

THE MATTABASSETT DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2012

THE MATTABASSETT DISTRICT

JUNE 30, 2012

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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, 2012, which comprise the District's basic financial statements as listed in the table of contents. These 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall 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 respective financial position of the business-type activity as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages two (2) through six (6) and the Assets Using the Modified Approach on Page 18, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Mattabassett District's financial statements as a whole. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Castanho Financial Group, LLC

Castanho Financial Group, LLC
November 2, 2012

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

BRIAN W. ARMET, P.E.
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MANAGEMENTS' DISCUSSION AND ANALYSIS

As management of The Mattabassett District, we offer readers of The Mattabassett District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$70,587,126.
- The District's total net assets increased by \$1,114,537. 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 2012 were \$637,289 higher than 2011 due to an increase in capital outlay, increase in chemicals, wages, retirement benefits, other employee benefits and insurances.
- Operating revenues increased by \$158,528 (2.1%) due to a modest increase in costs for member municipalities.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to The Mattabassett District's financial statements. The District's financial statements comprise two components: government-wide financial statements and the notes to the financial statements. This report also contains other supplementary information in addition to the 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.

Managements' 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 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 \$70,587,126 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>2012</u>	<u>2011</u>
Current and Other Assets	\$ 2,499,091	\$ 3,334,055
Capital Assets	73,870,202	70,317,837
Total Assets	76,369,293	73,651,892
Long-Term Liabilities Outstanding	3,343,283	3,600,244
Other Liabilities	2,438,884	579,058
Total Liabilities	5,782,167	4,179,302
Net Assets:		
Invested in Capital Assets (Net of related debt)	68,809,228	66,840,891
Unrestricted	1,777,898	2,631,698
TOTAL NET ASSETS	\$ 70,587,126	\$ 69,472,589

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 \$1,114,537 during the current fiscal year, the amount to which increases in revenues have exceeded similar increases in expenses.

Managements' Discussion and Analysis (continued)

**THE MATTABASSETT DISTRICT
CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
OPERATING REVENUES:		
Assessments:		
Member Municipalities	\$ 5,099,869	\$ 4,851,856
Contractual Towns	830,382	791,071
Charges for Services:		
Septage/Liquids/Grease	416,405	358,280
Sludge Management	983,750	1,215,486
Other Revenues	95,157	50,342
TOTAL OPERATING REVENUES	<u>7,425,563</u>	<u>7,267,035</u>
OPERATING EXPENSES:		
Administration	1,019,861	912,824
Operating	2,430,655	1,793,366
Maintenance	1,080,624	1,014,950
Nitrogen Treatment-Grant	0	698,099
Utilities	1,666,272	1,778,923
Depreciation	64,484	57,524
TOTAL OPERATING EXPENSES	<u>6,261,896</u>	<u>6,255,686</u>
OPERATING INCOME	<u>1,163,667</u>	<u>1,011,349</u>
NON-OPERATING REVENUE (EXPENSE) :		
Clean Water Fund Grant –Nitrogen Treatment	0	698,099
Interest Expense	(67,438)	0
Interest Income	18,308	21,160
NET NONOPERATING REVENUE (LOSS)	<u>(49,130)</u>	<u>719,259</u>
CHANGE IN NET ASSETS	1,114,537	1,730,608
NET ASSETS - JULY 1	<u>69,472,589</u>	<u>67,741,981</u>
NET ASSETS - JUNE 30	<u>\$ 70,587,126</u>	<u>\$ 69,472,589</u>

Managements' Discussion and Analysis (continued)

Operating revenues increased by \$158,528 (2.1%) during the year. The increase was the net effect of the following:

- Assessments increased by \$287,324 due to increase in expenses and special assessment on one (1) town.
- Charges for services decreased by \$128,796 due to prior year being a banner year. Veolia Water's and Synagro were diverting loads to The Mattabasset District because the facilities were shut down for repairs.
- Operating expenses increased by \$6,210 due to increase in inventory, increase in licenses and permits, and a decrease in the nitrogen grant reimbursement of the nitrogen removal facility upgrade.
- Maintenance expense increased by \$65,674 due to an increase in repairs.
- Utilities expense decreased by \$112,651 due to a decrease in transmission charges.

Capital Assets and Debt Administration

Capital Assets The District's investment in capital assets as of June 30, 2012 amounts to \$73,870,202 (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 almost five percent (4.81%).

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

Engineering Design on upgraded Nitrogen Removal System for \$3,457,649 and new Process Monitors, Meters, Pumps, and other Equipment at a cost of \$159,200, which are subject to depreciation.

**THE MATTABASSETT DISTRICT
CAPITAL ASSETS – NET**

	2012	2011
Land	\$ 100,000	\$ 100,000
Wastewater Treatment Facility	73,309,569	69,851,920
Equipment	382,213	269,245
Vehicles	78,420	96,671
TOTAL	\$ 73,870,202	\$ 70,317,836

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.

Managements' Discussion and Analysis (continued)

Economic Factors and Next Year's Budgets and Rates

- Inflationary trends in the region compare favorably to national indices.
- The DEP Clean Water Fund Loan annual loan payments for the Nitrogen Upgrade Engineering Design of Phase One, completed in 2011. For Fiscal Year 2012-2013 principal and interest payments will be \$236,577.
- The Construction Phase or Phase Two of the Nitrogen Upgrade and Capacity Expansion's Bids came in at \$93,487,320. Work began in mid April 2012 and is projected to be completed in June of 2015. As of June 30, 2012, 3.285% of the project work has been completed. Total project costs, construction, engineering, inspection, and legal are still estimated at \$100,000,000 of which 23.3% will be covered by a CWF Grant and 76.7% will be a CWF Loan at 2% over 20 years. The annual bond payment for the loan is estimated at \$4,715,000 per year.

All of these factors were considered when the rates for the 2012-2013 fiscal year were set.

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, 2012**

ASSETS

Current Assets:

Cash	\$	266,632
Investments		1,497,338
Accounts Receivable (Net)		126,421
Inventory		574,856
Total Current Assets		2,465,247

Noncurrent Assets:

Member Town Assessment Receivable		33,844
		33,844

Capital Assets - Utility Plant (Net):

Land		100,000
Wastewater Treatment Facility		73,309,569
Equipment		382,213
Vehicles		78,420
Total Capital Assets - Utility Plant (Net)		73,870,202

Total Capital and Noncurrent Assets		73,904,046
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TOTAL ASSETS		76,369,293
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LIABILITIES

Current Liabilities:

Accounts Payable		2,353,699
Accrued Liabilities		53,408
Compensated Absences		31,777
Total Current Liabilities		2,438,884

Noncurrent Liability:

Compensated Absences		127,108
Clean Water Fund Loan Payable		3,216,175
		3,216,175

TOTAL LIABILITIES		5,782,167
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NET ASSETS

Invested in Capital Assets (Net of related debt)		68,809,228
Unrestricted		1,777,898
		70,587,126

TOTAL NET ASSETS	\$	70,587,126
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**THE MATTABASSETT DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

OPERATING REVENUES:

Assessments:

Member Municipalities	\$ 5,099,869
Contractual Towns	830,382

Charges for Services:

Septage/Liquids/Grease	416,405
Sludge Management	983,750
Other Revenues	95,157

TOTAL OPERATING REVENUES

7,425,563

OPERATING EXPENSES:

Administration	1,019,861
Operating	2,430,655
Maintenance	1,080,624
Utilities	1,666,272
Depreciation	64,484

TOTAL OPERATING EXPENSES

6,261,896

OPERATING INCOME

1,163,667

NONOPERATING REVENUE (EXPENSE) :

Interest Income	18,308
Interest Expense	(67,438)

NET NONOPERATING (EXPENSE)

(49,130)

CHANGE IN NET ASSETS

1,114,537

NET ASSETS - JULY 01, 2011

69,472,589

NET ASSETS - JUNE 30, 2012

\$ 70,587,126

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, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 1,586,886
Receipts from Member and Contractual Towns	5,930,251
Payments to Suppliers	(2,333,877)
Payments to Employees	<u>(1,943,842)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,239,418
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Bond Anticipation Note Payment	(260,771)
Interest paid on Bond Anticipation Note	(67,438)
Acquisition and Construction of Capital Assets	<u>(3,616,849)</u>
CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,945,058)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment Income	<u>18,308</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(687,332)
CASH AND CASH EQUIVALENTS - JULY 1, 2011	<u>2,451,302</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2012	\$ <u>1,763,970</u>
RECONCILIATION TO CASH:	
CASH AND CASH EQUIVALENTS PER ABOVE	1,763,970
CASH AND CASH EQUIVALENTS REPORTED AS INVESTMENTS	<u>(1,497,338)</u>
CASH (INCLUDING RESTRICTED CASH)	\$ <u>266,632</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	
Operating Income	\$ 1,163,667
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:	
Depreciation.	64,484
(Increase) Decrease in	
Accounts Receivable	86,574
Inventory	27,212
Member Town Assessment	33,845
Increase (Decrease) in:	
Accounts Payable	2,015,284
Accrued Liabilities	40,145
Unearned Revenue	<u>(191,793)</u>
Total Adjustments	2,075,751
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,239,418

**THE MATTABASSETT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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 wastewater 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 (3) 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 (4) 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.

The Mattabassett District 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 uncollectible. The allowance percentage for June 30, 2012 is four percent (4%) 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.

The 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.

The Mattabasset District Notes to Financial Statements (continued)

6. Fund Equity and Net Assets

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.

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, 2012. As of June 30, 2012, \$596,862 of the District’s bank balance of \$1,766,110 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	524,565
Uninsured and collateral held by the pledging banks		
Trust department, not in the District’s name		<u>72,297</u>
Total amount subject to custodial credit risk	\$	<u>596,862</u>

At June 30, 2012, 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	\$	1,425,041	\$	1,425,041
Pooled Fixed Income		60,143		60,143
Money Market		12,154		12,154
TOTAL	\$	1,497,338	\$	1,497,338

The Mattabasset District Notes to Financial Statements (continued)

- b. Interest rate risk – The District does have a formal investment policy that limits investment maturities as a mean of managing its exposure to fair value losses arising from increasing interest rates.
- c. Credit risk – The District has no investment policy that would limit its investment choices due to credit risk other than State Statutes governing investments in obligations of any State or political subdivision or in obligations of the State of Connecticut or political subdivision. The District’s pooled fixed income has a rating of AAA by Standard & Poor’s.
- d. Custodial credit risk – is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District’s investments presented above are not subject to custodial credit risk.

Note 3: Receivables

Receivables as of year-end for the District’s government-wide financial statements by type, including the applicable allowances for uncollectibles, are as follows:

Gross Receivables	\$	131,421
Less Allowance for Uncollectible		<u>(5,000)</u>
Net Receivables	\$	126,421

Note 4: Capital Assets

Activity For The Year Ended June 30, 2012

	BALANCE JULY 1, 2011	INCREASES	BALANCE JUNE 30, 2012
Capital Assets, not being Depreciated:			
Land and Land Rights	\$ 100,000	\$ -	\$ 100,000
Wastewater Treatment Facility	69,851,920	3,457,649	73,309,569
Total Capital Assets, not being Depreciated	<u>69,951,920</u>	<u>3,457,649</u>	<u>73,409,569</u>
Capital Assets, being Depreciated:			
Equipment	371,402	159,199	530,601
Vehicles	201,654	-	201,654
Total Capital Assets, being Depreciated	<u>573,056</u>	<u>159,199</u>	<u>732,255</u>
Total Capital Assets	<u>70,524,976</u>	<u>3,616,848</u>	<u>74,141,824</u>
(Less) Accumulated Depreciation for:			
Equipment	(102,156)	(46,232)	(148,388)
Vehicles	(104,983)	(18,251)	(123,234)
Total Accumulated Depreciation	<u>(207,139)</u>	<u>(64,483)</u>	<u>(271,622)</u>
Total Capital Assets, being Depreciated, Net	<u>365,917</u>	<u>94,716</u>	<u>460,633</u>
Capital Assets, Net	<u>\$ 70,317,837</u>	<u>\$ 3,552,365</u>	<u>\$ 73,870,202</u>

The Mattabassett District Notes to Financial Statements (continued)

Note 5: Change in Long-Term Obligations

a. Compensated Absences

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Current</u> <u>Portion</u>
Compensated Absences	\$ 159,408	\$ 182,123	\$ 182,646	\$ 158,885	\$ 31,777

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 (3) 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 five (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.

The Mattabassett District Notes to Financial Statements (continued)

The pension amount paid to employees is based on the following options:

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

- 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 two percent (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 five percent (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:

YEAR ENDING JUNE 30.

2010	160,649
2011	196,416
2012	239,235

Note 8: Grants & Loans

The Mattabassett District received funding for the detailed design of the Nitrogen Removal Upgrade and Related Improvements to the existing waste water 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) was completed in August of 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, 2012, The District had received grant payments of \$1,359,058 and loans of \$3,476,946. The estimated cost of the total project is \$100,000,000, with the Clean Water Fund providing a grant for construction of 23.3% or \$23,300,000. The District is working on getting additional funding through various sources both Federal and 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 25 to 50% 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	2012	2011	2010	2009
Plant Equipment	90%	95%	95%	86%
Trunk Sewer and Outfall	90%	95%	95%	95%

PERCENTAGE OF SEWER TREATMENT SYSTEM IN SUBSTANDARD CONDITION

EQUIPMENT TYPE	2012	2011	2010	2009
Plant Equipment	10%	5%	5%	14%
Trunk Sewer and Outfall	10%	5%	5%	5%

COMPARISON OF ESTIMATED-TO-ACTUAL MAINTENANCE/PRESERVATION

	2012	2011	2010	2009
ESTIMATED	\$519,000	\$419,000	\$529,000	\$527,000
ACTUAL	\$367,595	\$400,889	\$439,804	\$637,416

**THE MATTABASSETT DISTRICT
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH BUDGET
ADMINISTRATIVE EXPENDITURES:			
Insurance	\$ 100,000	\$ 92,097	\$ 7,903
Engineering	75,000	39,605	35,395
Legal	99,000	112,664	(13,664)
Accounting	16,000	15,000	1,000
Training	34,000	23,333	10,667
Board	4,000	6,755	(2,755)
Business Services	50,000	49,838	162
Permit Fees	195,500	195,064	436
Office Supplies	10,000	9,271	729
Miscellaneous	10,000	7,779	2,221
TOTAL ADMINISTRATIVE EXPENDITURES	593,500	551,406	42,094
EMPLOYEE EXPENDITURES:			
Salaries & Wages	2,005,165	1,924,019	81,146
Overtime & Meals	82,202	79,765	2,437
Shift Differential	18,080	17,468	612
Workers' Comp	60,000	48,822	11,178
Medical & Dental/etc	477,500	477,475	25
Life	8,556	7,261	1,295
Unemployment	9,000	-	9,000
Retirement Benefits	277,735	268,310	9,425
Miscellaneous Employee Benefits	24,513	20,155	4,358
TOTAL EMPLOYEE EXPENDITURES	2,962,751	2,843,275	119,476
DEPARTMENT EXPENDITURES			
OPERATIONS DEPARTMENT:			
Operations Supplies	33,000	25,002	7,998
Cleaning Supplies	10,000	12,453	(2,453)
Chemicals	520,000	445,454	74,546
Electricity	1,600,000	1,493,487	106,513
Fuel: Natural Gas & Oil	120,000	172,785	(52,785)
Portable Water	40,000	33,735	6,265
Gasoline & Diesel	9,000	10,428	(1,428)
Sludge Disposal	45,000	54,568	(9,568)
Ash Handling	80,000	78,349	1,651
TOTAL OPERATIONS DEPARTMENT	2,457,000	2,326,261	130,739

(Continued)

MAINTENANCE DEPARTMENT:

Plant Maintenance Supplies	\$ 235,000	\$ 193,039	\$ 41,961
Lubricants	14,000	13,672	328
Plant Maintenance Services	200,000	117,592	82,408
Buildings & Grounds	70,000	43,292	26,708

TOTAL MAINTENANCE DEPARTMENT

519,000	367,595	151,405
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LABORATORY DEPARTMENT:

Laboratory Supplies	16,000	14,417	1,583
Laboratory Services	27,000	27,315	(315)

TOTAL LABORATORY DEPARTMENT

43,000	41,732	1,268
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BONDED DEBT PAYMENT:

Bonded Debt Payment	328,210	328,209	1
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CONTINGENCIES:

Contingencies	130,000	7,000	123,000
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CAPITAL EXPENDITURES:

Capital Outlay, General, Solids, Incinerator	271,790	219,342	52,448
Nitrogen Upgrade	40,000,000	3,457,649	36,542,351

TOTAL CAPITAL EXPENDITURES

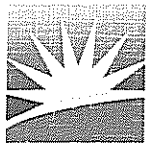
40,271,790	3,676,991	36,594,799
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TOTAL EXPENDITURES

\$ 47,305,251	\$ 10,142,469	\$ 37,162,782
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RECONCILIATION TO FINANCIAL:

TOTAL EXPENDITURES PER ABOVE	\$ 10,142,469
DEPRECIATION EXPENSE	64,484
RECLASS OF BOND DEBT PAYMENT TO NOTES PAYABLE	(328,208)
CAPITAL ASSET ADDITIONS CAPITALIZED FROM CAPITAL OUTLAY ABOVE	(159,200)
CAPITAL ASSET ADDITIONS CAPITALIZED FROM NITROGEN UPGRADE ABOVE	<u>(3,457,649)</u>
TOTAL OPERATING EXPENSES PER FINANCIAL STATEMENT 6/30/12	<u>\$ 6,261,896</u>



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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***

The Board of Directors
The Mattabassett District
Cromwell, CT

We have audited the financial statements of the business-type activity of The Mattabassett District, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 2, 2012. 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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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*.

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

Castanho Financial Group, LLC
November 2, 2012