

THE MATTABASSETT DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2013

THE MATTABASSETT DISTRICT

JUNE 30, 2013

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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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Mattabassett District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the 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 are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Mattabassett District's as of June 30, 2013, 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.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison on pages three (3) through seven (7) 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.

Castanho Financial Group, LLC

Castanho Financial Group, LLC
East Hartford, CT
November 13, 2013

**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, 2013.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$80,686,846.
- The District's total net assets increased by \$10,099,720. This increase is attributable to the expansion of the facility for the nitrogen treatment upgrade. Included in the above mentioned increase is \$8,079,926 of grant revenue from the State of Connecticut which is not required to be paid back.
- The District's administrative and utilities expenses in 2013 were \$341,181 less than 2012 due to a decrease in administrative expenses such as legal fees, permits, and certain engineering and maintenance costs, as well as a significant decrease in utilities.
- Operating revenues increased by \$456,455 (6.1%) 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 Mattabassett District, assets exceeded liabilities by \$80,686,846 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>2013</u>	<u>2012</u>
Current and Other Assets	\$ 18,755,123	\$ 2,499,091
Capital Assets	115,806,215	73,870,202
Total Assets	134,561,338	76,369,293
Long-Term Liabilities Outstanding	42,660,711	3,343,283
Other Liabilities	11,213,781	2,438,884
Total Liabilities	53,874,492	5,782,167
Net Assets:		
Invested in Capital Assets (Net of related debt)	86,123,146	68,809,228
Restricted	0	0
Unrestricted (Deficit)	(5,436,300)	1,777,898
TOTAL NET ASSETS	\$ 80,686,846	\$ 70,587,126

The District's net assets increased by \$10,099,720 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, 2013 AND 2012**

	2013	2012
OPERATING REVENUES:		
Assessments:		
Member Municipalities	\$ 5,517,253	\$ 5,099,869
Contractual Towns	984,244	830,382
Charges for Services:		
Septage/Liquids/Grease	454,185	416,405
Sludge Management	921,897	983,750
Other Revenues	4,439	95,157
TOTAL OPERATING REVENUES	7,882,018	7,425,563
OPERATING EXPENSES:		
Administration	846,476	1,019,861
Operating	2,402,414	2,430,655
Maintenance	979,238	1,080,624
Utilities	1,498,476	1,666,272
Depreciation	84,986	64,484
TOTAL OPERATING EXPENSES	5,811,590	6,261,896
OPERATING INCOME	2,070,428	1,163,667
NON-OPERATING REVENUE (EXPENSE) :		
Clean Water Fund Grant –Nitrogen Treatment	8,079,926	0
Interest Expense	(62,730)	(67,438)
Loss on Disposed Assets	(16,465)	0
Interest Income	28,561	18,308
NET NONOPERATING REVENUE (LOSS)	8,029,292	(49,130)
CHANGE IN NET ASSETS	10,099,720	1,114,537
NET ASSETS - JULY 1	70,587,126	69,472,589
NET ASSETS - JUNE 30	\$ 80,686,846	\$ 70,587,126

Managements' Discussion and Analysis (continued)

Operating revenues increased by \$ (6.1%) during the year. The increase was the net effect of the following:

- Assessments increased by \$571,246 due to a modest yearly increase and an increase in bonded debt payments for the Nitrogen Upgrade, and Capital Outlay Upgrades.
- Charges for services decreased by \$24,073 due to prior year being a banner year. Certain facilities were diverting loads to The Mattabassett District because the facilities were shut down for repairs in prior years.
- Total Operating expenses decreased by \$450,306 due a decrease in administrative expenses and maintenance costs, as well as a significant decrease in utilities.
- Administrative expense decreased by \$173,385 due to a decrease in legal fees, permits, and certain engineering costs.
- Utilities expense decreased by \$167,796 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, 2013 amounts to \$115,806,215 (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 thirty-six percent due to nitrogen upgrade project currently in process.

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

Engineering Design on upgraded Nitrogen Removal System for \$41,867,713 and new Office and Computer Equipment, Pump Drives, and other Equipment at a cost of \$169,749, which are subject to depreciation.

THE MATTABASSETT DISTRICT CAPITAL ASSETS – NET

	2013	2012
Land	\$ 100,000	\$ 100,000
Wastewater Treatment Facility	115,177,282	73,309,569
Equipment	466,791	382,213
Vehicles	62,142	78,420
TOTAL	\$ 115,806,215	\$ 73,870,202

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 DEEP Clean Water Fund Loan annual loan payments for the Nitrogen Upgrade Engineering Design of Phase One, completed in 2011. For Fiscal Years 2013-2014 and 2014-2015 principal and interest payments will be \$233,101 and \$229,624 respectively.
- 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, 2013, 45.68% of the project work has been completed. Total project costs, construction, engineering, inspection, and legal are estimated at \$107,000,000 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. The District will be required in Fiscal Year 2015-2016 to have an equal amount in reserves for the bond.
- On January 22, 2013, The Mattabassett District accepted a thirteen million dollar application fee from the City of Middletown for services in the city. An expected start date to begin services is June of 2016.

All of these factors were considered when the rates for the 2013-2014 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, 2013**

ASSETS

Current Assets:

Cash	\$ 254,606
Investments	17,713,106
Accounts Receivable (Net)	211,123
Inventory	576,288
Total Current Assets	<u>18,755,123</u>

Capital Assets – Utility Plant (Net)

Land	100,000
Wastewater Treatment Facility	115,177,282
Equipment	466,791
Vehicles	62,142
Total Capital Assets - Utility Plant (Net)	<u>115,806,215</u>

TOTAL ASSETS	<u>134,561,338</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	6,330,046
Accrued Liabilities	4,397,943
Compensated Absences	35,308
Clean Water Fund Loan Payable - ST	177,172
Deferred Revenue – The Metropolitan District	273,312
Total Current Liabilities	<u>11,213,781</u>

Noncurrent Liability:

Compensated Absences	141,232
Clean Water Fund Loan Payable	29,519,479
Deferred Revenue - Middletown	<u>13,000,000</u>

TOTAL LIABILITIES	53,874,492
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NET ASSETS

Invested in Capital Assets (Net of related debt)	86,123,146
Restricted	0
Unrestricted (Deficit)	(5,436,300)

TOTAL NET ASSETS	<u>\$ 80,686,846</u>
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**THE MATTABASSETT DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013**

OPERATING REVENUES:

Assessments:

Member Municipalities	\$ 5,517,253
Contractual Towns	984,244

Charges for Services:

Septage/Liquids/Grease	454,185
Sludge Management	921,897
Other Revenues	4,439

TOTAL OPERATING REVENUES

7,882,018

OPERATING EXPENSES:

Administration	846,476
Operating	2,402,414
Maintenance	979,238
Utilities	1,498,476
Depreciation	84,986

5,811,590

TOTAL OPERATING EXPENSES

OPERATING INCOME

2,070,428

NONOPERATING REVENUE (EXPENSE) :

Clean Water Fund Grant – Nitrogen Treatment	8,079,926
Interest Income	28,561
Loss on Disposed Assets	(16,465)
Interest Expense	(62,730)

NET NONOPERATING REVENUE

8,029,292

CHANGE IN NET ASSETS

10,099,720

NET ASSETS - JULY 01, 2012

70,587,126

NET ASSETS - JUNE 30, 2013

\$ 80,686,846

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, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from Customers	\$ 1,329,663
Receipts from Member and Contractual Towns	6,501,497
Receipts from Unearned Revenue	13,273,312
Payments to Suppliers	(1,640,896)
Payments to Employees	(1,977,354)

NET CASH PROVIDED BY OPERATING ACTIVITIES 17,486,222

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Bond Anticipation Note Payment	(173,847)
Interest paid on Bond Anticipation Note	(62,730)
Proceeds from Financing	26,654,324
Proceeds from Grants	8,079,926
Acquisition and Construction of Capital Assets	(35,808,714)

CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES (1,311,041)

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment Income	28,561
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NET INCREASE IN CASH AND CASH EQUIVALENTS 16,203,742

CASH AND CASH EQUIVALENTS - JULY 1, 2012 1,763,970

CASH AND CASH EQUIVALENTS - JUNE 30, 2013 \$ 17,967,712

RECONCILIATION TO CASH:

CASH AND CASH EQUIVALENTS PER ABOVE 17,967,712

CASH AND CASH EQUIVALENTS REPORTED AS INVESTMENTS (17,713,106)

CASH \$ 254,606

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income \$ 2,070,428

Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by
(used in) Operating Activities:

Depreciation	84,986
(Increase) Decrease in	
Accounts Receivable	(84,702)
Inventory	(1,432)
Member Town Assessment	33,844

Increase (Decrease) in:

Accounts Payable	2,087,919
Accrued Liabilities	21,867
Unearned Revenue	<u>13,273,312</u>

Total Adjustments 15,415,794

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 17,486,222

**THE MATTABASSETT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013 is two percent (2%) 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 Mattabassett 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. As of June 30, 2013, \$15,823,559 of the District's bank balance of \$17,983,966 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	15,751,161
Uninsured and collateral held by the pledging banks		
Trust department, not in the District's name		<u>72,398</u>
Total amount subject to custodial credit risk	\$	<u>15,823,559</u>

At June 30, 2013, 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	\$	17,640,708	\$	17,640,708
Pooled Fixed Income		60,238		60,238
Money Market		12,160		12,160
TOTAL	\$	17,713,106	\$	17,713,106

The Mattabassett 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	\$	216,123
Less Allowance for Uncollectible		(5,000)
Net Receivables	\$	211,123

Note 4: Capital Assets

Activity For The Year Ended June 30, 2013

	BALANCE JULY 1, 2012	INCREASES	BALANCE JUNE 30, 2013
Capital Assets, not being Depreciated:			
Land and Land Rights	\$ 100,000	\$ -	\$ 100,000
Wastewater Treatment Facility	73,309,569	41,867,713	115,177,282
Total Capital Assets, not being Depreciated	73,409,569	41,867,713	115,277,282
Capital Assets, being Depreciated:			
Equipment	530,601	132,764	663,365
Vehicles	201,654	-	201,654
Total Capital Assets, being Depreciated	732,255	132,764	865,019
Total Capital Assets	74,141,824	42,000,477	116,142,301
(Less) Accumulated Depreciation for:			
Equipment	(148,388)	(48,185)	(196,573)
Vehicles	(123,234)	(16,278)	(139,512)
Total Accumulated Depreciation	(271,622)	(64,463)	(336,085)
Total Capital Assets, being Depreciated, Net	460,633	68,301	528,934
Capital Assets, Net	\$ 73,870,202	\$ 41,936,014	\$ 115,806,216

The Mattabassett District Notes to Financial Statements (continued)

Note 5: Change in Long-Term Obligations

a. Compensated Absences

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion</u>
Compensated Absences	\$ 158,885	\$ 215,900	\$ 198,247	\$ 176,538	\$ 35,308

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,

2011	196,416
2012	239,235
2013	244,446

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 / DEEP 2014 Long Island Sound Nitrogen Removal Standards. Phase One (Engineering Design) was completed in August of 2011, and comprises a grant from the DEEP Clean Water Fund for a maximum of \$1,136,985 and a low interest loan (2%) of \$3,476,015, which has a balance of \$3,042,328 as of June 30, 2013. Also as of June 30, 2013, The District had received grant payments of \$8,079,926 and loans of \$26,654,323, which is the balance outstanding. The estimated cost of the total project is \$107,000,000, with the Clean Water Fund providing a grant for construction of 23.3% or \$24,931,000. 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	2013	2012	2011	2010
Plant Equipment	85%	90%	95%	95%
Trunk Sewer and Outfall	90%	90%	95%	95%

PERCENTAGE OF SEWER TREATMENT SYSTEM IN SUBSTANDARD CONDITION

EQUIPMENT TYPE	2013	2012	2011	2010
Plant Equipment	15%	10%	5%	5%
Trunk Sewer and Outfall	10%	10%	5%	5%

COMPARISON OF ESTIMATED-TO-ACTUAL MAINTENANCE/PRESERVATION

	2013	2012	2011	2010
ESTIMATED	\$524,000	\$519,000	\$419,000	\$529,000
ACTUAL	\$296,949	\$367,595	\$400,889	\$439,804

**THE MATTABASSETT DISTRICT
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH BUDGET
ADMINISTRATIVE EXPENDITURES:			
Insurance	\$ 100,000	\$ 108,789	\$ (8,789)
Engineering	75,000	25,372	49,628
Legal	100,000	55,894	44,106
Accounting	16,000	15,500	500
Training	35,000	25,148	9,852
Board	4,000	4,560	(560)
Legislative Payment - Cromwell	100,000	0	100,000
Business Services	52,000	53,685	(1,685)
Permit Fees	218,500	164,363	54,137
Office Supplies	10,000	7,269	2,731
Miscellaneous	10,000	8,223	1,777
TOTAL ADMINISTRATIVE EXPENDITURES	720,500	468,803	251,697
EMPLOYEE EXPENDITURES:			
Salaries & Wages	2,044,362	1,936,833	107,529
Overtime & Meals	79,180	58,174	21,006
Shift Differential	26,400	31,353	(4,953)
Workers' Comp	60,000	59,369	631
Medical & Dental/etc	563,142	424,439	138,703
Life	8,556	7,266	1,290
Unemployment	9,000	-	9,000
Retirement Benefits	291,225	272,030	19,195
Miscellaneous Employee Benefits	25,553	24,168	1,385
TOTAL EMPLOYEE EXPENDITURES	3,107,418	2,813,632	293,786
DEPARTMENT EXPENDITURES			
OPERATIONS DEPARTMENT:			
Operations Supplies	35,000	25,361	9,639
Cleaning Supplies	12,000	18,654	(6,654)
Chemicals	520,000	383,093	136,907
Electricity	1,600,000	1,334,841	265,159
Fuel: Natural Gas & Oil	160,000	163,635	(3,635)
Potable Water	40,000	42,499	(2,499)
Gasoline & Diesel	11,000	4,226	6,774
Sludge Disposal	55,000	51,115	3,885
Ash Handling	80,000	81,200	(1,200)
TOTAL OPERATIONS DEPARTMENT	2,513,000	2,104,624	408,376

(Continued)

MAINTENANCE DEPARTMENT:

Plant Maintenance Supplies	\$ 235,000	\$ 150,110	\$ 84,890
Lubricants	14,000	11,324	2,676
Plant Maintenance Services	200,000	76,926	123,074
Buildings & Grounds	75,000	58,589	16,411

TOTAL MAINTENANCE DEPARTMENT

524,000	296,949	227,051
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LABORATORY DEPARTMENT:

Laboratory Supplies	17,000	15,786	1,214
Laboratory Services	28,000	26,809	1,191

TOTAL LABORATORY DEPARTMENT

45,000	42,595	2,405
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BONDED DEBT PAYMENT:

Bonded Debt Payment	236,578	236,578	0
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CONTINGENCIES:

Contingencies	130,000	0	130,000
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CAPITAL EXPENDITURES:

Capital Outlay, General, Solids, Incinerator	600,000	169,749	430,251
Nitrogen Upgrade	50,700,000	41,867,713	8,832,287

TOTAL CAPITAL EXPENDITURES

51,300,000	42,037,462	9,262,538
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TOTAL EXPENDITURES

\$ 58,576,496	\$ 48,000,643	\$ 10,575,853
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RECONCILIATION TO FINANCIAL:

TOTAL EXPENDITURES PER ABOVE	\$ 48,000,643
DEPRECIATION EXPENSE	84,986
RECLASS OF BOND DEBT PAYMENT TO NOTES PAYABLE PRINCIPAL	(173,847)
RECLASS OF BOND DEBT PAYMENT TO INTEREST EXPENSE	(62,730)
CAPITAL ASSET ADDITIONS CAPITALIZED FROM CAPITAL OUTLAY ABOVE	(169,749)
CAPITAL ASSET ADDITIONS CAPITALIZED FROM NITROGEN UPGRADE ABOVE	<u>(41,867,713)</u>
TOTAL OPERATING EXPENSES PER FINANCIAL STATEMENT 6/30/13	<u>\$ 5,811,590</u>



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*

The Board of Directors
The Mattabassett District
Cromwell, CT

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Mattabassett District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Mattabassett District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of The Mattabassett District's internal control. Accordingly, we do not express an opinion on the effectiveness of The Mattabassett District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Mattabasset District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of this Report

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

Castanho Financial Group, LLC

Castanho Financial Group, LLC
East Hartford, CT
November 13, 2013