunnel has not yet been designed or definitively located.

Generally speaking, appropriations for the cost of the Clean Water Project must be approved by referendum vote of the voters of the member municipalities. Effective October 1, 2015, P.A. 15-114 will exclude from the referendum requirement appropriations funded by federal or state grants. An \$800 million appropriation was approved at referendum on November 7, 2006. An appropriation for an additional \$800 million was approved at referendum on November 6, 2012. An appropriation of \$140 million for a grant, not requiring a referendum, was approved by the District Board on October 5, 2016. Completion of the Clean Water Project will require submission of one or more further appropriations for approval by voters. The District has made no determination as to when an additional referendum will be held. The District expects Phase I and Phase II will be completed within authorized appropriations, and to be placed in service without regard to the outcome of any additional referendum.

As the Clean Water Project has progressed, the District has revised the original design conception. The District has been able to refine certain design elements to achieve cost savings, has altered some aspects of the original design, and continues to examine the Clean Water Project for efficiencies that can be achieved through value engineering. The Long-Term Control Plan, which sets out the Project, was resubmitted in 2012 and revised further in 2015. It incorporates longer underground storage tunnels with greater capacity, and less sewer separation work, than the original conception, and sets forth a completion of Phase II in 2024 and Phase III in 2029. The revised plan was approved in April 2015. The delays occasioned by the redesign and permitting process, in particular with respect to the South Tunnel,

THE METROPOLITAN DISTRICT NOTES TO FINANCIAL STATEMENTS

now lead the District to expect an increase in projected costs of the Clean Water Project as a whole, but the District has not re-estimated the overall cost, in part because design and siting work for Phase III has not yet been conducted in sufficient detail. For planning purposes the District is currently projecting a total cost of the Project of \$2.5 billion.

Connecticut DEEP has confirmed that the District's next submission for an update to the Long Term Control Plan is in 2017. The District intends to comply with such request. Data from recent testing performed by the District indicates there are other sources of pollution affecting the North Branch of the Park River, which is causing the District to revisit the utility of the North Tunnel for its intended purposes and may result in the District proposing changes to its Long Term Control Plan.

The District was awarded a contract on June 30, 2016 for the South Tunnel and has entered into a funding agreement with the State of Connecticut for the bulk of the funding of the contract through grants and loans from the State's Clean Water Fund.

The District cannot give any assurances as to when the Clean Water Project will be completed or its total cost.

The District has issued to date \$225.0 million in Clean Water Project Revenue Bonds. The revenue bonds are being repaid from a portion of the Clean Water Project Charge (previously the Special Sewer Service Surcharge) and are not general obligations of the District.

Through December 31, 2016, the Clean Water Project has been funded through the issuance of long-term debt in the amount of \$578.6 million, which is comprised of \$282.4 million of Clean Water Fund Loans, \$71.2 million of General Obligation Bonds and \$225 million of Revenue Bonds.

B. Risk Management

The District is exposed to various risks of loss including torts; officers' and employees' liabilities; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for all risks of loss except those risks described in the next paragraph. The District established an internal service fund, the self-insurance fund, to account for and finance the retained risk of loss.

The District is self-insured for health care, workers' compensation claims up to \$500,000 for each accident, deductibles for property damage up to \$100,000 for each location, and general and automobile liability up to \$250,000 for each incident. Additionally, the District has provided for \$1 million of excess coverage for liability coverage with no limits for workers' compensation excess coverage. The self-insurance fund is primarily supported by contributions from the General Fund and the Water Utility Enterprise Fund. Administration for workers' compensation and general and auto liability claims is performed in-house and through third-party administrators whose administrative fees are paid by the self-insurance fund. Blue Cross and Blue Shield administer the District's medical insurance plan for which the District pays a fee. The medical insurance plan provides coverage for most District employees. The District has purchased a stop loss policy for total medical claims in any one year exceeding an aggregate of 110% of expected claims. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no reduction in any coverage during the year from that of the prior year.

The claims liability of \$5,506,871 for the self-insurance fund reported at December 31, 2016 is based on the requirements of GASB Statement No. 10, which requires that a liability for estimated claims incurred but not reported be recorded. The District's policy is to have an actuarial study performed annually.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that has been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example for salvage or subrogation, are another component of the claims liability estimate. Changes in the claims liability for the past two years are as follows:

		Accrued Liability Beginning of Fiscal Year		Current Year Claims and Changes in Estimates		Claim Payments		Accrued Liability End of Fiscal Year
2015	\$	4,916,178	\$	4,035,961	\$	3,457,760	\$	5,494,379
2016		5,494,379		13,185,617		13,173,125		5,506,871

C. Contingent Liabilities

Arbitrage

The District may be subject to rebate penalties to the federal government relating to various bond and note issues. The District expects such amounts, if any, to be immaterial.

Mid-Connecticut Project

The CRRA and the District entered into a contract dated December 31, 1984, which defined the responsibilities of both parties with respect to the Mid-Connecticut Resource Recovery Facility. The agreement detailed contractual obligations of the District with respect to the operation of the waste-processing facility, the transfer stations, the Hartford landfill and the waste processing facilities, as well as the contractual obligations of the CRRA to reimburse the Metropolitan District Commission (MDC) for direct and indirect costs incurred and indemnify the District for the services performed.

The term of the initial contract was for twenty-seven (27) years and the CRRA had the option to extend the contract for an additional twenty (20) years under the same terms and conditions. The contract terminated on December 30, 2011. The MDC has been displaced from the Mid-Connecticut Project and the CRRA has contracted with a private contractor.

As of December 30, 2011, there were 82 District employees directly assigned to manage, repair, maintain and/or operate the facilities and processes under the Mid-Connecticut Project. Through agreements with two of its three affiliated bargaining units, the District agreed to relocate vested employees (those over ten years of continuous service) into capital improvement projects. Between the two bargaining units, there were 37 employees with 10 years or more of continuous service. Of the 37 employees, 3 chose to retire with the remainder still actively employed.

As of December 30, 2011, there were 28 employees assigned to the Mid-Connecticut Project with less than 10 years of service. These employees were either re-assigned to existing operational budgeted positions or were placed on lay-off status.

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

The District and CRRA entered into binding arbitration to resolve liability for a dispute related to costs concerning termination of the CRRA contract and other disputed issues. Arbitration proceedings commenced on March 31, 2014. A decision on liability was issued on August 23, 2015.

The arbitration panel found CRRA liable for unpaid termination costs, unpaid retiree medical costs, unpaid pension costs, and for future retiree medical and pension for those individuals who retired from the plant during the last years of the project, 2010-2011.

The parties have exchanged claims of damage calculations and cannot agree on damages. The arbitration panel has convened and held hearings for the determination of damages in the months of November and December 2016, and February 2017. Testimony has concluded and both parties are in the process of preparing and exchanging briefs. Oral arguments are to be scheduled in July 2017 with a final ruling to be issued in the third quarter of 2017.

A receivable from CRRA is recognized in the Mid-Connecticut Project as disclosed in Note 3B.

Other

There are other various suits and claims pending against the District, none of which, individually or in the aggregate, is believed by counsel to be likely to result in judgment or judgments that could materially affect the District's financial position.

7. RESTATEMENT

The Governmental Activities and Business-Type Activities beginning net position were restated in order to properly record capital assets and debt as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Net position at December 31, 2015 as previously reported	\$ 613,571,771	\$ 220,670,449
Adjustments:		
Unrecorded transfer of capital assets from governmental activities to business-type activities	(44,801,588)	44,801,588
To accurately allocate cash from the issuance of bonds from business-type activities to governmental activities	16,067,777	(16,067,777)
To accurately update capital assets in governmental funds due to duplicate assets and settled CIP	<u>(1,305,907)</u>	<u> </u>
Net Position at January 1, 2016 as Restated	<u>\$ 583,532,053</u>	<u>\$ 249,404,260</u>

**THE METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

The fund financial statements beginning net position were restated as follows:

	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Water Utility Fund</u>
Net position at December 31, 2015 as previously reported	\$ (115,758,169) \$	4,222,495 \$	249,999,984
Adjustments:			
Unrecorded transfer of capital assets from governmental activities to business-type activities			44,801,588
To accurately allocate cash from the issuance of bonds from business-type activities to governmental activities	<u>16,039,625</u>	<u>28,152</u>	<u>(16,067,777)</u>
Net Position at January 1, 2016 as Restated	\$ <u><u>(99,718,544)</u></u> \$	<u><u>4,250,647</u></u> \$	<u><u>278,733,795</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**THE METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxation:				
Hartford	\$ 10,174,900	\$ 10,174,900	\$ 10,174,900	\$ -
East Hartford	4,762,000	4,762,000	4,762,000	-
Newington	3,508,400	3,508,400	3,508,400	-
Wethersfield	3,207,700	3,207,700	3,207,700	-
Windsor	3,404,700	3,404,700	3,404,700	-
Bloomfield	2,936,000	2,936,000	2,936,000	-
Rocky Hill	2,239,700	2,239,700	2,239,700	-
West Hartford	8,710,900	8,710,900	8,710,900	-
Total taxation	<u>38,944,300</u>	<u>38,944,300</u>	<u>38,944,300</u>	<u>-</u>
Sewer user fees:				
Bradley Airport - Hamilton - East Granby	375,000	375,000	1,070,604	695,604
Nonmunicipal - tax exempt	3,433,800	3,433,800	3,838,195	404,395
Hi-flow charges	1,200,000	1,200,000	2,106,767	906,767
Hi-strength	1,002,700	1,002,700	653,003	(349,697)
Penalties	5,000	5,000	42,255	37,255
Manchester	112,700	112,700	66,997	(45,703)
South Windsor	14,900	14,900	11,267	(3,633)
Farmington	79,800	79,800	263,459	183,659
Cromwell	4,900	4,900	4,437	(463)
CRRRA	120,000	120,000	71,201	(48,799)
Total	<u>6,348,800</u>	<u>6,348,800</u>	<u>8,128,185</u>	<u>1,779,385</u>
Sewer user rebates			<u>(591,378)</u>	<u>(591,378)</u>
Total sewer user fees	<u>6,348,800</u>	<u>6,348,800</u>	<u>7,536,807</u>	<u>1,188,007</u>
Intergovernmental:				
Sludge handling	3,900,000	5,900,000	5,314,109	(585,891)
Household hazardous waste	63,400	63,400	21,313	(42,087)
Total intergovernmental	<u>3,963,400</u>	<u>5,963,400</u>	<u>5,599,705</u>	<u>(363,695)</u>
Investment income	<u>30,000</u>	<u>30,000</u>	<u>72,125</u>	<u>42,125</u>

**THE METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Other revenues:				
Rental fees	\$ 5,000	\$ 5,000	\$ 6,389	\$ 1,389
Bill jobs	5,000	5,000	9,290	4,290
Developers	20,000	20,000	194,351	174,351
Payroll additives and indirect costs	5,000	5,000	5,910	910
Property rents	100,000	100,000	124,057	24,057
Septage/glycol discharge fees	930,400	2,251,300	1,293,017	(958,283)
Miscellaneous	10,759,300	10,759,300	12,350,352	1,591,052
Total other revenues	<u>11,824,700</u>	<u>13,145,600</u>	<u>13,983,366</u>	<u>837,766</u>
Total revenues	<u>61,111,200</u>	<u>64,432,100</u>	<u>66,136,303</u>	<u>1,704,203</u>
Other financing sources:				
Transfers in	<u>3,882,100</u>	<u>3,882,100</u>		<u>(3,882,100)</u>
Total Revenues and Other Financing Sources	<u>64,993,300</u>	<u>68,314,200</u>	<u>66,136,303</u>	<u>(2,177,897)</u>
Expenditures:				
General government:				
District Board	117,845	117,845	104,867	12,978
Executive office	326,781	326,781	326,393	388
Administrative services	106,330	106,330	71,302	35,028
Legal	960,743	960,743	951,015	9,728
Human resources	728,287	728,287	669,364	58,923
Information systems	2,336,367	2,478,267	2,567,119	(88,852)
Finance	2,742,432	2,742,432	2,421,629	320,803
Total general government	<u>7,318,785</u>	<u>7,460,685</u>	<u>7,111,689</u>	<u>348,996</u>
Engineering and planning	489,804	489,804	435,352	54,452
Operations:				
Environmental health and safety	445,508	445,508	381,334	64,174
Command Center	1,304,138	1,316,038	1,360,188	(44,150)
Chief Operating office	384,748	384,748	304,471	80,277
Operations	<u>2,718,200</u>	<u>2,718,200</u>	<u>2,326,964</u>	<u>391,236</u>
Total operations	<u>4,852,594</u>	<u>4,864,494</u>	<u>4,372,957</u>	<u>491,537</u>

**THE METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Plants and maintenance:				
Water pollution control	\$ 17,435,374	\$ 17,435,284	\$ 15,889,873	\$ 1,545,411
Laboratory services	861,360	861,360	793,084	68,276
Maintenance	5,671,897	5,671,897	5,449,093	222,804
Total plants and maintenance	<u>23,968,631</u>	<u>23,968,541</u>	<u>22,132,050</u>	<u>1,836,491</u>
Employee benefits and other:				
Employee benefits	4,985,900	8,469,850	8,491,909	(22,059)
General insurance	1,240,200	1,240,140	1,218,330	21,810
Special agreements and programs	1,272,300	1,386,300	1,324,431	61,869
Total employee benefits and other	<u>7,498,400</u>	<u>11,096,290</u>	<u>11,034,670</u>	<u>61,620</u>
Debt service:				
Principal	17,292,037	17,292,037	15,442,037	1,850,000
Interest	3,573,049	3,142,349	1,375,311	1,767,038
Total debt service	<u>20,865,086</u>	<u>20,434,386</u>	<u>16,817,348</u>	<u>3,617,038</u>
Total expenditures	<u>64,993,300</u>	<u>68,314,200</u>	<u>61,904,066</u>	<u>6,410,134</u>
Net Change in Fund Balance	\$ <u>-</u>	\$ <u>-</u>	4,232,237	\$ <u>4,232,237</u>
Budgetary expenditures are different than GAAP expenditures because:				
The District does not budget for allowance adjustments			<u>(4,175,386)</u>	
Net Change in Fund Balance as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds			\$ <u>56,851</u>	

THE METROPOLITAN DISTRICT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST THREE FISCAL YEARS*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 4,121,036	\$ 3,977,923	\$ 3,534,272
Interest	17,634,276	17,230,210	16,861,364
Differences between expected and actual experience	159,570	(348,426)	
Changes of assumptions		7,992,450	
Benefit payments, including refunds of member contributions	<u>(15,950,213)</u>	<u>(15,844,541)</u>	<u>(15,437,612)</u>
Net change in total pension liability	5,964,669	13,007,616	4,958,024
Total pension liability - beginning	<u>246,828,827</u>	<u>233,821,211</u>	<u>228,863,187</u>
Total pension liability - ending	<u>252,793,496</u>	<u>246,828,827</u>	<u>233,821,211</u>
Plan fiduciary net position:			
Contributions - employer	6,361,424	6,000,000	5,918,000
Contributions - member	2,247,072	2,255,825	2,160,885
Net investment income	13,824,703	3,637,492	13,864,280
Other income			102,351
Benefit payments, including refunds of member contributions	(15,950,213)	(15,844,541)	(15,448,154)
Administrative expense	<u>(109,687)</u>	<u>(35,213)</u>	<u>(46,896)</u>
Net change in plan fiduciary net position	6,373,299	(3,986,437)	6,550,466
Plan fiduciary net position - beginning	<u>194,914,098</u>	<u>198,900,535</u>	<u>192,350,069</u>
Plan fiduciary net position - ending	<u>201,287,397</u>	<u>194,914,098</u>	<u>198,900,535</u>
District's Net Pension Liability - Ending	<u>\$ 51,506,099</u>	<u>\$ 51,914,729</u>	<u>\$ 34,920,676</u>
Plan fiduciary net position as a percentage of the total pension liability	79.63%	78.97%	85.07%
Covered-employee payroll	\$ 43,972,101	\$ 42,655,811	\$ 41,460,234
Net pension liability as a percentage of covered-employee payroll	117.13%	121.71%	84.23%

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**THE METROPOLITAN DISTRICT
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 3,710,728	\$ 3,784,198	\$ 7,066,074	\$ 8,809,272	\$ 15,050,472	\$ 5,347,556	\$ 5,804,428	\$ 5,857,601	\$ 5,805,223	\$ 6,361,424
Contributions in relation to the actuarially determined contribution	<u>3,778,044</u>	<u>3,784,198</u>	<u>7,676,453</u>	<u>2,863,964</u>	<u>4,633,200</u>	<u>5,822,098</u>	<u>5,881,000</u>	<u>5,918,000</u>	<u>6,000,000</u>	<u>6,361,424</u>
Contribution Deficiency (Excess)	\$ <u>(67,316)</u>	\$ <u>-</u>	\$ <u>(610,379)</u>	\$ <u>5,945,308</u>	\$ <u>10,417,272</u>	\$ <u>(474,542)</u>	\$ <u>(76,572)</u>	\$ <u>(60,399)</u>	\$ <u>(194,777)</u>	\$ <u>-</u>
Covered-employee payroll	\$ 36,862,131	\$ 37,960,169	\$ 42,052,737	\$ 45,271,276	\$ 43,872,205	\$ 41,341,171	\$ 38,773,923	\$ 41,460,234	\$ 42,655,811	\$ 43,972,101
Contributions as a percentage of covered-employee payroll	10.25%	9.97%	18.25%	6.33%	10.56%	14.08%	15.17%	14.27%	14.07%	14.47%

Notes to Schedule

Valuation date: January 1, 2016
Measurement date: December 31, 2016
Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry Age Normal
Amortization method: Level percent, closed
Remaining amortization period: 17 years
Asset valuation method: 5-year asset average, spreading investment gains and losses
Inflation: 2.75%
Salary increases: 3.50%
Investment rate of return: 7.25%
Retirement age: Aged based rates
Turnover: Aged based rates
Mortality: RP-2000 Combined Mortality table blended 75% Blue Collar, 25% White Collar with generational projection per Scale AA

**THE METROPOLITAN DISTRICT
SCHEDULE OF INVESTMENT RETURNS
LAST THREE FISCAL YEARS***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	7.48%	1.58%	7.42%

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**THE METROPOLITAN DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION -
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll	
1/1/2009	\$	\$	160,119,431	\$ 160,119,431	0.00 %	n/a	n/a
1/1/2010			167,502,977	167,502,977	0.00	n/a	n/a
1/1/2011			218,824,953	218,824,953	0.00	n/a	n/a
1/1/2012	26,346,000	221,243,000	194,897,000	11.91	\$40,364,000	482.85%	
1/1/2014	26,429,875	203,045,491	176,615,616	13.02	\$41,092,089	429.80%	

Schedule of Employer Contributions

Year Ended December 31,	Required Contribution	Annual Percentage Contributed
2011	\$ 19,989,745	135.0 %
2012	14,301,000	55.5
2013	15,162,000	43.0
2014	15,755,000	41.3
2015	14,765,820	33.9
2016	15,642,795	32.0

n/a - The covered payroll is not available.

**THE METROPOLITAN DISTRICT
ASSESSABLE SEWER CONSTRUCTION CAPITAL PROJECTS FUND
SCHEDULE OF CHANGES IN ASSESSMENTS RECEIVABLE - CONNECTION CHARGE PROJECTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Year</u>	<u>Total Assessments Billed</u>	<u>Assessments Receivable January 1, 2016</u>	<u>Assessments Billed</u>	<u>Assessment Collections</u>	<u>Assessments Receivable December 31, 2016</u>	<u>Interest Collected</u>
2000	\$ 1,032,647	\$ 7,425	\$	\$ 1,355	\$ 6,070	\$ 299
2001	693,600	7,065		7,065	-	573
2002	1,349,465	47,880		25,231	22,649	2,999
2003	1,843,321	97,017		16,632	80,385	3,169
2004	1,155,681	36,812		5,501	31,311	1,930
2005	804,622	246,204		15,109	231,095	93,285
2006	1,786,053	25,291		1,813	23,478	759
2007	1,120,400	9,218		444	8,774	38
2008	1,108,907	77,866		7,216	70,650	4,353
2009	568,934	50,744		4,372	46,372	3,160
2010	895,500	311,165		24,096	287,069	18,129
2011	333,050	121,881		8,173	113,708	7,761
2012	139,933	64,227		3,829	60,398	4,067
2013	337,982	14,266		724	13,542	856
2014	99,496	63,620		1,994	61,626	2,526
2015	892,511	151,313		16,882	134,431	8,237
2016			2,138,838	1,919,005	219,833	
Total	\$ <u>14,162,102</u>	\$ <u>1,331,994</u>	\$ <u>2,138,838</u>	\$ <u>2,059,441</u>	\$ <u>1,411,391</u>	\$ <u>152,141</u>

**THE METROPOLITAN DISTRICT
ASSESSABLE SEWER CONSTRUCTION CAPITAL PROJECTS FUND
SCHEDULE OF CHANGES IN ASSESSMENTS RECEIVABLE - FLAT RATE PROJECTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Year</u>	<u>Total Assessments Billed</u>	<u>Assessments Receivable January 1, 2016</u>	<u>Assessments Billed</u>	<u>Assessment Collections</u>	<u>Assessments Receivable December 31, 2016</u>	<u>Interest Collected</u>
2000	\$ 597,575	\$ 20,427		\$ 52	\$ 20,375	\$ 5
2001	514,481	16,992		2,728	14,264	140
2002	375,756	7,679		1,021	6,658	126
2003	684,750	68,478		14,243	54,235	3,736
2004	714,634	75,918		8,484	67,434	1,817
2005	18,097	4,570		1,230	3,340	629
2006	258,777	13,353		1,914	11,439	801
2007	677,398	106,534		16,166	90,368	4,072
2008	113,301	70,578		9,490	61,088	6,042
2009	146,490	84,369		7,624	76,745	2,289
2010	219,724	46,276		8,536	37,740	1,796
2011	97,616	34,563		1,455	33,108	590
2012	53,935	33,538		289	33,249	299
2013		196,764		36,346	160,418	10,596
2014	380,405	39,626		1,781	37,845	1,369
2015	198,421					
2016						
Total	\$ 5,051,360	\$ 819,665	\$ -	\$ 111,359	\$ 708,306	\$ 34,307

**THE METROPOLITAN DISTRICT
COMBINING SCHEDULE OF NET POSITION - WATER UTILITY FUND
DECEMBER 31, 2016**

	<u>Water Operations</u>	<u>Water Capital</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 42,349,088	\$ (1,776,673)	\$ 40,572,415
Accounts receivable, net of allowance for uncollectibles	19,544,454	1,022,902	20,567,356
Due from other funds	436,924		436,924
Inventory	3,055,250		3,055,250
Prepaid items	739,457		739,457
Total current assets	<u>66,125,173</u>	<u>(753,771)</u>	<u>65,371,402</u>
Noncurrent assets:			
Capital assets, nondepreciable	10,181,885	244,250,451	254,432,336
Capital assets, net of accumulated depreciation	293,814,512		293,814,512
Total noncurrent assets	<u>303,996,397</u>	<u>244,250,451</u>	<u>548,246,848</u>
Total assets	<u>370,121,570</u>	<u>243,496,680</u>	<u>613,618,250</u>
Deferred outflows of resources:			
Difference between projected and actual earnings on pension plan investments	3,582,556		3,582,556
Change in pension assumptions	3,023,771		3,023,771
Difference between expected and actual pension plan experience	75,978		75,978
Deferred charge on refunding	1,402,340		1,402,340
Total deferred outflows of resources	<u>8,084,645</u>	<u>-</u>	<u>8,084,645</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	5,458,555	5,545,440	11,003,995
Customer advances for construction		2,899,265	2,899,265
Current portion of compensated absences	1,733,955		1,733,955
Current portion of bonds and loans payable	23,157,219		23,157,219
Total current liabilities	<u>30,349,729</u>	<u>8,444,705</u>	<u>38,794,434</u>
Noncurrent liabilities:			
Compensated absences	70,359		70,359
Bonds and loans payable after one year	271,591,934		271,591,934
Net pension liability	17,945,841		17,945,841
OPEB obligation	37,642,807		37,642,807
Total noncurrent liabilities	<u>327,250,941</u>	<u>-</u>	<u>327,250,941</u>
Total liabilities	<u>357,600,670</u>	<u>8,444,705</u>	<u>366,045,375</u>
Deferred inflows of resources:			
Difference between expected and actual pension plan experience	131,820		131,820
Net Position:			
Net investment in capital assets	10,649,584	244,250,451	254,900,035
Unrestricted	9,824,141	(9,198,476)	625,665
Total Net Position	<u>\$ 20,473,725</u>	<u>\$ 235,051,975</u>	<u>255,525,700</u>

**THE METROPOLITAN DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - WATER UTILITY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Water Operations</u>	<u>Water Capital</u>	<u>Total</u>
Operating Revenues:			
Water sales	\$ 71,187,491	\$	\$ 71,187,491
Miscellaneous	4,021,248		4,021,248
Total operating revenues	<u>75,208,739</u>	<u>-</u>	<u>75,208,739</u>
Operating Expenses:			
General government	9,687,755		9,687,755
Operations	12,381,049		12,381,049
Plants and maintenance	15,348,106		15,348,106
Employee benefits and other	26,294,873		26,294,873
Depreciation expense	11,872,958		11,872,958
Total operating expenses	<u>75,584,741</u>	<u>-</u>	<u>75,584,741</u>
Operating Income (Loss)	<u>(376,002)</u>	<u>-</u>	<u>(376,002)</u>
Nonoperating Revenues (Expenses):			
Investment income	40,783		40,783
Miscellaneous nonoperating revenue	2,130,684		2,130,684
Interest and fiscal charges	<u>(8,528,444)</u>		<u>(8,528,444)</u>
Net nonoperating revenues (expenses)	<u>(6,356,977)</u>	<u>-</u>	<u>(6,356,977)</u>
Income (Loss) Before Transfers, Grants and Contributions	<u>(6,732,979)</u>	<u>-</u>	<u>(6,732,979)</u>
Grants and Contributions:			
Capital grants		862,307	862,307
Capital contributions	11,423,008		11,423,008
Total grants and contributions	<u>11,423,008</u>	<u>862,307</u>	<u>12,285,315</u>
Transfers	<u>(64,913,077)</u>	<u>36,152,646</u>	<u>(28,760,431)</u>
Change in Net Position	(60,223,048)	37,014,953	(23,208,095)
Net Position at Beginning of Year, as Restated	<u>80,696,773</u>	<u>198,037,022</u>	<u>278,733,795</u>
Net Position at End of Year	<u>\$ 20,473,725</u>	<u>\$ 235,051,975</u>	<u>\$ 255,525,700</u>

**SUPPLEMENTAL, COMBINING
STATEMENTS AND SCHEDULES**

**THE METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL - BUDGETARY BASIS - WATER UTILITY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Sale of Water:				
Water Use Charges:				
Domestic	\$ 36,468,600	\$ 33,147,700	\$ 33,386,193	\$ 238,493
Commercial	11,318,300	11,318,300	11,492,155	173,855
Industrial	1,569,400	1,569,400	1,590,499	21,099
Public Authorities	3,072,000	3,072,000	2,997,029	(74,971)
Other Water Companies	1,303,400	1,303,400	1,672,641	369,241
Total water use charges	<u>53,731,700</u>	<u>50,410,800</u>	<u>51,138,517</u>	<u>727,717</u>
Service Charges:				
Domestic	17,383,100	17,383,100	17,487,349	104,249
Commercial	1,863,900	1,863,900	1,657,052	(206,848)
Industrial	344,400	344,400	278,541	(65,859)
Public Authorities	677,800	677,800	586,374	(91,426)
Other Water Companies	14,400	14,400	39,658	25,258
Total service charges	<u>20,283,600</u>	<u>20,283,600</u>	<u>20,048,974</u>	<u>(234,626)</u>
Total sale of water	<u>74,015,300</u>	<u>70,694,400</u>	<u>71,187,491</u>	<u>493,091</u>
Other Operating Revenues:				
Hydrant Maintenance	1,135,700	1,135,700	1,156,524	20,824
Fire Protection Services	1,828,000	1,828,000	1,780,239	(47,761)
Water Billing Penalties	700,000	700,000	941,195	241,195
Rental of Water Property	135,000	135,000	143,290	8,290
Total other operating revenues	<u>3,798,700</u>	<u>3,798,700</u>	<u>4,021,248</u>	<u>222,548</u>
Nonoperating Revenues:				
Other revenues:				
Forestry	260,000	260,000	256,993	(3,007)
Bill Job P/R & Materials	75,000	75,000	95,053	20,053
Developers P/R Material	65,000	65,000	104,416	39,416
Bill Job & Dev P/R Additives	30,000	30,000	44,534	14,534
Sale of Mat'l Equip	70,000	70,000	122,845	52,845
Main Pipe Assessments	80,000	80,000	64,801	(15,199)
Short Term Bill Jobs	75,000	75,000	171,659	96,659
Long Term Bill Jobs	350,000	350,000	407,203	57,203
Recreation Income	75,000	75,000	63,136	(11,864)
Collections & Liens	374,600	374,600	379,917	5,317
Contributed Capital Mains	3,500,000	3,500,000	3,871,137	371,137
CAC-Hydrant	15,000	15,000	10,700	(4,300)
CAC-High Pressure	1,000	1,000	2,898	1,898
NOR Other Misc	466,000	316,000	406,529	90,529
Total other revenues	<u>5,436,600</u>	<u>5,286,600</u>	<u>6,001,821</u>	<u>715,221</u>
Interest	<u>10,000</u>	<u>10,000</u>	<u>40,783</u>	<u>30,783</u>
Total nonoperating revenues	<u>5,446,600</u>	<u>5,296,600</u>	<u>6,042,604</u>	<u>746,004</u>
Contribution from fund balance	<u>1,033,500</u>	<u>1,183,500</u>		<u>(1,183,500)</u>
Total revenues	<u>84,294,100</u>	<u>80,973,200</u>	<u>81,251,343</u>	<u>278,143</u>

**THE METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL - BUDGETARY BASIS - WATER UTILITY FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Expenses:				
General government:				
District Board	\$ 122,655	\$ 122,655	\$ 109,169	\$ 13,486
Executive Office	340,119	340,119	109,201	230,918
Administrative Services	110,670	110,670	74,212	36,458
Legal	999,957	999,957	989,829	10,128
Human Resources	758,013	758,013	696,687	61,326
Information Systems	4,743,533	5,031,633	5,212,028	(180,395)
Finance	2,854,368	2,854,368	2,496,629	357,739
Total general government	<u>9,929,315</u>	<u>10,217,415</u>	<u>9,687,755</u>	<u>529,660</u>
Engineering & Planning	<u>509,796</u>	<u>509,796</u>	<u>435,291</u>	<u>74,505</u>
Operations:				
Command Center	2,531,562	2,554,662	2,640,361	(85,699)
Operations	8,154,600	8,154,600	7,697,613	456,987
Environmental Health and Safety	463,692	463,692	396,899	66,793
Operating Office	400,452	400,452	316,898	83,554
Total operations	<u>11,550,306</u>	<u>11,573,406</u>	<u>11,051,771</u>	<u>521,635</u>
Plants and maintenance:				
Water treatment and supply	8,724,400	8,725,600	8,252,068	473,532
Laboratory services	933,140	933,140	859,175	73,965
Maintenance	5,903,429	5,903,519	5,202,309	701,210
Patrol	1,653,100	1,651,900	1,651,200	700
Riverfront park system	1,050,900	920,898	770,862	150,036
Total plant and maintenance	<u>18,264,969</u>	<u>18,135,057</u>	<u>16,735,614</u>	<u>1,399,443</u>

**THE METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL - BUDGETARY BASIS - WATER UTILITY FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Employee benefits and other:				
Employee benefits	\$ 13,473,600	\$ 10,351,650	\$ 10,362,950	\$ (11,300)
General insurance	2,893,600	2,893,660	2,854,589	39,071
Taxes and Fees	3,010,000	3,030,000	3,029,194	806
Special agreements and programs	1,954,300	2,126,302	1,670,724	455,578
Total employee benefits and other	<u>21,331,500</u>	<u>18,401,612</u>	<u>17,917,457</u>	<u>484,155</u>
Debt Service				
Principal	13,722,797	13,629,870	13,628,189	1,681
Interest	8,985,417	8,506,044	8,480,435	25,609
Total Debt Service	<u>22,708,214</u>	<u>22,135,914</u>	<u>22,108,624</u>	<u>27,290</u>
Total expenses	<u>84,294,100</u>	<u>80,973,200</u>	<u>77,936,512</u>	<u>3,036,688</u>
Net Change in Net Position	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	3,314,831	\$ <u><u>3,314,831</u></u>

Budgetary expenses are different than GAAP expenses because:

Depreciation expenses are not recorded for budgetary basis, but are for GAAP	(11,872,958)
The District does not budget for transfers out	(28,760,431)
The District budgets for debt service principal payments	13,628,189
The District does not budget for allowance adjustments	(1,216,091)
The District does not budget for capital asset disposals	(165,399)
The District does not budget for changes in employee benefit liabilities	(8,377,416)
The District does not budget for capital project revenue and expenses	<u>10,241,180</u>

Net Change in Net Position as Reported on the Statement of Revenues,
Expenses and Changes in Net Position - Proprietary Funds \$ (23,208,095)

**THE METROPOLITAN DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET POSITION - PENSION AND
OTHER EMPLOYEE BENEFIT TRUST FUNDS
DECEMBER 31, 2016**

	<u>Pension Trust Fund</u>	<u>OPEB Trust Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 525,985	\$ 240,249	\$ 766,234
Accounts receivable	9,314,196	26,454,597	35,768,793
Investments, at fair value:			
Mutual funds	143,923,824		143,923,824
Investment in limited partnership	7,527,688		7,527,688
Guaranteed investment contracts	24,907,820		24,907,820
Real estate	15,101,048		15,101,048
Total assets	<u>201,300,561</u>	<u>26,694,846</u>	<u>227,995,407</u>
LIABILITIES			
Accounts payable	13,164		13,164
Retiree expense reimbursement payable		534,795	534,795
Total liabilities	<u>13,164</u>	<u>534,795</u>	<u>547,959</u>
NET POSITION			
Restricted for Pension and OPEB Benefits	\$ <u>201,287,397</u>	\$ <u>26,160,051</u>	\$ <u>227,447,448</u>

**THE METROPOLITAN DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - PENSION AND
OTHER EMPLOYEE BENEFIT TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Pension Trust Fund</u>	<u>OPEB Trust Fund</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 6,361,424	\$ 5,000,000	\$ 11,361,424
Plan members	2,247,072	670,956	2,918,028
Reimbursements		225,496	225,496
Total contributions	<u>8,608,496</u>	<u>5,896,452</u>	<u>14,504,948</u>
Investment earnings:			
Net change in fair value of investments	11,155,764		11,155,764
Interest and dividends	4,328,180		4,328,180
Total investment earnings	<u>15,483,944</u>	-	<u>15,483,944</u>
Less investment expenses:			
Investment management fees	<u>1,659,241</u>		<u>1,659,241</u>
Net investment earnings	<u>13,824,703</u>	-	<u>13,824,703</u>
Total additions	<u>22,433,199</u>	<u>5,896,452</u>	<u>28,329,651</u>
Deductions:			
Benefits	15,950,213	6,336,321	22,286,534
Administrative expense	<u>109,687</u>		<u>109,687</u>
Total deductions	<u>16,059,900</u>	<u>6,336,321</u>	<u>22,396,221</u>
Change in Net Position	6,373,299	(439,869)	5,933,430
Net Position at Beginning of Year	<u>194,914,098</u>	<u>26,599,920</u>	<u>221,514,018</u>
Net Position at End of Year	<u>\$ 201,287,397</u>	<u>\$ 26,160,051</u>	<u>\$ 227,447,448</u>

STATISTICAL SECTION

This part of the District's comprehensive annual report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the District's overall financial health.

Contents	Page
Financial Trends	81-84
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	
Revenue Capacity	85
This schedule contains information to help the reader assess the District's most significant local revenue source, taxation of member municipalities.	
Debt Capacity	86-88
These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	
Demographic and Economic Information	89
This schedule offers demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	
Operating Information	90-92
These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	

**THE METROPOLITAN DISTRICT
NET POSITION BY COMPONENT
LAST TEN YEARS
(Accrual Basis of Accounting)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Governmental Activities:										
Net investment in capital assets	\$ 586,568,408	\$ 484,901,567	\$ 455,295,358	\$ 404,221,698	\$ 376,209,555	\$ 357,567,083	\$ 341,313,990	\$ 310,716,811	\$ 339,628,992	\$ 327,496,469
Restricted			56,291,586	45,369,836	18,025,247		8,806,526			
Unrestricted	<u>79,129,891</u>	<u>97,312,929</u>	<u>32,965,610</u>	<u>41,240,029</u>	<u>44,461,431</u>	<u>47,256,621</u>	<u>10,697,400</u>	<u>42,617,412</u>	<u>11,577,347</u>	<u>(5,018,672)</u>
Total Governmental Activities Net Position	<u>\$ 665,698,299</u>	<u>\$ 582,214,496</u>	<u>\$ 544,552,554</u>	<u>\$ 490,831,563</u>	<u>\$ 438,696,233</u>	<u>\$ 404,823,704</u>	<u>\$ 360,817,916</u>	<u>\$ 353,334,223</u>	<u>\$ 351,206,339</u>	<u>\$ 322,477,797</u>
Business-Type Activities:										
Net investment in capital assets	\$ 262,043,055	\$ 267,745,071	\$ 256,080,877	\$ 255,929,765	\$ 258,683,886	\$ 251,051,504	\$ 237,803,287	\$ 232,648,584	\$ 121,705,641	\$ 220,142,573
Restricted			114,520	3,335,436	282,217		13,152,273			
Unrestricted	<u>(37,981,423)</u>	<u>(17,023,254)</u>	<u>(31,124,873)</u>	<u>(13,801,825)</u>	<u>14,004,932</u>	<u>21,695,117</u>	<u>1,672,390</u>	<u>19,096,222</u>	<u>132,175,390</u>	<u>33,322,058</u>
Total Business-Type Activities Net Position	<u>\$ 224,061,632</u>	<u>\$ 250,721,817</u>	<u>\$ 225,070,524</u>	<u>\$ 245,463,376</u>	<u>\$ 272,971,035</u>	<u>\$ 272,746,621</u>	<u>\$ 252,627,950</u>	<u>\$ 251,744,806</u>	<u>\$ 253,881,031</u>	<u>\$ 253,464,631</u>
Primary Government:										
Net investment in capital assets	\$ 848,611,463	\$ 752,646,638	\$ 711,376,235	\$ 660,151,463	\$ 634,893,441	\$ 608,618,587	\$ 579,117,277	\$ 543,365,395	\$ 461,334,633	\$ 547,639,042
Restricted			56,406,106	48,705,272	18,307,464		21,958,799			
Unrestricted	<u>41,148,468</u>	<u>80,289,675</u>	<u>1,840,737</u>	<u>27,438,204</u>	<u>58,466,363</u>	<u>68,951,738</u>	<u>12,369,790</u>	<u>61,713,634</u>	<u>143,752,737</u>	<u>28,303,386</u>
Total Primary Government Net Position	<u>\$ 889,759,931</u>	<u>\$ 832,936,313</u>	<u>\$ 769,623,078</u>	<u>\$ 736,294,939</u>	<u>\$ 711,667,268</u>	<u>\$ 677,570,325</u>	<u>\$ 613,445,866</u>	<u>\$ 605,079,029</u>	<u>\$ 605,087,370</u>	<u>\$ 575,942,428</u>

**THE METROPOLITAN DISTRICT
CHANGES IN NET POSITION
LAST TEN YEARS
(Accrual Basis of Accounting)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Expenses:										
Governmental activities:										
General government	\$ 13,683,241	\$ 12,337,881	\$ 12,784,187	\$ 9,524,064	\$ 8,866,521	\$ 10,129,598	\$ 16,761,948	\$ 15,293,399	\$ 5,516,662	\$ 5,777,636
Engineering and planning			877,678	486,626	255,872	1,586,506	3,679,780	2,242,238	1,798,273	3,014,020
Operations	25,441,446	6,151,830	8,614,482	5,439,460	6,622,431	6,412,930	11,384,916	10,659,623	6,793,093	9,476,097
Plants and maintenance	46,577,522	29,189,681	34,067,360	30,341,543	32,894,344	26,362,389	35,074,547	27,085,660	23,569,236	25,286,168
Water treatment and supply										1,979,974
Interest on long-term debt	24,217,631	19,489,920	16,263,466	13,271,555	7,936,484	7,608,354	5,515,611	4,615,043	3,810,761	4,026,409
Total governmental activities expenses	109,919,840	67,169,312	72,607,173	59,063,248	56,575,652	52,099,777	72,416,802	59,895,963	41,488,025	49,560,304
Business-type activities:										
Water	84,025,204	84,404,787	79,597,522	68,713,237	63,719,227	56,895,453	71,314,711	70,626,419	63,281,267	54,101,176
Hydroelectricity	827,100	479,326	394,359	345,431	402,924	321,966	363,741	447,432	375,156	433,989
Mid-Connecticut Project	1,793,246	761,311	2,166,557	6,091,844	11,400,744	27,696,462	21,526,912	17,978,766	15,728,127	18,165,810
Total business-type activities expenses	86,645,550	85,645,424	82,158,438	75,150,512	75,522,895	84,913,881	93,205,364	89,052,617	79,382,550	72,700,975
Total Primary Government Expenses	\$ 196,565,390	\$ 152,814,736	\$ 154,765,611	\$ 134,213,760	\$ 132,098,547	\$ 137,013,658	\$ 165,622,166	\$ 148,948,580	\$ 120,870,575	\$ 122,261,279
Program revenues:										
Governmental activities:										
Charges for services	\$ 70,629,736	\$ 61,592,665	\$ 63,885,662	\$ 47,300,004	\$ 41,434,212	\$ 40,448,907	\$ 34,784,065	\$ 25,750,098	\$ 21,913,460	\$ 17,761,744
Operating grants and contributions		3,992,310	1,039,223					27,047	12,459	116,176
Capital grants and contributions	51,301,142	32,768,216	26,927,807	26,506,324	12,949,510	20,498,331	16,547,463	11,823,989	12,150,267	7,444,860
Total governmental activities program revenues	121,930,878	98,353,191	91,852,692	73,806,328	54,383,722	60,947,238	51,331,528	37,601,134	34,076,186	25,322,780
Business-type activities:										
Charges for services	75,606,571	74,198,011	77,748,234	79,971,496	74,412,896	105,116,289	82,834,995	72,422,874	75,483,102	70,382,255
Capital grants and contributions	12,285,315	4,827,274	5,227,745	5,145,634	2,546,093	1,557,615	7,126,212	5,514,475	5,211,841	6,026,925
Total business-type activities program revenues	87,891,886	79,025,285	82,975,979	85,117,130	76,958,989	106,673,904	89,961,207	77,937,349	80,694,943	76,409,180
Total Primary Government Program Revenues	\$ 209,822,764	\$ 177,378,476	\$ 174,828,671	\$ 158,923,458	\$ 131,342,711	\$ 167,621,142	\$ 141,292,735	\$ 115,538,483	\$ 114,771,129	\$ 101,731,960
Net revenues (expenses):										
Governmental activities	\$ 12,011,038	\$ 31,183,879	\$ 19,245,519	\$ 14,743,080	\$ (2,191,930)	\$ 8,847,461	\$ (21,085,274)	\$ (22,294,829)	\$ (7,411,839)	\$ (24,237,524)
Business-type activities	1,246,336	(6,620,139)	817,541	9,966,618	1,436,094	21,760,023	(3,244,157)	(11,115,268)	1,312,393	3,708,205
Total Primary Government Net Expense	\$ 13,257,374	\$ 24,563,740	\$ 20,063,060	\$ 24,709,698	\$ (755,836)	\$ 30,607,484	\$ (24,329,431)	\$ (34,767,773)	\$ (6,099,446)	\$ (20,529,319)
General revenues and other changes in net position:										
Governmental activities:										
Sewer taxation - member municipalities	\$ 38,944,300	\$ 37,446,400	\$ 36,156,600	\$ 34,799,400	\$ 33,493,200	\$ 32,360,500	\$ 30,967,000	\$ 30,967,000	\$ 32,670,177	\$ 30,966,992
Miscellaneous	1,864,076	116,577	1,540,335	54,771	8,337					
Unrestricted investment earnings	586,401	272,361	207,637	393,677	245,269	278,854	323,425	363,110	890,911	1,268,716
Transfers	28,760,431		1,556,735	2,144,402	2,317,653	2,518,973	(2,721,458)	(6,907,397)	2,579,293	2,485,748
Total governmental activities	70,155,208	37,835,338	39,461,307	37,392,250	36,064,459	35,158,327	28,568,967	24,422,713	36,140,381	34,721,456
Business-type activities:										
Miscellaneous	2,130,684	2,204,726	5,661,124	2,160,605	1,010,677	770,949	1,306,793	1,878,317	1,192,004	1,280,974
Unrestricted investment earnings	40,783	15,338	138,537	110,747	95,296	106,672	99,050	193,329	491,296	481,139
Transfers	(28,760,431)		(1,556,735)	(2,144,402)	(2,317,653)	(2,518,973)	2,721,458	6,907,397	(2,579,293)	(2,485,748)
Total business-type activities	(26,589,964)	2,220,064	4,242,926	126,950	(1,211,680)	(1,641,352)	4,127,301	8,979,043	(895,993)	(723,635)
Total Primary Government	\$ 43,566,244	\$ 40,055,402	\$ 43,704,233	\$ 37,519,200	\$ 34,852,779	\$ 33,516,975	\$ 32,696,268	\$ 33,401,756	\$ 35,244,388	\$ 33,997,821
Change in net position:										
Governmental activities	\$ 82,166,246	\$ 69,019,217	\$ 58,706,826	\$ 52,135,330	\$ 33,872,529	\$ 44,005,788	\$ 7,483,693	\$ 2,127,884	\$ 28,728,542	\$ 10,483,932
Business-type activities	(25,342,628)	(4,400,075)	5,060,467	10,093,568	224,414	20,118,671	883,144	(2,136,225)	416,400	2,984,570
Total Primary Government	\$ 56,823,618	\$ 64,619,142	\$ 63,767,293	\$ 62,228,898	\$ 34,096,943	\$ 64,124,459	\$ 8,366,837	\$ (8,341)	\$ 29,144,942	\$ 13,468,502

THE METROPOLITAN DISTRICT
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
General Fund:										
Reserved	\$	\$	\$	\$	\$	\$	\$ 3,353,277	\$ 3,464,034	\$ 3,273,412	\$ 3,434,598
Unreserved							11,510,930	12,755,389	15,126,572	11,967,934
Nonspendable	3,047,848	2,987,472	2,654,631	1,980,172	1,387,243	1,749,997				
Assigned				891,949	573,120	2,423,443				
Unassigned	<u>14,498,170</u>	<u>14,501,695</u>	<u>14,040,267</u>	<u>12,585,122</u>	<u>14,665,371</u>	<u>10,895,466</u>				
Total General Fund	<u>\$ 17,546,018</u>	<u>\$ 17,489,167</u>	<u>\$ 16,694,898</u>	<u>\$ 15,457,243</u>	<u>\$ 16,625,734</u>	<u>\$ 15,068,906</u>	<u>\$ 14,864,207</u>	<u>\$ 16,219,423</u>	<u>\$ 18,399,984</u>	<u>\$ 15,402,532</u>
All other governmental funds:										
Reserved	\$	\$	\$	\$	\$	\$	\$ 187,105,451	\$ 99,584,027	\$ 102,385,771	\$ 34,445,117
Unreserved, reported in:										
Capital projects funds							(175,377,657)	(137,631,418)	(117,059,121)	(56,115,846)
Undesignated fund balance										
Nonspendable	183,283	319,960	17,034	19,951	42,748	3,193				
Restricted	129,078,070	155,110,707	149,816,144	20,450,646	79,566,079	59,080,014				
Committed	50,808,229	2,637,663	3,310,650	3,141,343	10,286,298	8,309,465				
Unassigned	<u>(76,526,304)</u>	<u>(102,328,055) *</u>	<u>(114,364,898)</u>	<u>(101,036,586)</u>	<u>(227,346,425)</u>	<u>(108,722,305)</u>				
Total All Other Governmental Funds	<u>\$ 103,543,278</u>	<u>\$ 55,740,275</u>	<u>\$ 38,778,930</u>	<u>\$ (77,424,646)</u>	<u>\$ (137,451,300)</u>	<u>\$ (41,329,633)</u>	<u>\$ 11,727,794</u>	<u>\$ (38,047,391)</u>	<u>\$ (14,673,350)</u>	<u>\$ (21,670,729)</u>

* Restated in current year

The District implemented GASB No. 54 in fiscal year 2011, which changed the District's method of reporting governmental fund balance.

THE METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS
LAST TEN YEARS
(Modified Accrual Basis of Accounting)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:										
Taxation - member municipalities	\$ 38,944,300	\$ 37,446,400	\$ 36,156,600	\$ 34,799,400	\$ 33,493,200	\$ 32,360,500	\$ 30,967,000	\$ 30,967,000	\$ 32,670,177	\$ 30,966,992
Assessments	2,312,965	1,332,938	1,603,914	1,085,603	504,330	715,456	984,133	1,131,637	1,387,523	2,345,764
Sewer user fees	60,242,461	54,093,916	57,226,390	43,062,080	35,225,903	28,120,415	22,811,162	16,185,424	10,837,597	4,390,879
Intergovernmental revenues	55,232,126	39,706,369	29,610,377	26,439,377	16,312,586	26,571,263	22,343,556	17,420,010	16,588,057	13,982,442
Investment income	586,401	272,361	207,637	393,677	245,269	278,854	323,311	363,110	890,911	1,268,716
Other local revenues	4,022,343	2,473,789	4,051,117	1,807,930	2,254,580	5,704,035	4,597,069	1,878,382	2,967,692	2,675,916
Total revenues	<u>161,340,596</u>	<u>135,325,773</u>	<u>128,856,035</u>	<u>107,588,067</u>	<u>88,035,868</u>	<u>93,750,523</u>	<u>82,026,231</u>	<u>67,945,563</u>	<u>65,341,957</u>	<u>55,630,709</u>
Expenditures:										
Current:										
General government	3,918,725	5,471,054	4,824,078	4,071,317	4,114,155	7,463,935	8,074,234	10,105,415	4,902,564	4,322,023
Engineering and planning			247,304	36,396	118,517	1,124,966	1,781,538	1,401,698	1,481,110	1,418,756
Operations	6,343,886	1,447,931	1,432,213	1,802,090	1,679,661	3,281,022	3,307,062	3,446,176	2,827,880	2,430,307
Plants and maintenance	17,673,827	17,002,752	16,780,068	19,078,105	21,555,352	20,001,916	21,805,352	18,243,576	20,922,437	20,269,789
Employee benefits and other	11,034,670	7,196,385	8,900,673	8,435,751	8,183,275	8,388,095	7,443,301	5,323,916	6,889,633	6,798,102
Debt service:										
Principal retirement	32,141,853	28,706,882	22,808,465	19,193,477	13,865,151	12,675,029	9,794,024	28,034,682	49,007,742	113,210,735
Interest	25,398,643	22,011,825	15,323,178	11,792,099	8,025,733	7,830,669	3,924,785	4,381,890	3,811,487	4,188,484
Refunding bond issuance costs										
Capital outlay	228,529,877	160,991,417	172,024,423	163,835,773	157,029,034	131,973,877	118,885,296	67,160,895	35,560,980	34,170,587
Total expenditures	<u>325,041,481</u>	<u>242,828,246</u>	<u>242,340,402</u>	<u>228,245,008</u>	<u>214,570,878</u>	<u>192,739,509</u>	<u>175,015,592</u>	<u>138,098,248</u>	<u>125,403,833</u>	<u>186,808,783</u>
Deficiency of revenues over expenditures	<u>(163,700,885)</u>	<u>(107,502,473)</u>	<u>(113,484,367)</u>	<u>(120,656,941)</u>	<u>(126,535,010)</u>	<u>(98,988,986)</u>	<u>(92,989,361)</u>	<u>(70,152,685)</u>	<u>(60,061,876)</u>	<u>(131,178,074)</u>
Other financing sources (uses):										
Bond proceeds	85,331,650	39,070,781	167,578,000	126,838,000			102,485,491		35,885,000	78,055,000
Refunding bond proceeds	18,301,300		9,931,648				10,660,856			
Payment to refunded bond escrow agent	(21,140,765)		(10,757,266)				(11,887,289)			
Loan obligation proceeds	91,409,817	66,766,625	36,841,772	40,364,999	29,162,137	43,228,154	33,315,254	39,050,838	31,592,415	14,866,682
Bond premium	5,933,457	3,352,904	24,934,481	9,952,391			3,092,978			200,335
Premium on refunding bonds	2,964,849		840,228				1,350,507			
Transfers in	80,984,336	52,502,525	36,915,679	46,793,697	36,778,838	30,834,857	22,091,689	41,625,512	56,153,928	120,649,219
Transfers out	(52,223,905)	(52,502,525)	(35,358,944)	(44,433,983)	(33,970,804)	(27,936,753)	(19,700,156)	(36,078,267)	(53,574,635)	(118,163,471)
Total other financing sources	<u>211,560,739</u>	<u>109,190,310</u>	<u>230,925,598</u>	<u>179,515,104</u>	<u>31,970,171</u>	<u>46,126,258</u>	<u>141,409,330</u>	<u>44,598,083</u>	<u>70,056,708</u>	<u>95,607,765</u>
Net change in fund balances	47,859,854	1,687,837	117,441,231	58,858,163	(94,564,839)	(52,862,728)	48,419,969	(25,554,602)	9,994,832	(35,570,309)
Fund balance at beginning of year	<u>73,229,442</u>	<u>71,541,605</u> *	<u>(61,697,403)</u>	<u>(120,825,566)</u>	<u>(26,260,727)</u>	<u>26,592,001</u>	<u>(21,827,968)</u>	<u>3,726,634</u>	<u>(6,268,198)</u>	<u>29,302,111</u>
Fund Balance at End of Year	<u>\$ 121,089,296</u>	<u>\$ 73,229,442</u>	<u>\$ 55,743,828</u>	<u>\$ (61,967,403)</u>	<u>\$ (120,825,566)</u>	<u>\$ (26,270,727)</u>	<u>\$ 26,592,001</u>	<u>\$ (21,827,968)</u>	<u>\$ 3,726,634</u>	<u>\$ (6,268,198)</u>
Debt Service as a Percentage to Noncapital Expenditures	49.22%	63.02%	50.10%	50.95%	36.69%	32.58%	21.79%	37.41%	66.78%	77.06%
Total Debt Service	\$ 57,540,496	\$ 50,718,707	\$ 38,131,643	\$ 30,985,576	\$ 21,890,884	\$ 20,505,698	\$ 13,718,809	\$ 32,416,572	\$ 52,819,229	\$ 117,399,219
Capitalized capital outlay	(208,127,036)	(162,349,655)	(166,226,160)	(167,432,856)	(153,268,996)	(133,071,304)	(112,066,626)	(51,446,406)	(46,313,950)	(34,461,526)
Noncapital expenditures	116,914,445	80,478,591	76,114,242	60,812,152	59,668,205	62,948,966	62,948,966	86,651,842	79,089,883	152,347,257

* Restated in current year

**THE METROPOLITAN DISTRICT
DISTRIBUTION OF ANNUAL TAX LEVY
LAST TEN FISCAL YEARS**

Year	Hartford	East Hartford	Newington	Wethersfield	Windsor	Bloomfield	Rocky Hill	West Hartford	Total Tax Levy
2016	26.13 % \$ 10,174,900	12.23 % \$ 4,762,000	9.01 % \$ 3,508,400	8.24 % \$ 3,207,700	8.74 % \$ 3,404,700	7.54 % \$ 2,936,000	5.75 % \$ 2,239,700	22.36 % \$ 8,710,900	\$ 38,944,300
2015	27.50 10,298,600	11.99 4,490,100	8.78 3,287,300	8.07 3,022,000	8.61 3,222,600	7.35 2,752,400	5.75 2,153,700	21.95 8,219,700	37,446,400
2014	28.69 10,374,400	11.65 4,213,200	8.66 3,132,300	7.81 2,824,400	8.61 3,111,900	7.23 2,612,500	5.78 2,089,100	21.57 7,798,800	36,156,600
2013	28.61 9,955,500	11.39 3,964,500	8.66 3,014,900	7.92 2,756,900	8.70 3,026,500	7.43 2,584,900	5.78 2,011,100	21.51 7,485,100	34,799,400
2012	28.28 9,472,000	11.51 3,856,000	8.62 2,888,200	8.01 2,682,500	8.83 2,956,200	7.43 2,488,900	5.80 1,941,700	21.52 7,207,700	33,493,200
2011	27.96 9,046,600	11.65 3,769,700	8.64 2,794,700	8.10 2,619,900	8.94 2,893,400	7.41 2,399,000	5.78 1,869,100	21.52 6,968,100	32,360,500
2010	27.82 8,614,800	12.13 3,757,200	8.49 2,628,400	8.11 2,510,900	8.93 2,766,400	7.33 2,268,900	5.71 1,769,500	21.48 6,650,900	30,967,000
2009	27.61 8,548,800	12.53 3,880,800	8.49 2,628,500	8.05 2,493,500	8.90 2,757,000	7.35 2,276,400	5.62 1,740,000	21.45 6,642,000	30,967,000
2008	27.48 8,977,292	13.10 4,279,675	8.37 2,736,475	7.89 2,578,602	8.90 2,906,641	7.25 2,368,120	5.57 1,818,790	21.44 7,004,582	32,670,177
2007	27.07 8,382,912	13.34 4,130,459	8.42 2,607,841	7.77 2,406,436	9.14 2,831,717	7.19 2,226,432	5.50 1,702,366	21.57 6,678,829	30,966,992

Source: Tax warrants served on member towns.

**THE METROPOLITAN DISTRICT
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Year	Governmental Activities			Business-Type Activities		Total Outstanding Debt	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Clean Water Fund Loans	Revenue Bonds	General Obligation Bonds	Drinking Water Fund Loans			
2016	\$ 280,392,899	\$ 271,229,833	\$ 216,810,000	\$ 222,847,090	\$ 42,229,928	\$ 1,033,509,750	8.90%	\$ 3,073
2015	208,159,425	274,299,755	220,490,000	179,515,564	40,354,346	922,819,090	6.81%	2,284
2014	226,563,565	222,701,991	224,000,000	120,661,852	28,789,597	822,717,005	6.56%	1,892
2013	184,968,258	197,977,858	85,000,000	103,271,314	20,602,949	591,820,379	4.89%	1,385
2012	149,882,258	168,874,722		85,226,038	6,671,780	410,654,798	2.84%	856
2011	156,274,915	145,865,280		90,204,432	7,099,177	399,443,804	2.78%	810
2010	164,135,447	107,390,105		95,192,638	7,643,837	374,362,027	3.74%	864
2009	65,769,440	78,706,869		58,974,909	5,821,724	209,272,942	2.20%	518
2008	74,691,338	62,317,514		59,395,968	5,125,632	201,530,452	2.20%	512
2007	43,545,385	47,742,100		17,024,725	5,527,909	113,840,119	1.20%	278

**THE METROPOLITAN DISTRICT
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Debt limit	\$ 1,243,899,020	\$ 1,211,556,756	\$ 1,196,077,656	\$ 1,189,228,048	\$ 1,219,419,892	\$ 1,201,875,400	\$ 1,178,347,055	\$ 1,154,369,393	\$ 1,105,210,831	\$ 1,043,324,745
Total net debt applicable to limit	<u>907,121,893</u>	<u>721,360,548</u>	<u>508,198,906</u>	<u>587,681,341</u>	<u>560,433,771</u>	<u>436,356,760</u>	<u>244,650,935</u>	<u>205,972,050</u>	<u>138,286,198</u>	<u>135,256,808</u>
Legal Debt Margin	<u>\$ 336,777,127</u>	<u>\$ 490,196,208</u>	<u>\$ 687,878,750</u>	<u>\$ 601,546,707</u>	<u>\$ 658,986,121</u>	<u>\$ 765,518,640</u>	<u>\$ 933,696,120</u>	<u>\$ 948,397,343</u>	<u>\$ 966,924,633</u>	<u>\$ 908,067,937</u>
Total net debt applicable to the limit as a percentage of debt limit	72.93%	59.54%	42.49%	49.42%	45.96%	36.31%	20.76%	17.84%	12.51%	12.96%

Note: The State of Connecticut General Statutes require that in no event shall the total debt of the District exceed 5% of the combined grand list of District member municipalities. The calculation of the 2016 debt limit can be found on page 88 of this report.

**THE METROPOLITAN DISTRICT
SCHEDULE OF DEBT LIMITATION AND LEGAL DEBT MARGIN
DECEMBER 31, 2016**

Schedule of Debt Limitation

Combined 2016 Grand List of Member Municipalities of the District		\$ <u>24,877,980,395</u>
Debt Limit, 5% thereof		\$ 1,243,899,020
Total Outstanding Debt, December 31, 2016:		
Water General Obligation Bonds	\$ 161,269,776	
DWSRF Project Loan Obligations	42,229,928	
Sewer General Obligation Bonds	159,370,382	
CWF Project Loan Obligations	28,557,064	
Clean Water Project General Obligation Bonds (B)	61,860,000	
Clean Water Project Revenue Bonds (B)	216,810,000	
Clean Water Project CWF Project Loan Obligations (B)	242,672,770	
Combined General Obligation Bonds	<u>120,739,830</u>	
Total Direct-Long-Term Indebtedness	<u>1,033,509,750</u>	
Water DWSRF Interim Funding Obligation	13,478,657	
Sewer CWF Interim Funding Obligation	<u>355,499,160</u>	
Total Direct Short-Term Indebtedness	<u>368,977,817</u>	
Total Direct Indebtedness	<u>1,402,487,567</u>	
Less Outstanding Debt Not Subject to Debt Limitation:		
Water Bonds (A)	161,269,776	
DWSRF Project Loan Obligations	42,229,928	
DWSRF Interim Funding Obligations	13,478,657	
Water's Share of Combined General Obligation Bonds	61,577,313	
June 2013 Clean Water Project Revenue Bonds (B)	82,000,000	
November 2014 Clean Water Project Revenue Bonds (B)	<u>134,810,000</u>	
Total Outstanding Debt Not Subject to Debt Limitation	<u>495,365,674</u>	
Total Debt Subject to Debt Limitation		<u>907,121,893</u>
Excess of Charter Debt Limitation Over Outstanding Debt		<u>\$ 336,777,127</u>

(A) The District's Charter does not limit its borrowing capacity for water purposes, but limits its capacity for nonwater purposes to 5% of the combined grand lists of its member municipalities. The nature of this limitation requires the aggregation of obligations which normally appear in separate account groups.

(B) In accordance with Title 7, Section 374b of the Connecticut General Statutes, indebtedness, incurred by the District for the supply of electricity, or issued in anticipation of receipt of proceeds from assessments which have been levied upon property benefited by any public improvement, is not subject to limitation.

(C) In the above schedule, Interim Funding Obligations are considered short-term indebtedness. For GAAP purposes, these are included as long-term indebtedness.

**THE METROPOLITAN DISTRICT
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

Fiscal Year	Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2016	365,289	\$ 12,663,972,174	\$ 295,802	41.5	55,234	6.1%
2015	365,981	12,523,432,263	293,688	41.5	53,358	6.8%
2014	366,406	12,413,213,231	290,142	41.5	53,860	8.2%
2013	366,019	12,268,736,278	287,401	41.6	53,899	9.6%
2012	366,257	12,179,338,907	279,414	41.6	54,782	10.2%
2011	365,806	11,873,222,604	267,322	41.2	54,914	10.8%
2010	357,481	10,984,855,488	254,695	40.8	56,909	11.3%
2009	359,148	10,210,369,834	239,300	40.6	56,748	10.0%
2008	359,133	10,873,492,578	242,186	40.5	57,206	7.0%
2007	358,711	10,570,069,407	236,347	40.7	57,424	5.9%

Sources:

Town CAFRs

Department of Labor

Any information not contained in CAFRs was taken from the 2000 or 2010 Census

**THE METROPOLITAN DISTRICT
 FULL-TIME EQUIVALENT GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Officials/administrators	34	32	33	31	34	34	40	40	40	31
Other administrative	32	33	35	34	36	39	44	45	56	64
Professional/technical	170	174	172	167	172	186	210	206	151	138
Protective service	8	8	9	9	9	15	9	9	9	7
Skilled craft, service/maintenance	<u>265</u>	<u>275</u>	<u>275</u>	<u>278</u>	<u>289</u>	<u>315</u>	<u>354</u>	<u>360</u>	<u>375</u>	<u>361</u>
Total	<u>509</u>	<u>522</u>	<u>524</u>	<u>519</u>	<u>540</u>	<u>589</u>	<u>657</u>	<u>660</u>	<u>631</u>	<u>601</u>

Notes: A full-time employee is scheduled to work 1,950 or 2,080 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours by 1,950 or 2,080.

Source: MDC SAP Report as compared to budget report

**THE METROPOLITAN DISTRICT
WATER OPERATING INDICATORS BY FUNCTION/PROGRAM AND CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN YEARS**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<u>Water Operations</u>										
Miles of water mains added	1.56	2.10	5.58	2.00	1.00	(2.00)	2.61	3.00	2.33	3.92
Total miles of water mains	1,553	1,551	1,549	1,543	1,541	1,540	1,542	1,539	1,536	1,534
Water connections made	101,599	101,446	101,217	102,669	102,449	102,324	102,034	101,678	101,124	100,598
Average daily consumption (millions of gallons)	39.7	40.07	42.02	40.25	42.27	41.95	44.18	42.1	44.64	46.98
Maximum consumption (millions of gallons daily)	71.94	70.09	69.59	71.84	74.68	87.06	88.65	70.87	75.22	78.38
Minimum consumption (millions of gallons daily)	39.9	37.57	38.46	35.85	35.19	42.69	40.1	41.97	44.23	42.69
Number of hydrants	10,197	11,238	11,484	11,238	11,178	11,146	9,162	9,029	8,915	8,784
Number of meters	102,987	101,400	102,828	103,340	103,125	102,895	102,807	100,378	100,022	99,600
Plant capacity (millions of gallons)	126	126	126	126	126	105	105	105	105	105

Source: MDC Budgets

**THE METROPOLITAN DISTRICT
SEWER OPERATING INDICATORS BY FUNCTION/PROGRAM AND CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Sewer Operations</u>										
Miles of sewer mains added	1.57	2.89	2.80	3.37	2.29	(0.22)	0.57	3.06	2.11	3.36
Total miles of sanitary sewers	1,088.57	1,087.47	1,084.04	1,081.24	1,077.87	1,075.58	1,076.15	1,075.58	1,073.34	1,071.23
Miles of combined sewers	159	159	160	160	160	160	160	160	160	160
Miles of storm sewers	79	79	76	76	73	72	72	72	71	71
Sewer connections made	90,728	90,566	90,666	90,220	90,035	89,969	89,866	113,901	113,077	112,600
Average daily flow (millions of gallons)	56.71	67.50	64.83	65.88	58.77	60.00	64.40	73.78	78.35	64.70
Estimated sewer connections	90,728	90,566	90,666	90,220	90,035	89,969	89,866	113,901	113,077	112,600
Plant capacity (millions of gallons)	105	105	105	105	105	105	105	105	105	105
<u>Mid-Connecticut Project</u>										
Tons of municipal solid waste processed/year	0	0	0	0	0	806,259	792,562	798,406	766,786	741,363
Average tons processed/week	0	0	0	0	0	15,505	15,242	15,354	14,746	14,257

Source: MDC Budgets

Note: In 2016, the methodology used to compute the number of estimated sewer connections was changed. Previous years were also restated.