

THE MATTABASSETT DISTRICT

For the year ended June 30, 2017
Independent Auditors' Report

THE MATTABASSETT DISTRICT
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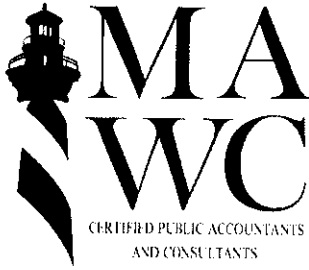
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Guiding Successful People

INDEPENDENT AUDITORS REPORT

Board of Directors
The Mattabassett District
Cromwell, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Mattabassett District (the "District") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which 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 that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the business-type activities of the District, as of June 30, 2017, and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis beginning on page 6, assets using the modified approach on page 27, budgetary comparison information beginning on page 28, and GASB 68 pension disclosures on page 30 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 historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Michaud Accavallo Woodbridge & Cusano, LLC

Killingworth, Connecticut
October 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE MATTABASSETT DISTRICT
Management's Discussion and Analysis
For the year ended June 30, 2017

As management of The Mattabassett District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$120,880,660.
- The District's total net position increased by \$4,012,380. This increase is attributable to the expansion of the facility for the nitrogen treatment upgrade. In addition, during the year the District experienced equipment losses due to the GAC fire. The District incurred expenses related to fire damage during the year, which were partially off-set by insurance receipts of \$396,000.
- The District's operating expenses in 2017 were \$976,766 more than 2016 due to increased pension liability expense of \$798,073 as well as other operating, administrative, maintenance and utility costs.
- Operating revenues increased by \$1,510,169 (11.3%) due to an increase in costs for member municipalities.
- The District paid \$4,099,573 and \$1,432,639 for principal and interest, respectively, on their Clean Water Fund loans.

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

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

THE MATTABASSETT DISTRICT
Management's Discussion and Analysis
For the year ended June 30, 2017

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of The Mattabasset District, assets exceed liabilities by \$120,880,660 at June 30, 2017.

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

Net Position

	2017	2016
Current Assets	\$ 3,398,971	\$ 3,608,193
Capital Assets	177,549,267	177,028,378
Noncurrent Assets - Investments	12,162,013	11,979,074
Total Assets	193,110,251	192,615,645
 Deferred outflows of resources	 935,130	 404,580
 Current Liabilities	 4,421,642	 4,751,901
Noncurrent Liabilities	68,557,705	71,400,044
Total Liabilities	72,979,347	76,151,945
 Deferred inflows of resources	 185,374	 -
 Net Position		
Invested in Capital Assets (net of related debt)	103,542,820	103,517,378
Unrestricted Surplus/(Deficit)	17,337,840	13,350,902
Total Net Position	\$ 120,880,660	\$ 116,868,280

The District's net position increased by \$4,012,380 during the year ended June 30, 2017, the amount to which increases in revenues have exceeded increases in expenses.

THE MATTABASSETT DISTRICT
Management's Discussion and Analysis
For the year ended June 30, 2017

Changes in Net Position

	2017	2016
Operating Revenues:		
Assessments:		
Member Municipalities & Contractual Towns	\$ 11,974,057	\$ 10,402,599
Charges for Services:		
Septage/Liquids/Grease	186,122	453,265
Sludge Management	751,722	940,005
Other Revenues *	399,870	5,733
Total Operating Revenues	13,311,771	11,801,602
Operating Expenses:		
Administration	1,103,135	1,061,095
Operating Expenses	3,552,935	2,907,650
Maintenance	1,512,830	1,391,124
Utilities	1,693,910	1,525,148
Depreciation	135,934	136,961
Total Operating Expenses	7,998,744	7,021,978
Operating Income	5,313,027	4,779,624
Nonoperating Revenue / (Expense):		
Clean Water Fund Grant - Nitrogen Treatment	-	421,069
Energy Audit Rebate	-	285,860
Interest Income	131,992	68,831
Interest Expense	(1,432,639)	(1,577,497)
Net Operating Revenue / (Expense)	(1,300,647)	(801,737)
Change in Net Position	4,012,380	3,977,887
Net Position, Beginning of year	116,868,280	112,890,393
Net Position, end of year	\$ 120,880,660	\$ 116,868,280

Operating income increased by \$533,403 during the year. The increase was the net effect of the following:

- Assessments increased by \$1,571,458 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 \$455,426 due to decreased volume related to the GAC fire.
- Other revenues for the year ended June 30, 2017 includes insurance proceeds of \$396,000 as a result of the GAC fire.

THE MATTABASSETT DISTRICT
Management's Discussion and Analysis
For the year ended June 30, 2017

- Total Operating expenses increased by \$976,766. This was due primarily to a net increase in Municipal Employees' Retirement System ("MERS") pension expense of \$798,073, from \$404,513 in 2016 to \$1,063,849 in 2017 as well as increases in other operating expenses of \$178,693. The pension expense consists of costs funded by the District totaling \$286,457, an increase in the actuarial calculated pension liability of \$1,122,568 and an increase in the deferred inflows related to pension of \$185,374, off-set by increases in the deferred outflows related to pension of \$530,550.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets -The District's investment in capital assets as of June 30, 2017 amounts to \$177,549,268 (net of accumulated depreciation). This investment in capital assets includes land, waste water treatment facility, equipment, and vehicles. The total increase in the District's investment in capital assets for the current fiscal year was nine percent due mainly to the nitrogen upgrade project currently in progress.

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

New equipment and a vehicle at a cost of \$179,352, which are subject to depreciation, were purchased during the year.

Capital Assets - Net of Depreciation

	2017	2016
Land	\$ 100,000	\$ 100,000
Waste Water Treatment Facility	176,593,319	176,024,531
Equipment	665,266	727,201
Vehicles	190,683	176,646
 Total Capital Assets - Net of Depreciation	 \$ 177,549,268	 \$ 177,028,378

The District has adopted the modified approach (an alternative to depreciation) for the waste water treatment facility. 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.

Economic Factors and Next Year's Budgets and Rates

- Inflationary trends in the region compare favorably to national indices.
- The DEEP Clean Water Fund activity related to the Nitrogen Upgrade Engineering Design was completed on June 30, 2012.
- 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 was substantially completed by June 2015.
- For fiscal years ending June 30, 2017 and June 30, 2018, payments of principal and interest on the

THE MATTABASSETT DISTRICT
Management's Discussion and Analysis
For the year ended June 30, 2017

Clean Water Fund Loans will be \$5,532,214 and \$5,450,223 respectively.

All of these factors were considered when the annual assessment rates for the 2017-2018 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.

BASIC FINANCIAL STATEMENTS

THE MATTABASSETT DISTRICT
Statement of Net Position
June 30, 2017

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 1,861,234
Investments	579,649
Accounts Receivable, net of allowance \$5,000	139,839
Inventory	<u>818,249</u>
Total Current Assets	3,398,971
Capital Assets - Utility Plant, net	
Land	100,000
Waste Water Treatment Facility	176,593,319
Equipment, net	665,266
Vehicles, net	<u>190,683</u>
Total Capital Assets - Utility Plant, net	177,549,268
NON CURRENT ASSETS	
Investments	<u>12,162,013</u>
TOTAL ASSETS	<u>193,110,252</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pension	<u>935,130</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 194,045,382</u>
LIABILITIES	
CURRENT LIABILITIES	
Construction Payables	\$ 35,000
Accounts Payable	261,533
Accrued Payroll Liabilities	25,536
Accrued Compensated Absences, Current	81,026
Clean Water Fund Loan Payable, current portion	<u>4,099,573</u>
	4,502,668
NON-CURRENT LIABILITIES	
Accrued Compensated Absences, non current	324,104
Clean Water Fund Loan Payable	65,311,853
Net Pension Liability	<u>2,840,723</u>
	68,476,680
TOTAL LIABILITIES	72,979,348
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pension	185,374
NET POSITION	
Net Investment in Capital Assets	108,137,842
Unrestricted	<u>12,742,818</u>
TOTAL NET POSITION	<u>120,880,660</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET ASSETS	<u>\$ 194,045,382</u>

The accompanying notes are an integral part of the financial statements.

THE MATTABASSETT DISTRICT
Statement of Changes in Net Position
For the Year ended June 30, 2017

Operating Revenues:	
Assessments:	
Member Municipalities & Contractual Towns	\$ 11,974,057
Charges for Services:	
Septage/Liquids/Grease	186,122
Sludge Management	751,722
Other Revenues	<u>399,870</u>
Total Operating Revenues	13,311,771
Operating Expenses:	
Administration	1,103,135
Operating	3,552,935
Maintenance	1,512,830
Utilities	1,693,910
Depreciation	<u>135,934</u>
Total Operating Expenses	<u>7,998,744</u>
Operating Income	5,313,027
Nonoperating Revenue / (Expense)	
Interest Income	131,992
Interest Expense	<u>(1,432,639)</u>
Net Operating Revenue / (Expense)	<u>(1,300,647)</u>
Change in Net Position	<u>4,012,380</u>
Net Position, beginning of year	<u>116,868,280</u>
Net Position, end of year	<u>\$120,880,660</u>

The accompanying notes are an integral part of the financial statements.

THE MATTABASSETT DISTRICT
Statement of Cash Flow
For the Year ended June 30, 2017

Cash Flows from Operating Activities	
Receipts from customers	\$ 937,845
Receipts from Member and Contractual Towns	11,994,085
Payments to suppliers	(3,654,176)
Payments to employees	<u>(4,622,607)</u>
Net cash provided by operating activities	<u>4,655,147</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on Clean Water Fund debt	(4,099,573)
Principal paid on Divers Bond	(125,000)
Interest paid	(1,432,639)
Loss on disposal of capital assets	(91,316)
Acquisition of capital assets	<u>(748,140)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(6,496,668)</u>
Cash Flows from Investing Activities	
Investment Activity, net	186,096
Net change in pension	1,205,866
Investment income / Late charges	<u>131,992</u>
Net Cash Provided (Used) by Investing Activities	<u>1,523,954</u>
Net (decrease) in cash and cash equivalents	(317,567)
Cash and cash equivalents, beginning of year	<u>14,941,145</u>
Cash and cash equivalents, end of year	<u>14,623,578</u>
Reconciliation to cash:	
Cash and Cash Equivalents per Above	14,623,578
Cash and Cash Equivalents Reported as Investments	<u>12,741,662</u>
Cash	<u>\$ 1,881,916</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ 4,012,380
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation Expense	135,933
Loss on disposal of assets	91,317
Changes in Assets and Liabilities:	
Receivables	20,028
Inventories	(331,994)
Deferred outflows of resources	(345,176)
Net pension liability	1,122,568
Payables and Accrued Liabilities	<u>(70,591)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,634,465</u>

The accompanying notes are an integral part of the financial statements.

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

NOTE 1 -ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Organization

The Mattabassett District is a unique institution originally formed by the State Legislature in 1961 to provide waste water 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 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 current four constituent towns served by the District: New Britain, Berlin, Cromwell and Middletown. This 15-member Board meets monthly to provide guidance, oversight, and financial control to the operation. The Board has five standing committees (Finance, Engineering, Human Resource, Nominating and Property Management) that interact regularly with the management staff and report back to the full Board.

Basis of Presentation

Financial statement presentation follows the requirements of the Governmental Accounting Standards Board ("GASB") which is the accepted standard setting body for establishing governmental fund accounting and financial reporting principles. The more significant policies of the District are described below:

Government-wide Financial Statements

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position report information on all 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 Position 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.

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.

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

Private-sector standards of accounting and financial reported 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 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 revenue 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 unrestricted resources first then restricted resources as they are needed.

Assets, Liabilities and Net Position

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 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 corporation, 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 ratings categories of any national recognized rating service.

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.

Accounts Receivables

Accounts receivables are shown net of an allowance for uncollectible. The allowance percentage for June 30, 2017 was approximately two percent of outstanding receivable balances, calculated based upon prior collections.

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

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 more than 2 year. 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.

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 waste water 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 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows related to pension in the statement of net position. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The District reports a deferred inflow of resources related to pensions. A deferred inflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

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.

Inventory

Inventory, which consists of supplies and materials, is valued at moving weighted average cost.

Net Position

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

Investment 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 Position - This category represents the net position restricted by external parties (creditors, granters, contributors or laws and regulation). This amount is restricted for capital and nonrecurring expenses. The District had no restricted net position at June 30, 2017.

Unrestricted Net Position - This category represents the net position of the District, which is not restricted.

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.

Subsequent Events Measurement Date

The District monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for fiscal year-ended June 30, 2017 through October 20, 2017, the date on which financial statements were available to be issued.

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

NOTE 2 -CASH AND INVESTMENTS

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 remains at \$250,000 per institution. As of June 30, 2017, \$13,613,660 of the District's bank balance of \$14,924,618 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 13,041,569
Uninsured and collateral held by the pledging banks Trust department, not in District's name	<u>572,091</u>
Total amount subject to custodial risk	<u>\$ 13,613,660</u>

At June 30, 2017, the District's investments consisted of the following types and maturities. Specific identification was used to determine the maturities.

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Investment Maturities Less than 1 Year</u>
Certificates of Deposit - Cash	\$ 12,162,013	\$ 12,162,013
Pooled Fixed Income	75,547	75,547
Money Market	<u>504,102</u>	<u>504,102</u>
	<u>579,649</u>	<u>579,649</u>
Total	<u>\$ 12,741,662</u>	<u>\$ 12,741,662</u>

Fair value of investments - The District measures and records its investments using fair value measurement guidelines established by accounting principles generally accepted in the United States of America. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted prices; and
- Level 3: Unobservable inputs

The District has no investments at year end subject to the levels described above.

Interest rate risk- The District does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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.

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

Custodial credit risk - Custodial credit risk is the risk that, in the event of the failure of the counter party, 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 -CAPITAL ASSETS

	Beginning Balance <u>July 1, 2016</u>	Increases	Decreases	Ending Balance <u>June 30, 2017</u>
Capital Assets, not being depreciated:				
Land and Land Rights	\$ 100,000	\$ -	\$ -	\$ 100,000
Wastewater Treatment Facility	<u>176,024,531</u>	<u>568,788</u>	<u>-</u>	<u>176,593,319</u>
Total Capital Assets, not being depreciated	176,124,531	568,788	-	176,693,319
Capital Assets, being depreciated:				
Equipment	1,182,173	143,819	(169,591)	1,156,401
Vehicles	<u>330,559</u>	<u>35,533</u>	<u>(19,714)</u>	<u>346,378</u>
Total Capital Assets, being depreciated	1,512,732	179,352	(189,305)	1,502,779
Total Capital Assets	177,637,263	748,140	(189,305)	178,196,098
Less: Accumulated Depreciation:				
Equipment	(454,972)	(114,438)	78,275	(491,135)
Vehicles	<u>(153,913)</u>	<u>(21,496)</u>	<u>19,714</u>	<u>(155,695)</u>
Total Accumulated Depreciation	<u>(608,885)</u>	<u>(135,934)</u>	<u>97,989</u>	<u>(646,830)</u>
Total Capital Assets Being Depreciated – Net	<u>903,847</u>	<u>43,418</u>	<u>(91,316)</u>	<u>855,949</u>
Capital Assets – Net	<u>\$ 177,028,378</u>	<u>\$ 612,206</u>	<u>\$(91,316)</u>	<u>\$177,549,268</u>

NOTE 4 – COMPENSATED ABSENCES

	Balance at <u>June 30, 2016</u>	Increases	Decreases	Balance at <u>June 30, 2017</u>	Current <u>Portion</u>
Compensated Absences	<u>\$ 338,077</u>	<u>\$ 274,029</u>	<u>\$ 206,977</u>	<u>\$ 405,129</u>	<u>\$ 81,026</u>

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

NOTE 5 -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. During the year ended June 30, 2017, the District submitted a claim for fire damage to the GAC system. The total claim submitted was approximately \$594,000, of which \$396,000 was received during the year ended June 30, 2017 and the remaining received in the following period. During the year, the District increased its business insurance coverage to \$2.46 million.

NOTE 6 - PENSION PLAN

Municipal Employees' Retirement Fund

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 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.

Plan Provisions

Plan provisions are set by statute of the State of Connecticut. MERS provides retirement benefits, as well as death and disability benefits. All normal or early retired members receive a cost of living increase adjustment effective July 1st of each year ranging from 2.5% to 6%. Annual cost of living increases between 3% and 5% are paid to disabled members. All benefits vest after 5 years of continuous service. Members who retire after age 55 with 5 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 pension amount paid to employees is based on the following:

2% of the average of earnings for the 3 highest paid years of service multiplied by length of service.

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

Funding Policy

Covered employees are required by state statute to contribute 2.25% 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 plan.

The required and actual employer contributions for the past 3 years were as follows:

<u>Year Ending June 30,</u>	
2015	\$ 295,113
2016	\$ 269,470
2017	\$ 273,890

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

At June 30, 2017, the District has a recorded liability of \$2,840,720 for their proportionate share of the net pension liability. The net pension liability for the plan in total was measured as of June 30, 2016 and determined by an actuarial valuation as of that date. The District's proportionate share of the total net pension liability was based on the ratio of 2016 reported payroll of \$2,510,447 relative to the total reported payroll applicable to our specific type of employees of \$128,997,421 from all participating employers. At June 30, 2016, the District's proportionate share was \$1.946123%.

For the year ended June 30, 2017, the District recognized a pension expense of \$399,195, their proportionate share of the total pension expense.

At June 30, 2017, the District reported deferred outflows and inflows of resources from the following sources related to MERS pension benefits:

	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings	661,240	185,374
District contributions subsequent to measurement date	<u>273,890</u>	<u>-</u>
Total	<u>\$ 935,130</u>	<u>\$ 185,374</u>
 Net amount of deferred inflows and outflows excluding District contributions subsequent to measurement date		 <u>\$ 846,614</u>

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

The \$935,130 reported as deferred outflows of resources and the \$185,374 reported as deferred inflows of resources to pensions resulting from differences between projected and actual earnings will be recognized as a reduction to the net pension liability in the years ended June 20, 2018 through 2021.

Year Ending June 30,	Pension expense reduction	Pension expense inclusion	Net Pension expense (reduction)
2018	\$ 200,493	\$ 47,654	\$ 152,839
2019	200,493	47,654	152,839
2020	340,495	47,654	292,841
2021	<u>193,649</u>	<u>42,412</u>	<u>151,237</u>
Total	<u>\$ 935,130</u>	<u>\$ 185,374</u>	<u>\$ 749,756</u>

Actuarial valuation of MERS involves estimates of the reported amount and assumptions about profitability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was conducted in 2012 and the next experience study is scheduled for 2018.

Significant actuarial assumptions and other inputs used to measure the total pension liability:

Measurement date	June 30, 2016
Valuation Date	June 30, 2016
Expected Return on Investments	8.00%, net of investment expense
Inflation	3.25%
Future Salary Increases	4.25%-11.00%, depending on service, including inflation
Cost-of-Living Increases	2.50%-6.00%
<i>Mortality Assumptions</i>	
Annuitants and Non-Annuitants	RP-2000 Mortality Table set forward one year for males and set back one year for females
Changes in Actuarial Assumptions and Methods	There were no changes in actuarial assumptions or methods for the June 30, 2015 valuation. The June 30, 2015 actuarial assumptions are based on the June 30, 2014 actuarial valuation.
Fiduciary Net Position	MERS issues a publicly available financial report that can be obtained at www.osc.ct.gov/rbsd/cmers/plandoc/index.html
<i>Expected Rate of Return</i>	

The long-term expected rate of return on pension plan investments was determined using a long-normal distribution analysis in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	<u>MERS Target Allocation</u>	<u>MERS Long-Term Expected Real Rate of Return</u>
Large Cap Equity	16%	5.80%
Developed non-US equities	14%	6.60%
Emerging Markets(non-US)	7%	8.30%
Core fixed income	8%	1.30%
Inflation linked bond fund	5%	1.00%
Emerging bond fund	8%	3.70%
High yield bonds	14%	3.90%
Real estate	7%	5.10%
Private equity	10%	7.60%
Alternative investments	8%	4.10%
Liquidity fund	<u>3%</u>	0.40%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at the actuarially determined rates in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

The sensitivity of the district's net pension liability to changes in the discount rate is presented below. The District's net pension liability calculated using the current discount rate of 8.0% is presented as well as the net pension liability using a discount rate that is 1.00% lower (7.0%) or 1.0% higher (9.0%) than the current rate.

<u>Sensitivity of Net Pension Liability to Changes in the Discount Rate</u>			
	1% Decrease	Current Discount Rate	1% Increase
<u>Net Pension Liability (Asset)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>	<u>(9.00%)</u>
Proportionate share of Net Pension Liability	<u>\$ 4,690,528</u>	<u>\$ 2,840,723</u>	<u>\$ 1,269,469</u>

THE MATTABASSETT DISTRICT
Notes to the Financial Statements
For the Year ended June 30, 2017

NOTE 7 -GRANTS AND LOANS

The Mattabassett District received funding for the detailed design of the Nitrogen Removal Upgrade and related improvement 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 2011. Phase Two (Construction) was started in 2012 and was substantially complete by June 30, 2015. Total project costs, construction, engineering oversight, inspection, and legal were \$106,054,856 through the year ended June 30, 2017. \$24,270,322 of the project was funded by a Clean Water Fund Grant, and \$79,950,607 was covered by two Clean Water Fund Loans at 2% over 20 years. \$1,833,927 was paid for out of the District's reserves.

The composition of the two loans as of June 30, 2017 is as follows:

	<u>Total Loan</u>	<u>Current Portion</u>	<u>Long Term Portion</u>
DEEP Clean Water Fund, Project 567-D 2% loan maturing in December of 2030, payable in monthly principal payments of \$14,487 plus related interest.	\$ 2,346,940	\$ 173,848	\$ 2,173,092
DEEP Clean Water Fund, Project 367-C 2% loan maturing in July of 2034, payable in monthly principal payments of \$327,144 plus related interest.	<u>\$ 67,064,486</u>	<u>\$ 3,925,725</u>	<u>\$ 63,138,761</u>
	<u>\$ 69,411,426</u>	<u>\$ 4,099,573</u>	<u>\$ 65,311,853</u>

The future minimum payments based on the outstanding balances as of June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,099,574	\$ 1,350,649	\$ 5,450,223
2019	4,099,573	1,268,659	5,368,232
2,020	4,099,574	1,186,666	5,286,240
2,021	4,099,573	1,104,675	5,204,248
2022-2026	20,497,867	4,293,501	24,791,368
2027-2031	20,410,944	2,244,081	22,655,025
2032-2034	<u>12,104,321</u>	<u>383,306</u>	<u>12,487,627</u>
Totals	<u>\$ 69,411,426</u>	<u>\$ 11,831,537</u>	<u>\$ 81,242,963</u>

The District does not exceed the legal debt limitations as required by Connecticut general statutes.

REQUIRED SUPPLEMENTARY INFORMATION

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 Lucity, the District's Computerized Maintenance Management System ("CMMS").

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 Energy & 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 follows the District's policy.

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

Equipment Type	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Plant Equipment	98%	98%	98%	80%
Trunk Sewer and Outfall	93%	93%	95%	90%

**PERCENTAGE OF SEWER TREATMENT SYSTEM IN SUB-STANDARD
CONDITION**

Equipment Type	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Plant Equipment	2%	2%	2%	20%
Trunk Sewer and Outfall	7%	7%	5%	10%

PERCENTAGE OF SEWER TREATMENT SYSTEM IN SUB-STANDARD

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Estimated	\$ 461,500	\$ 461,500	\$ 524,000	\$ 524,000
Actual	\$ 570,187	\$ 570,187	\$ 561,459	\$ 426,012

THE MATTABASSETT DISTRICT
 Required Supplementary Information
 Schedule of Expenditures – Budget to Actual
 For the Year Ended June 30, 2017

	Original and Final Budget	Actual	Variance with Budget
Administrative Expenditures:			
Insurance	\$ 135,000	\$ 144,096	\$ 9,096
Engineering	101,000	100,221	(779)
Legal	53,000	53,361	361
Accounting	28,500	34,980	6,480
Training	28,500	33,345	4,845
Board	30,600	22,218	(8,382)
Legislative Payment - Cromwell	100,000	100,000	-
Business Services	135,000	123,898	(11,102)
Permit Fees	29,500	22,869	(6,631)
Office Supplies	14,000	10,806	(3,194)
Miscellaneous	<u>8,000</u>	<u>13,986</u>	<u>5,986</u>
Total Administrative Expenditures.	<u>663,100</u>	<u>659,780</u>	<u>(3,320)</u>
Employee Expenditures:			
Salaries & Wages	2,549,386	2,495,184	(54,202)
Overtime & Meals	100,597	90,250	(10,347)
Shift Differential	40,586	36,789	(3,797)
Workers' Comp	65,000	64,008	(992)
Medical & Dental, etc.	542,611	509,153	(33,458)
Life	11,520	10,456	(1,064)
Unemployment	17,000	(1,733)	(18,733)
Retirement Benefits	388,840	265,776	(123,064)
Miscellaneous Employee Benefits	<u>30,004</u>	<u>29,060</u>	<u>(944)</u>
Total Employee Expenditures	<u>3,745,544</u>	<u>3,498,943</u>	<u>(246,601)</u>
DEPARTMENT EXPENDITURES			
Operations Department:			
Operations Supplies	29,000	31,114	2,114
Cleaning Supplies	16,000	15,306	(694)
Chemicals	530,000	305,608	(224,392)
Electricity	1,793,000	1,530,334	(262,666)
Fuel: Natural Gas & Oil	162,500	104,180	(58,320)
Gasoline & Diesel	11,000	6,314	(4,686)
Potable Water	45,000	53,083	8,083
Sludge Disposal	40,000	67,604	27,604
Ash Handling	<u>95,000</u>	<u>-</u>	<u>(95,000)</u>
Total Operations Department	<u>\$ 2,721,500</u>	<u>\$ 2,113,543</u>	<u>\$ (607,957)</u>

THE MATTABASSETT DISTRICT
Required Supplementary Information
Schedule of Expenditures – Budget to Actual
For the Year Ended June 30, 2017

	Original and Final Budget	Actual	Variance with Budget
Maintenance Department:			
Plant Maintenance Supplies	\$ 222,000	\$ 172,079	\$ (49,921)
Lubricants	25,000	18,509	(6,491)
Plant Maintenance Services	150,500	120,576	(29,924)
Buildings & Grounds	72,300	157,210	84,910
Capital Outlay/ Loss on Disposal	<u>-</u>	<u>195,769</u>	<u>195,769</u>
Total Maintenance Department	<u>469,800</u>	<u>664,143</u>	<u>194,343</u>
Laboratory Department:			
Laboratory Supplies	22,000	25,451	3,451
Laboratory Services	<u>24,000</u>	<u>25,593</u>	<u>1,593</u>
Total Laboratory Department	<u>46,000</u>	<u>51,044</u>	<u>5,044</u>
Debt Payment:			
Debt Payment	<u>5,534,000</u>	<u>5,532,212</u>	<u>(1,788)</u>
Contingencies:			
Contingencies	<u>130,000</u>	<u>-</u>	<u>(130,000)</u>
Capital Expenditures:			
Capital Outlay, General, Solids, Incinerator	855,500	702,820	(152,680)
Nitrogen Upgrade and Facility	<u>300,000</u>	<u>377,314</u>	<u>77,314</u>
Total Capital Expenditures	<u>1,155,500</u>	<u>1,080,134</u>	<u>(75,366)</u>
Total Expenditures	<u>\$ 14,465,444</u>	\$ 13,599,799	<u>\$ (865,645)</u>
Reconciliation to Audited Financial Statements:			
Total Expenditures per Above		\$ 13,599,799	
Depreciation Expense		135,934	
Loss on disposal of assets		97,965	
Reclass of Debt Payment to Notes Payable Principal		(4,099,573)	
Reclass of Debt Interest Expense		(1,432,639)	
Capital Asset Additions Capitalized from Capital Outlay Above		(511,346)	
Capital Asset Additions Capitalized from Nitrogen Upgrade and Facility		(568,788)	
Reclass of MERS pension payment to deferred outflow		(530,550)	
Reclass of MERS pension payment to deferred inflow		185,374	
To record pension expense per MERS actuarial report		<u>1,122,568</u>	
Total Operating Expenses Per Financial Statement June 30, 2017		<u>\$ 7,998,744</u>	

THE MATTABASSETT DISTRICT
 Required Supplementary Information
 Schedule of District's Proportionate Share of the Net Pension Liability
 June 30, 2017

Year Ended	Proportion of the		Proportionate		Net Pension		Fiduciary Net	
	Liability (Asset)	Net Pension	Share of the Net Pension Liability (Asset)	Pension Liability	Actual Covered Member Payroll	Liability as a Percentage of Covered Payroll	Position as a Percentage of Total Pension Liability	
6/30/2017	1.95%	\$ 2,840,723	\$ 2,510,447	113.16%	88.29%			
6/30/2016	1.57%	1,718,155	1,993,031	86.21%	86.21%			
6/30/2015	1.57%	1,178,532	1,993,031	59.13%	90.48%			
6/30/2014	1.57%	1,717,561	2,002,477	85.77%	87.50%			

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Year Ended	Statutorily Required Contribution		Actual Employer Contribution		Excess/Deficiency		Actual Covered Member Payroll		Contributions as a Percentage of Covered Payroll	
	Contribution	Contribution	Contribution	Contribution	Excess/Deficiency	Member Payroll	Covered Payroll	Covered Payroll	Covered Payroll	
6/30/2017	\$ 273,890	\$ 273,890	\$ 273,890	\$ -	\$ -	2,510,447	2,510,447	10.91%		
6/30/2016	269,470	269,470	269,470	-	-	1,993,031	1,993,031	13.52%		
6/30/2015	295,113	295,113	295,113	-	-	1,993,031	1,993,031	14.81%		
6/30/2014	285,200	285,200	285,200	-	-	2,002,477	2,002,477	14.24%		

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.