

THE MATTABASSETT DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2010

THE MATTABASSETT DISTRICT

JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Mattabassett District
Cromwell, CT

We have audited the accompanying financial statements of the business-type activity of The Mattabassett District, as of and for the year ended June 30, 2010, which comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity as of June 30, 2010, and the respective changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010, on our consideration of the District's internal control over financial reporting on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management Discussion and Analysis on pages two (2) through six (6) and the Assets Using the Modified Approach on Page 17, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise The Mattabasset District's basic financial statements. The accompanying financial information listed as a supplemental schedule in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Castanho Financial Group, LLC

Castanho Financial Group, LLC
December 3, 2010

THE MATTABASSETT DISTRICT
NEW BRITAIN – BERLIN – CROMWELL
REGIONAL SEWER AUTHORITY

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MANAGEMENTS' DISCUSSION AND ANALYSIS

As management of The Mattabasset District, we offer readers of The Mattabasset District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$67,741,981.
- The District's total net assets increased by \$1,144,724. This increase is attributable substantially to the purchase of capital assets and engineering design for the expansion of nitrogen treatment.
- The District's operating expenses in 2010 were \$496,964 higher than 2009 in part to engineering and administrative expense.
- Operating revenues increased by \$279,350 (4.1 %) due to a modest increase in costs for member municipalities and sludge management.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to The Mattabasset District's basic financial statements. The District's basic financial statements comprise two components: government-wide financial statements and the notes to the basic 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 assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 fiscal periods (e.g., earned but unused vacation leave).

Fund Financial Statements. The fund financial statements present current year's revenues and expenses which are accounted for in the statement of revenues, expenses, and changes in net assets.

Management's Discussion and Analysis (continued)

This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered its costs through member assessments, contractual charges, and charges for services.

Notes to the Basic 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.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of The Mattabasset District, assets exceeded liabilities by \$67,741,981 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings and improvements, sewer treatment system and general plant, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

**THE MATTABASSETT DISTRICT
NET ASSETS**

	<u>2010</u>	<u>2009</u>
Current and Other Assets	\$ 3,123,428	\$ 2,681,307
Capital Assets	68,152,005	64,864,484
Total Assets	71,275,433	67,545,791
Long-Term Liabilities Outstanding	2,560,703	130,970
Other Liabilities	972,749	817,564
Total Liabilities	3,533,452	948,534
Net Assets:		
Invested in Capital Assets (Net of related debt)	65,408,669	64,464,484
Restricted	-	84,220
Unrestricted	2,333,312	2,048,553
TOTAL NET ASSETS	\$ 67,741,981	\$ 66,597,257

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

The District's net assets increased by \$1,144,742 during the current fiscal year, the amount to which increases in revenues have exceeded similar increases in expenses.

Management's Discussion and Analysis (continued)

**THE MATTABASSETT DISTRICT
CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
OPERATING REVENUES:		
Assessments:		
Member Municipalities	\$ 4,715,853	\$ 4,406,502
Contractual Towns	826,021	869,772
Charges for Services:		
Septage/Liquids/Grease	344,545	335,412
Sludge Management	1,057,441	1,048,645
Other Revenues	20,343	24,522
TOTAL OPERATING REVENUES	<u>6,964,203</u>	<u>6,684,853</u>
OPERATING EXPENSES:		
Administration	895,295	796,622
Operating	2,136,629	2,139,121
Maintenance	1,002,825	1,169,566
Nitrogen Treatment	660,959	
Utilities	1,768,960	1,877,589
Depreciation	47,880	32,686
TOTAL OPERATING EXPENSES	<u>6,512,548</u>	<u>6,015,584</u>
OPERATING INCOME (LOSS)	<u>451,655</u>	<u>669,269</u>
NON-OPERATING REVENUES (EXPENSES):		
Clean Water Fund Grant –Nitrogen Treatment	660,959	-
Investment Income	32,110	96,103
NET NONOPERATING REVENUES (EXPENSES)	<u>693,069</u>	<u>96,103</u>
CHANGE IN NET ASSETS	1,144,724	765,372
NET ASSETS - JULY 1	66,597,257	65,831,885
NET ASSETS - JUNE 30	<u>\$ 67,741,981</u>	<u>\$ 66,597,257</u>

Management's Discussion and Analysis (continued)

Operating revenues increased by \$279,350 (4.1) during the year. The increase was the net effect of the following:

- Assessments increased by \$265,600 due to increase in expenses and special assessment on One town
- Charges for services increased by \$13,749 due to an increase in sludge and septage revenues.
- Operating expenses increased by \$496,964 due to engineering costs for the Nitrogen Removal Facility.
- Maintenance expense decreased by \$166,741 due to a decrease of major repairs.
- Utilities expense decreased by \$108,629 due in part to the streamlining of the nitrogen process and replacement of natural gas boiler/heater.

Capital Assets and Debt Administration

Capital Assets. The District's investment in capital assets as of June 30, 2010 amounts to \$68,152,004 (net of accumulated depreciation). This investment in capital assets includes land, sewer treatment system, equipment, and vehicles. The total increase in the District's investment in capital assets for the current fiscal year was five percent (5.1 %).

Major capital asset events during the current fiscal year included the following:

- **New Lab/Maintenance Building High Efficiency Gas Fired Boiler for \$20,750, repair of the Webster Brook Trunk Sewer Bridge Crossing for \$145,300, Sebeth Drive Sewer Bridge Crossing for \$271,000, Scum Grinder for \$17,888, Engineering Design on upgraded Nitrogen Removal System for \$5,100,000 and new Process Monitors, Meters, and Pumps.**

**THE MATTABASSETT DISTRICT
CAPITAL ASSETS – NET**

	2010	2009
Land	\$ 100,000	\$ 100,000
Wastewater Treatment Facility	67,745,804	64,500,594
Equipment	203,475	143,696
Vehicles	102,725	120,194
TOTAL	\$ 68,152,004	\$ 64,864,484

The District has adopted the modified approach (an alternative to depreciation) for the sewer treatment system. Under this approach, the District implements a program to maintain assets at a certain condition level and, therefore, is not required to record depreciation expense on these assets. Details on the assets being accounted for under the modified approach can be found in the Required Supplementary Information.

Management's Discussion and Analysis (continued)

Economic Factors and Next Year's Budgets and Rates

- Inflationary trends in the region compare favorably to national indices.
- The Engineering Design will be completed in January 2011 for the upgrade to the Nitrogen Removal System. The construction of these improvements is estimated at \$100,000,000 with the DEP clean water fund providing 22.9% (\$22,900,000) and a remaining loan amount of \$77,100,000. Additional monies from Federal sources are being pursued. The annual bond payment without additional funding is estimated at \$4,715,000 per year.

All of these factors were considered when setting rates for the 2011 fiscal year.

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 District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, The Mattabassett District, 245 Main Street, Cromwell, CT 06416.

**THE MATTABASETT DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010**

ASSETS

Current Assets:	
Cash	\$ 192,164
Investments	2,239,114
Accounts Receivable (Net)	158,841
Inventory	431,775
Total Current Assets	3,021,894
 Noncurrent Assets:	
Member Town Assessment Receivable	101,534
 Capital Assets - Utility Plant (Net):	
Land	100,000
Wastewater Treatment Facility	67,745,804
Equipment	203,475
Vehicles	102,725
Total Capital Assets - Utility Plant (Net)	68,152,004
 Total Noncurrent Assets	 68,253,538
 TOTAL ASSETS	 71,275,433

LIABILITIES

Current Liabilities:	
Accounts Payable	927,519
Accrued Liabilities	11,385
Compensated Absences	33,845
Total Current Liabilities	972,749
 Noncurrent Liability:	
Compensated Absences	135,380
Clean Water Fund Loan Payable	2,225,323
Bond Anticipation Note Payable	200,000
TOTAL LIABILITIES	3,533,452

NET ASSETS

Invested in Capital Assets (Net of related debt)	65,408,669
Unrestricted	2,333,312
TOTAL NET ASSETS	\$ 67,741,981

**MATTABASSETT DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

OPERATING REVENUES:

Assessments:

Member Municipalities	\$	4,715,853
Contractual Towns		826,021

Charges for Services:

Septage/Liquids/Grease	344,545
Sludge Management	1,057,441
Other Revenues	20,343

TOTAL OPERATING REVENUES

6,964,203

OPERATING EXPENSES:

Administration	895,295
Operating	2,136,629
Maintenance	1,002,825
Nitrogen Treatment	660,959
Utilities	1,768,960
Depreciation	47,880

6,512,548

TOTAL OPERATING EXPENSES

451,655

OPERATING INCOME (LOSS)

NONOPERATING REVENUES (EXPENSES):

Investment Income	32,110
Grant Revenue-Nitrogen Treatment	660,959

693,069

NET NONOPERATING REVENUES (EXPENSES)

CHANGE IN NET ASSETS

1,144,724

NET ASSETS - JULY 1, 2009

66,597,257

NET ASSETS - JUNE 30, 2010

\$ 67,741,981

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

**THE MATTABASSETT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 1,473,939
Receipts from Member and Contractual Towns	5,541,874
Payments to Suppliers	(3,609,610)
Payments to Employees	(1,749,908)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,656,295
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants Received	660,959
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
State of Connecticut, DEP Loan	2,225,324
Bond Anticipation Note Receipt	200,000
Payment Bond Anticipation Note	(400,000)
Interest paid on Bond Anticipation Note	(10,969)
Acquisition and Construction of Capital Assets	(3,811,570)
CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(1,797,215)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment Income	32,110
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	552,149
CASH AND CASH EQUIVALENTS - JULY 1, 2009	1,879,129
CASH AND CASH EQUIVALENTS - JUNE 30, 2010	\$ 2,431,278
RECONCILIATION TO CASH:	
CASH AND CASH EQUIVALENTS PER ABOVE	\$ 2,431,278
CASH AND CASH EQUIVALENTS REPORTED AS INVESTMENTS	(2,239,114)
CASH (INCLUDING RESTRICTED CASH)	\$ 192,164
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ 1,144,724
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:	
Depreciation	47,460
(Increase) Decrease in	
Accounts Receivable	76,165
Inventory	18
Member Town Assessment	33,845
Grant Receivable	
Increase (Decrease) in:	
Accounts Payable	583,327
Accrued Liabilities	1,393
Member Town Assessment Payable	(30,637)
Bond Anticipation Notes Payable	(200,000)
Total Adjustments	511,571
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 1,656,295

**THE MATTABASSETT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. History and Organization

The Mattabassett District is a unique institution formed by the State Legislature in 1961 to provide wastewater treatment in a more efficient and cost effective manner to its three constituent communities, New Britain, Berlin, and Cromwell, than they could have independently, as well as adjoining communities in its watershed. Currently this includes portions of Farmington, Middletown, Newington, and Rocky Hill.

In addition to its headquarters and waste water treatment facility located at 245 Main Street in Cromwell, Connecticut, the District has: an 8.5 mile trunk sewer which collects all of the communities' waste and transports it to the treatment facility; an ash landfill; and, a state-of-the-art outfall and diffuser system in the Connecticut River.

The District's connection to the communities is the volunteer Board of Directors, appointed by the three constituent towns served by the District: New Britain, Berlin, and Cromwell. This 12 member Board meets monthly to provide guidance, oversight, and financial control to the operation. The Board has four standing committees (Finance, Engineering, Personnel, and Property Management) that interact regularly with the management staff and report back to the full Board.

b. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses, and changes in net assets) report information on all of the District's activities. The Mattabassett District is a business-type activity, which relies on member assessment fees and charges for services.

The statement of revenues, expenses, and changes in net assets demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

c. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The District has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Notes to Financial Statements (continued)

Note 1: Organization and Summary of Significant Accounting Policies (continued)

The principal operating revenues of the District are assessments (user fees) to member towns, charges to contractual towns and charges for sludge, septage, liquid and grease disposal. Operating expenses for the District include the cost of operations, maintenance, utilities, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

d. Assets, Liabilities and Net Assets or Equity

1. Cash and Investments

The District's cash and cash equivalents consist of cash on hand, demand deposits, money market accounts, and short-term investments with original maturities of three (3) months or less from the date of acquisition.

The District's eligible investments are governed by State of Connecticut Statutes which, in general, allow the District to invest in obligations of the United States of America, or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision, rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. Investment income is recorded in the fund in which it is earned.

Investments for the District are reported at fair value. State Treasurers Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statute's 3-27c-3-27e. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares.

2. Accounts Receivables

Accounts receivables are shown net of an allowance for uncollectibles. The allowance percentage for June 30, 2010 is three percent (3%) of outstanding receivable balances, calculated based upon prior collections.

3. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000 for equipment, and an estimated useful life in excess of two (2) years. Such assets are recorded at historical or estimated historical cost whether purchased or constructed. Donated capital assets are recorded 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 the asset or materially extend assets lives are not capitalized.

Mattabassett District Notes to Financial Statements (continued)

Note 1: Organization and Summary of Significant Accounting Policies (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Equipment and vehicles of the District are depreciated using the straight-line method over the following useful lives:

<u>Asset Type</u>	<u>Years</u>
Equipment	5-20
Vehicles	10-18

The District has adopted the modified approach (an alternative to depreciation) for the wastewater treatment facility. Under this approach, the District implements a program to maintain assets at a certain level and, therefore, is not required to record depreciation expense. Details on the assets being accounted for under the modified approach can be found in the Required Supplementary Information.

In order to utilize the modified approach, the District is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the District.
- Document that the assets are being preserved approximately at, or above, the established condition level.

4. Compensated Absences

Employees of the District earn sick leave which can accumulate, and vacation leave based on the provisions of negotiated contracts or other personnel policies.

Vacation leave vests with the employee, and sick time is payable only upon retirement up to specific limits.

5. Inventories

Inventories, which consist of supplies and materials, are valued at moving weighted average cost.

6. Fund Equity and Net Assets

Mattabassett District
Notes to Financial Statements (continued)

In the government-wide financial statements, net assets are classified into the following categories:

Invested in Capital Assets, Net of Related Debt. – This category represents the net assets that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purposes is excluded.

The District currently has outstanding a bond anticipation note for \$200,000 issued March 31, 2010, with a maturity date of March 31, 2011. This note is held by TD Bank, N.A.

Restricted Net Assets – This category represents the net assets restricted by external parties (creditors, grantors, contributors or laws and regulations). This amount is restricted for capital and nonrecurring expenses.

Unrestricted Net Assets – This category represents the net assets of the District, which are not restricted. This amount also represents the general fund net assets.

7. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including disclosures of contingent assets and liabilities and reported revenues, expenses and expenditures during the fiscal year.

II. DETAILED NOTES

Note 2: Cash and Investments

a. Deposits – Custodial Credit Risk

Custodial credit risk is risk that, in the event of a bank failure, the District's deposits may not be returned. FDIC Deposit insurance limit will remain at \$250,000 per account until December 31, 2010. As of June 30, 2010, \$723,483 of the District's bank balance of \$2,065,285 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	651,433
Uninsured and collateral held by the pledging banks		
Trust department, not in the District's name		<u>72,050</u>
Total amount subject to custodial credit risk	\$	723,483

At June 30, 2010, the District's investments consisted of the following types and maturities. Specific identification was used to determine the maturities.

TYPE OF INVESTMENT		FAIR VALUE		INVESTMENT MATURITIES LESS THAN 1 YEAR
Certificates of Deposit	\$	2,167,064	\$	2,167,064
Pooled Fixed Income		59,909		59,909
Money Market		12,141		12,141
TOTAL	\$	2,239,114	\$	2,239,114

Mattabassett District Notes to Financial Statements (continued)

Note 5: Change in Long-Term Obligations

a. Compensated Absences

	<u>Balance</u> <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Current</u> <u>Portion</u>
Compensated Absences	\$ 163,713	\$ 191,992	\$ 186,480	\$ 169,255	\$ 33,845

b. Statutory Debt Limitations

The District does not exceed the legal debt limitations as required by Connecticut General Statutes.

Note 6: Risk Management

The District is exposed to various risks of loss including torts; theft of, damage to and destruction of assets; errors and omissions; and injuries to employees; natural disaster; and officer and director liability. The District generally obtains commercial insurance for these risks; settled claims have not exceeded commercial coverage in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

Note 7: Pension Plans

Municipal Employees' Retirement Fund

a. Plan Description

All employees of the District participate in the Municipal Employees' Retirement System (MERS). MERS is a cost-sharing, multiple employer public employee retirement system (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide pension benefits for the employees of participating municipalities. MERS is considered to be a part of the State of Connecticut's financial reporting entity and is included in the State's financial reports as a Pension Trust Fund. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State of Connecticut Retirement and Benefit Services Division, Office of the State Controller, 55 Elm Street, Hartford, CT 06106.

b. Plan Provisions

Plan provisions are set by Statute of the State of Connecticut. MERS provides retirement benefits, as well as death and disability benefits. Annual cost of living increases between 3% and 5% are paid to disabled members and non-disabled retired members who have reached age 65. All benefits vest after 5 years of continuous service. Members who retire after age 55 with 10 years of continuous service or after 25 years of service, irrespective of age, are entitled to an annual retirement benefit, payable monthly for life.

- If not covered by Social Security, 2% of the average of earnings for the three (3) highest paid years of service.

Mattabassett District Notes to Financial Statements (continued)

- If covered by Social Security, 1-1/6% of the average of earnings not in excess of the taxable wage base for ten (10) highest paid years, plus 2% of the average of earnings for the three (3) highest paid years of service which is in excess of the average of earnings, not in excess of the taxable wage base for the ten (10) highest paid years.

c. Funding Policy

Covered employees are required by State Statute to contribute 2-1/4% of earnings upon which Social Security tax is paid plus 5% of earnings on which no Social Security tax is paid. Each participating municipality is required to contribute the amounts necessary to finance the remaining costs of the plan.

The required and actual contributions for the past three (3) years were as follows:

<u>YEAR ENDING JUNE 30,</u>	
2008	120,021
2009	130,033
2010	160,649

Note 8: Grants & Loans

The Mattabassett District received funding for the detailed design of the Nitrogen Removal Upgrade and Related Improvements to the existing wastewater treatment facility. Construction of this upgrade to the facility will allow "The District" to comply with EPA / DEP 2014 Long Island Sound Nitrogen Removal Standards. Phase One(Engineering Design) will be completed in January 2011 and comprises a grant from the DEP Clean Water Fund for a maximum of \$1,136,985 and a low interest loan (2%) of \$3,963,015. At June 30, 2010 The District had received grant payments of \$ 660,959 and loans of \$2,225,324. The estimated cost of the total project is \$100,000,000, with the Clean Water Fund providing a grant for construction of 22.9% or \$22,900,000. The District is working on getting additional funding through various sources both Federal & State. If additional grant monies do not become available, the District will fund the balance of the project through a Clean Water Fund Loan at 2% for 20 years. The annual bond payment is estimated at \$4,715,000 per year.

**THE MATTABASSETT DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
ASSETS USING THE MODIFIED APPROACH
WASTEWATER TREATMENT PLANT AND COLLECTION SYSTEM**

The District manages its wastewater treatment facility, trunk sewer and outfall systems using its MP2 Maintenance Program, in house inspections, and third party inspections, and accounts for them using the modified approach.

The condition rating is based upon the manufacturer's recommended life expectancy versus age of equipment, hours of operation, visual observations, and repair frequency. The trunk sewer and outfall are considered deficient when they no longer can, respectfully, carry the required raw wastewater and treated effluent. The wastewater treatment facility is considered in need of upgrade when its current technology becomes outdated, its capacity needs to be increased to accommodate increased wastewater flows from its served communities, and/or the Connecticut Department of Environmental Protection directs it to provide a higher level of treatment (i.e. provide nitrogen removal treatment to protect Long Island Sound).

It is the District's policy to maintain the wastewater treatment facility's equipment, trunk sewer, and outfall at good or better condition. The most recent condition assessments show that the condition of the wastewater treatment facility, trunk sewer, and outfall systems is in compliance with the District's policy. Actual maintenance and preservation costs were more than estimated by approximately 50 to 100% due to increases in raw materials (i.e. steel).

**CONDITION ASSESSMENT FOR SEWER TREATMENT SYSTEM
PERCENTAGE OF SEWER TREATMENT SYSTEM IN GOOD OR BETTER CONDITION**

EQUIPMENT TYPE	2010	2009	2007	2006
Plant Equipment	95%	86%	80%	70%
Trunk Sewer and Outfall	95%	95%	100%	100%

PERCENTAGE OF SEWER TREATMENT SYSTEM IN SUBSTANDARD CONDITION

EQUIPMENT TYPE	2010	2009	2007	2006
Plant Equipment	05%	14%	20%	30%
Trunk Sewer and Outfall	05%	5%	0%	0%

COMPARISON OF ESTIMATED-TO-ACTUAL MAINTENANCE/PRESERVATION

	2010	2009	2008	2007
ESTIMATED	\$529,000	\$527,000	\$502,000	\$487,000
ACTUAL	\$439,804	\$637,416	\$523,433	\$489,855

**THE MATTABASSETT DISTRICT
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH BUDGET
ADMINISTRATIVE EXPENDITURES:			
Insurance	\$ 100,000	\$ 85,696	\$ 14,304
Engineering	75,000	74,801	199
Legal	80,000	83,914	(3,914)
Accounting	15,000	14,930	70
Training	32,000	22,392	9,608
Board	4,000	2,411	1,589
Business Services	50,000	44,092	5,908
Permit Fees	60,000	59,685	315
Office Supplies	10,000	9,544	456
Miscellaneous	9,000	9,356	(356)
TOTAL ADMINISTRATIVE EXPENDITURES	435,000	406,821	28,179
EMPLOYEE EXPENDITURES:			
Salaries & Wages	1,813,901	1,807,955	(6,778)
Overtime & Meals	74,231	78,522	(4,291)
Shift Differential	18,080	16,867	1,213
Workers' Comp	60,000	63,303	(3,303)
Medical & Dental/etc	447,349	406,678	40,671
Life	8,556	6,872	1,684
Unemployment	9,000	-	9,000
Retirement Benefits	158,488	175,659	(17,171)
Miscellaneous Employee Benefits	24,495	16,088	8,407
TOTAL EMPLOYEE EXPENDITURES	2,607,322	2,571,322	35,378
DEPARTMENT EXPENDITURES			
OPERATIONS DEPARTMENT:			
Operations Supplies	55,353	33,132	(20,353)
Cleaning Supplies	10,000	6,580	2,886
Chemicals	500,000	565,615	(65,615)
Electricity	1,780,000	1,665,698	114,302
Fuel: Natural Gas & Oil	120,000	103,262	16,738
Portable Water	40,000	38,791	1,209
Gasoline & Diesel	6,000	7,251	(1,251)
Sludge Disposal	42,000	47,534	(5,534)
Ash Handling	60,000	58,900	1,100
TOTAL OPERATIONS DEPARTMENT	2,593,000	2,473,287	119,713

(Continued)

MAINTENANCE DEPARTMENT:

Plant Maintenance Supplies	\$ 240,000	\$ 97,805	\$ (142,195)
Lubricants	14,000	13,139	861
Plant Maintenance Services	200,000	161,946	38,054
Buildings & Grounds	75,000	51,895	23,105

TOTAL MAINTENANCE DEPARTMENT

	529,000	439,804	89,196
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LABORATORY DEPARTMENT:

Laboratory Supplies	15,000	12,908	2,092
Laboratory Services	25,000	23,734	1,266

TOTAL LABORATORY DEPARTMENT

	<u>40,000</u>	<u>36,642</u>	<u>3,358</u>
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CONTINGENCIES:

Contingencies	85,000	25,711	59,289
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CAPITAL EXPENDITURES:

Capital Outlay, General, Solids, Incinerator	4,040,000	3,366,254	673,246
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TOTAL EXPENDITURES

\$	<u>10,329,322</u>	\$	<u>9,323,362</u>	\$	<u>1,005,960</u>
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RECONCILIATION TO ACCRUAL:

TOTAL EXPENDITURES PER ABOVE	\$ 9,323,362
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DEPRECIATION EXPENSE	47,880
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CHANGE IN INVENTORY	<u>18</u>
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TOTAL EXPENSES	\$ <u>9,371,260</u>
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CAPITAL ASSET ADDITIONS CAPITALIZED FROM CAPITAL OUTLAY ABOVE	<u>(2,858,712)</u>
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BALANCE AT JUNE 30, 2010	\$ <u>6,512,548</u>
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CASTANHO

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
The Mattabassett District
Cromwell, CT

We have audited the basic financial statements of The Mattabassett District, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated December 3, 2010.

This report is intended solely for the information and use of management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Castanho Financial Group, LLC

December 3, 2010