

**THE MATTABASSETT DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**

# THE MATTABASSETT DISTRICT

JUNE 30, 2011

## TABLE OF CONTENTS

---

	Page
INDEPENDENT AUDITOR'S REPORT .....	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3-7
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets .....	8
Statement of Revenues, Expenses, and Changes in Net Assets.....	9
Statement of Cash Flows.....	10
Notes to the Basic Financial Statements.....	11-17
REQUIRED SUPPLEMENTARY INFORMATION	
Assets Using the Modified Approach.....	18
SUPPLEMENTAL SCHEDULE	
Schedule of Expenditures – Budget and Actual.....	19-20
COMPLIANCE	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other matters based on an Audit of Basic Financial Statements performed in accordance with <i>Government Auditing Standards</i> .....	21-22



# CASTANHO

## Financial Group, LLC

*Certified Public Accountants & Financial Advisors*

1622 Main Street • East Hartford, CT 06108  
Phone (860) 289-2777 • Fax (860) 289-3343

E-Mail: Carl@CastanhoCPA.com  
CastanhoFinancialGroup.com

### **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
The Mattabasset District  
Cromwell, CT

We have audited the accompanying financial statements of the business-type activity of The Mattabasset District, as of and for the year ended June 30, 2011, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages two (2) through six (6) and the Assets Using the Modified Approach on Page 17, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Castanho Financial Group, LLC*

Castanho Financial Group, LLC  
October 12, 2011

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

BRIAN W. ARMET, P.E.  
EXECUTIVE DIRECTOR

245 MAIN STREET  
CROMWELL, CT 06416-2302  
PHONE: 860-635-5550  
FAX: 860-635-7290

---

MANAGEMENTS' DISCUSSION AND ANALYSIS

---

As management of The Mattabasset District, we offer readers of The Mattabasset District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011.

**Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$69,472,589.
- The District's total net assets increased by \$1,730,608. This increase is attributable substantially to the purchase of capital assets and engineering design for the expansion of nitrogen treatment.
- The District's operating expenses in 2011 were \$343,263 lower than 2010 in part to due to increase in inventory.
- Operating revenues increased by \$302,831 (4.2%) due to a modest increase in costs for member municipalities and sludge management.

**Overview of the Basic Financial Statements**

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

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

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

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

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

**Managements' Discussion and Analysis (continued)**

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

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of The Mattabasset District, assets exceeded liabilities by \$69,472,589 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>2011</u>	<u>2010</u>
Current and Other Assets	\$ 3,334,055	\$ 3,123,428
Capital Assets	70,317,837	68,152,005
Total Assets	73,651,892	71,275,433
Long-Term Liabilities Outstanding	3,600,244	2,560,703
Other Liabilities	579,058	972,749
Total Liabilities	4,179,302	3,533,452
Net Assets:		
Invested in Capital Assets ( Net of related debt)	66,840,891	65,408,669
Unrestricted	2,631,698	2,333,312
TOTAL NET ASSETS	\$ 69,472,589	\$ 67,741,981

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

The District's net assets increased by \$1,730,608 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, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES:</b>		
<b>Assessments:</b>		
Member Municipalities	\$ 4,851,856	\$ 4,715,853
Contractual Towns	791,071	826,021
<b>Charges for Services:</b>		
Septage/Liquids/Grease	358,280	344,545
Sludge Management	1,215,486	1,057,441
Other Revenues	50,342	20,343
<b>TOTAL OPERATING REVENUES</b>	<u>7,267,035</u>	<u>6,964,203</u>
<b>OPERATING EXPENSES:</b>		
Administration	912,824	895,295
Operating	1,793,366	2,136,629
Maintenance	1,014,950	1,002,825
Nitrogen Treatment	698,099	660,959
Utilities	1,778,923	1,768,960
Depreciation	57,524	47,880
<b>TOTAL OPERATING EXPENSES</b>	<u>6,255,686</u>	<u>6,512,548</u>
<b>OPERATING INCOME</b>	<u>1,011,349</u>	<u>451,655</u>
<b>NON-OPERATING REVENUES :</b>		
Clean Water Fund Grant –Nitrogen Treatment	698,099	660,959
Investment Income	21,160	32,110
<b>NET NONOPERATING REVENUES</b>	<u>719,259</u>	<u>693,069</u>
<b>CHANGE IN NET ASSETS</b>	1,730,608	1,144,724
<b>NET ASSETS - JULY 1</b>	<u>67,741,981</u>	<u>66,597,257</u>
<b>NET ASSETS - JUNE 30</b>	<u>\$ 69,472,589</u>	<u>\$ 67,741,981</u>

## Managements' Discussion and Analysis (continued)

Operating revenues increased by \$302,832 (4.2) during the year. The increase was the net effect of the following:

- Assessments increased by \$101,053 due to increase in expenses and special assessment on One (1) town.
- Charges for services increased by \$201,779 due to an increase in sludge and septage revenues.
- Operating expenses decreased by \$256,862 due to inventory increase and capitalization of the Nitrogen Removal Facility.
- Maintenance expense increased by \$12,125 due to an increase in repairs.
- Utilities expense increased by \$9,963 due to an increase in transmission charges.

### Capital Assets and Debt Administration

**Capital Assets** The District's investment in capital assets as of June 30, 2011 amounts to \$70,317,836 (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 three percent (3.1%).

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

**Engineering Design on upgraded Nitrogen Removal System for \$2,051,566 and new Process Monitors, Meters, and Pumps for \$159,891. There was also a forklift added to the vehicles with a purchase price of 11,900.**

#### THE MATTABASSETT DISTRICT CAPITAL ASSETS – NET

	2011	2010
Land	\$ 100,000	\$ 100,000
Wastewater Treatment Facility	69,851,920	67,745,804
Equipment	269,245	203,475
Vehicles	96,671	102,725
TOTAL	<u>\$ 70,317,836</u>	<u>\$ 68,152,004</u>

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 Engineering Design or Phase One of the upgrade to the Nitrogen Removal System was completed in June 2011. The total costs of Phase One was \$4,849,783.**
- **The Construction Phase or Phase Two of the Nitrogen Removal System will begin in the Spring of 2012. The construction of these total improvements is estimated at \$100,000,000 with the DEEP clean water fund providing 23.3% (\$23,300,000) and a remaining loan amount of \$76,700,000. Additional monies from Federal sources are being pursued. The annual bond payment without additional funding is estimated at \$4,715,000 per year.**

**All of these factors were considered when setting rates for the 2012 fiscal year.**

### Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, The Mattabasset District, 245 Main Street, Cromwell, CT 06416.

**THE MATTABASETT DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

**ASSETS**

<b>Current Assets:</b>	
Cash	\$ 241,583
Investments	2,209,719
Accounts Receivable (Net)	212,995
Inventory	602,068
<b>Total Current Assets</b>	3,266,365
 <b>Noncurrent Assets:</b>	
Member Town Assessment Receivable	67,689
 <b>Capital Assets - Utility Plant (Net):</b>	
Land	100,000
Wastewater Treatment Facility	69,851,920
Equipment	269,246
Vehicles	96,671
<b>Total Capital Assets - Utility Plant (Net)</b>	70,317,837
 <b>Total Noncurrent Assets</b>	 70,385,526
 <b>TOTAL ASSETS</b>	 73,651,891

**LIABILITIES**

<b>Current Liabilities:</b>	
Accounts Payable	338,415
Deferred Revenue Assessment	191,793
Accrued Liabilities	12,740
Compensated Absences	31,882
<b>Total Current Liabilities</b>	574,830
 <b>Noncurrent Liability:</b>	
Compensated Absences	127,526
Clean Water Fund Loan Payable	3,476,946
 <b>TOTAL LIABILITIES</b>	 4,179,302

**NET ASSETS**

Invested in Capital Assets (Net of related debt)	66,840,890
Unrestricted	2,631,699
 <b>TOTAL NET ASSETS</b>	 \$ 69,472,589

**THE MATTABASSETT DISTRICT  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

---

**OPERATING REVENUES:**

<b>Assessments:</b>	
Member Municipalities	\$ 4,851,856
Contractual Towns	791,071
<b>Charges for Services:</b>	
Septage/Liquids/Grease	358,280
Sludge Management	1,215,486
Other Revenues	50,342
	<hr/>
<b>TOTAL OPERATING REVENUES</b>	<b>7,267,035</b>
	<hr/>

**OPERATING EXPENSES:**

Administration	912,824
Operating	1,793,366
Maintenance	1,014,950
Nitrogen Treatment	698,099
Utilities	1,778,923
Depreciation	57,524
	<hr/>
<b>TOTAL OPERATING EXPENSES</b>	<b>6,255,686</b>
	<hr/>
<b>OPERATING INCOME</b>	<b>1,011,349</b>
	<hr/>

**NONOPERATING REVENUES :**

Investment Income	21,160
Grant Revenue-Nitrogen Treatment	698,099
	<hr/>
<b>NET NONOPERATING REVENUES</b>	<b>719,259</b>
	<hr/>

<b>CHANGE IN NET ASSETS</b>	<b>1,730,608</b>
<b>NET ASSETS - JULY 1, 2010</b>	<b>67,741,981</b>
	<hr/>
<b>NET ASSETS - JUNE 30, 2011</b>	<b>\$ 69,472,589</b>
	<hr/> <hr/>

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, 2011**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from Customers	\$ 1,569,954
Receipts from Member and Contractual Towns	5,642,927
Payments to Suppliers	(4,908,096)
Payments to Employees	<u>(1,828,516)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>476,269</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Grants Received	698,099
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
State of Connecticut, DEP Loan	1,251,623
Bond Anticipation Note Payment	(200,000)
Interest paid on Bond Anticipation Note	(3,770)
Acquisition and Construction of Capital Assets	<u>(2,223,357)</u>
<b>CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,175,504)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment Income	<u>21,160</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>20,024</b>
<b>CASH AND CASH EQUIVALENTS - JULY 1, 2010</b>	<b><u>2,431,278</u></b>
<b>CASH AND CASH EQUIVALENTS - JUNE 30, 2011</b>	<b>\$ <u>2,451,302</u></b>
<b>RECONCILIATION TO CASH:</b>	
<b>CASH AND CASH EQUIVALENTS PER ABOVE</b>	<b>2,451,302</b>
<b>CASH AND CASH EQUIVALENTS REPORTED AS INVESTMENTS</b>	<b><u>(2,209,719)</u></b>
<b>CASH (INCLUDING RESTRICTED CASH)</b>	<b>\$ <u>241,583</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>	
Operating Income	\$ 1,011,349
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:	
Depreciation	57,524
(Increase) Decrease in	
Accounts Receivable	(54,154)
Inventory	(170,293)
Member Town Assessment	33,845
Increase (Decrease) in:	
Accounts Payable	(585,343)
Accrued Liabilities	(8,452)
Unearned Revenue	<u>191,793</u>
Total Adjustments	<u>(535,080)</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ <u>476,269</u></b>

**THE MATTABASSETT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**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.

## The Mattabassett District Notes to Financial Statements (continued)

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.

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

The principal operating revenues of the District are assessments (user fees) to member towns, charges to contractual towns and charges for sludge, septage, liquid and grease disposal. Operating expenses for the District include the cost of operations, maintenance, utilities, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first then unrestricted resources as they are needed.

#### **d. Assets, Liabilities and Net Assets or Equity**

##### **1. Cash and Investments**

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

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

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

##### **2. Accounts Receivables**

Accounts receivables are shown net of an allowance for uncollectibles. The allowance percentage for June 30, 2011 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.

6. Fund Equity and Net Assets

**The Mattabassett District Notes to Financial Statements (continued)**

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

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

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

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

7. Estimates

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

**II. DETAILED NOTES**

**Note 2: Cash and Investments**

**a. Deposits – Custodial Credit Risk**

Custodial credit risk is risk that, in the event of a bank failure, the District’s deposits may not be returned. FDIC Deposit insurance limit will remain at \$250,000 per account until December 31, 2011. As of June 30, 2011, \$1,300,109 of the District’s bank balance of \$2,550,109 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	1,227,914
Uninsured and collateral held by the pledging banks		
Trust department, not in the District’s name		<u>72,195</u>
Total amount subject to custodial credit risk	\$	<u>1,300,109</u>

At June 30, 2011, the District’s investments consisted of the following types and maturities. Specific identification was used to determine the maturities.

<b>TYPE OF INVESTMENT</b>		<b>FAIR VALUE</b>		<b>INVESTMENT MATURITIES LESS THAN 1 YEAR</b>
Certificates of Deposit	\$	2,137,525	\$	2,137,525
Pooled Fixed Income		60,047		60,047
Money Market		12,147		12,147
<b>TOTAL</b>	<b>\$</b>	<b>2,209,719</b>	<b>\$</b>	<b>2,209,719</b>



**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	\$ 217,995
Less Allowance for Uncollectibles	<u>(5,000)</u>
Net Receivables	\$ 212,995

**Note 4: Capital Assets**

**Activity For The Year Ended June 30, 2011**

	<b>BALANCE JULY 1, 2010</b>	<b>INCREASES</b>	<b>BALANCE JUNE 30, 2011</b>
<b>Capital Assets, not being Depreciated:</b>			
Land and Land Rights	\$ 100,000	\$ -	\$ 100,000
Wastewater Treatment Facility	67,745,804	2,106,116	69,851,920
<b>Total Capital Assets, not being Depreciated</b>	<u>67,845,804</u>	<u>2,106,116</u>	<u>69,951,920</u>
<b>Capital Assets, being Depreciated:</b>			
Equipment	266,061	105,341	371,402
Vehicles	189,754	11,900	201,654
<b>Total Capital Assets, being Depreciated</b>	<u>455,815</u>	<u>117,241</u>	<u>573,056</u>
<b>Total Capital Assets</b>	<u>68,301,619</u>	<u>2,223,357</u>	<u>70,524,976</u>
<b>(Less) Accumulated Depreciation for:</b>			
Equipment	(62,586)	(39,570)	(102,156)
Vehicles	(87,029)	(17,954)	(104,983)
<b>Total Accumulated Depreciation</b>	<u>(149,615)</u>	<u>(57,524)</u>	<u>(207,139)</u>
<b>Total Capital Assets, being Depreciated, Net</b>	<u>306,200</u>	<u>59,717</u>	<u>365,917</u>
<b>Capital Assets, Net</b>	<u>\$ 68,152,004</u>	<u>\$ 2,165,833</u>	<u>\$ 70,317,837</u>

**The Mattabassett District Notes to Financial Statements (continued)**

**Note 5: Change in Long-Term Obligations**

- a. Compensated Absences

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Current</u> <u>Portion</u>
<b>Compensated Absences</b>	\$ 169,225	\$ 193,450	\$ 203,267	\$ 159,408	\$ 31,882

- 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.

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

**The Mattabassett District Notes to Financial Statements (continued)**

- If covered by Social Security, 1-1/6% of the average of earnings not in excess of the taxable wage base for ten (10) highest paid years, plus 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,**

2009	130,033
2010	160,649
2011	196,416

**Note 8: Grants & Loans**

The Mattabassett District received funding for the detailed design of the Nitrogen Removal Upgrade and Related Improvements to the existing wastewater treatment facility. Construction of this upgrade to the facility will allow "The District" to comply with EPA / DEP 2014 Long Island Sound Nitrogen Removal Standards. Phase One (Engineering Design) was completed in August of 2011. and comprises a grant from the DEP Clean Water Fund for a maximum of \$1,136,985 and a low interest loan (2%) of \$3,963,015. At June 30, 2011, The District had received grant payments of \$1,359,058 and loans of \$3,476,946. The estimated cost of the total project is \$100,000,000, with the Clean Water Fund providing a grant for construction of 23.3% or \$23,300,000. The District is working on getting additional funding through various sources both Federal & State. If additional grant monies do not become available, the District will fund the balance of the project through a Clean Water Fund Loan at 2% for 20 years. The annual bond payment is estimated at \$4,715,000 per year.

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

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

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

It is the District's policy to maintain the wastewater treatment facility's equipment, trunk sewer, and outfall at good or better condition. The most recent condition assessments show that the condition of the wastewater treatment facility, trunk sewer, and outfall systems is in compliance with the District's policy. Actual maintenance and preservation costs were more than estimated by approximately 25 to 50% due to increases in raw materials (i.e. steel).

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

<b>EQUIPMENT TYPE</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Plant Equipment	95%	95%	86%	80%
Trunk Sewer and Outfall	95%	95%	95%	100%

**PERCENTAGE OF SEWER TREATMENT SYSTEM IN SUBSTANDARD CONDITION**

<b>EQUIPMENT TYPE</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Plant Equipment	5%	5%	14%	20%
Trunk Sewer and Outfall	5%	5%	5%	0%

**COMPARISON OF ESTIMATED-TO-ACTUAL MAINTENANCE/PRESERVATION**

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
ESTIMATED	\$419,000	\$529,000	\$527,000	\$502,000
ACTUAL	\$400,889	\$439,804	\$637,416	\$523,433

**THE MATTABASSETT DISTRICT  
GENERAL FUND  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011**

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH BUDGET
<b>ADMINISTRATIVE EXPENDITURES:</b>			
Insurance	\$ 100,000	\$ 92,236	\$ 7,764
Engineering	75,000	38,443	36,557
Legal	45,000	102,858	(57,858)
Accounting	15,000	14,480	520
Training	35,000	27,825	7,175
Board	4,000	3,556	444
Business Services	50,000	44,480	5,520
Permit Fees	118,500	117,362	1,138
Office Supplies	10,000	9,438	562
Miscellaneous	9,000	8,996	4
<b>TOTAL ADMINISTRATIVE EXPENDITURES</b>	<b>461,500</b>	<b>459,674</b>	<b>1,826</b>
<b>EMPLOYEE EXPENDITURES:</b>			
Salaries & Wages	1,932,621	1,909,766	22,855
Overtime & Meals	76,735	63,293	13,442
Shift Differential	18,080	16,422	1,658
Workers' Comp	60,000	56,473	3,527
Medical & Dental/etc	508,247	472,445	35,802
Life	8,556	7,259	1,297
Unemployment	9,000	-	9,000
Retirement Benefits	185,274	223,130	(37,856)
Miscellaneous Employee Benefits	25,069	14,703	10,366
<b>TOTAL EMPLOYEE EXPENDITURES</b>	<b>2,823,582</b>	<b>2,763,491</b>	<b>60,091</b>
<b>DEPARTMENT EXPENDITURES</b>			
<b>OPERATIONS DEPARTMENT:</b>			
Operations Supplies	33,000	22,458	10,542
Cleaning Supplies	10,000	5,991	4,009
Chemicals	490,000	442,863	47,137
Electricity	1,720,000	1,658,710	61,290
Fuel: Natural Gas & Oil	180,000	120,213	59,787
Portable Water	40,000	37,052	2,948
Gasoline & Diesel	6,000	6,803	(803)
Sludge Disposal	42,000	47,715	(5,715)
<b>TOTAL OPERATIONS DEPARTMENT</b>	<b>2,521,000</b>	<b>2,341,805</b>	<b>179,195</b>

(Continued)

**MAINTENANCE DEPARTMENT:**

Plant Maintenance Supplies	\$ 185,000	\$ 172,035	\$ 12,965
Lubricants	14,000	11,614	2,386
Plant Maintenance Services	150,000	152,062	(2,062)
Buildings & Grounds	70,000	65,178	4,822

**TOTAL MAINTENANCE DEPARTMENT**

---

419,000	400,889	18,111
---------	---------	--------

---

**LABORATORY DEPARTMENT:**

Laboratory Supplies	17,000	16,811	189
Laboratory Services	27,000	27,082	(82)

**TOTAL LABORATORY DEPARTMENT**

---

44,000	43,893	107
--------	--------	-----

---

**CONTINGENCIES:**

Contingencies	95,975	-	99,975
---------------	--------	---	--------

---

**CAPITAL EXPENDITURES:**

Capital Outlay, General, Solids, Incinerator	2,624,025	1,971,280	652,745
--	-----------	-----------	---------

---

**TOTAL EXPENDITURES**

---

\$ 8,989,082	\$ 7,981,032	\$ 1,008,050
--------------	--------------	--------------

---

**RECONCILIATION TO ACCRUAL:**

TOTAL EXPENDITURES PER ABOVE	\$ 7,981,032
DEPRECIATION EXPENSE	57,524
CHANGE IN INVENTORY	<u>(170,293)</u>
<b>TOTAL EXPENSES</b>	<b>\$ 7,868,263</b>
CAPITAL ASSET ADDITIONS CAPITALIZED FROM CAPITAL OUTLAY ABOVE	<u>(1,612,575)</u>
<b>BALANCE AT JUNE 30, 2011</b>	<b><u>\$ 6,255,688</u></b>



**CASTANHO**  
Financial Group, LLC

*Certified Public Accountants & Financial Advisors*

1622 Main Street • East Hartford, CT 06108  
Phone (860) 289-2777 • Fax (860) 289-3343

E-Mail: Carl@CastanhoCPA.com  
CastanhoFinancialGroup.com

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

The Board of Directors  
The Mattabassett District  
Cromwell, CT

We have audited the basic financial statements of The Mattabassett District, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

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

## Compliance and Other Matters

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

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

*Castanho Financial Group, LLC*

October 12, 2011