

THE MATTABASSETT DISTRICT

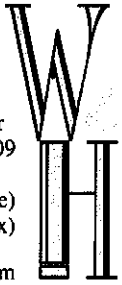
For the year ended June 30, 2016
Independent Auditors' Report

- I. Management's Discussion and Analysis
- II. Basic Financial Statements
- III. Required Supplementary Information
- IV. Report in Accordance with *Government Auditing Standards*
- V. Reports in Accordance with State Single Audit Act

THE MATTABASSETT DISTRICT

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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, 2016, 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, 2016, and the revenues, expenses and 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 4, assets using the modified approach on page 26, budgetary comparison information beginning on page 27, and pension disclosures on page 29 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.

Other Information

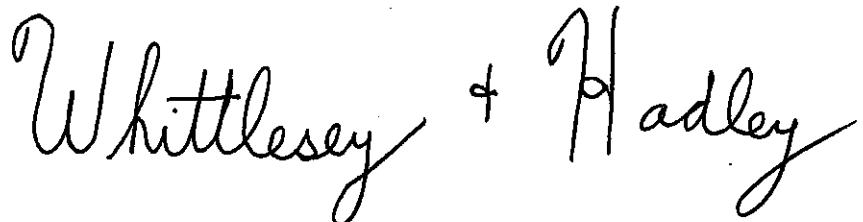
Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements. The schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act, and is not a required part of the basic financial statements.

The schedule of expenditures of state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Hartford, Connecticut
January 19, 2017

A handwritten signature in cursive script that reads "Whittlesey & Hadley". The signature is written in black ink and is positioned to the right of the typed name.

I. MANAGEMENT'S DISCUSSION AND ANALYSIS

THE MATTABASSETT DISTRICT
Management's Discussion and Analysis

For the year ended June 30, 2016

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, 2016.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$116,868,280.
- The District's total net position increased by \$3,977,887. This increase is attributable to the expansion of the facility for the nitrogen treatment upgrade. Included in the above mentioned increase is \$421,069 of grant revenue from the State of Connecticut which is not required to be paid back.
- The District's utilities expenses in 2016 were \$317,118 less than in 2015, due to the increased efficiency of the natural gas boilers, and less usage for the incinerator and lower pumping costs due to dry weather.
- Operating revenues increased by \$1,234,017 (11.7%) due to an increase in costs for member municipalities.
- The District commenced debt service payments on its Clean Water Fund construction loan with the State of Connecticut Department of Energy & Environmental Protection. Total payments of principal and accrued interest amounted to \$13,145,609, which includes a prepayment of \$3,000,000.

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.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

The *statement of revenues, expenses and 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).

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 Mattabassett District, assets exceed liabilities by \$116,868,280 at June 30, 2016.

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 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 Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Current Assets	\$ 3,608,193	\$ 12,760,813
Capital Assets	177,028,378	175,116,290
Noncurrent Assets - Investments	11,979,074	13,047,374
Total Assets	<u>192,615,645</u>	<u>200,924,477</u>
Deferred outflows of resources	<u>404,580</u>	<u>295,113</u>
Current Liabilities	4,751,901	11,990,957
Noncurrent Liabilities	71,400,044	75,886,216
Total Liabilities	<u>76,151,945</u>	<u>87,877,173</u>
Deferred inflows of resources	<u>-</u>	<u>452,024</u>
Net Position		
Invested in Capital Assets (net of related debt)	103,517,378	94,806,116
Unrestricted Surplus/ (Deficit)	13,350,902	18,084,277
Total Net Position	<u>\$ 116,868,280</u>	<u>\$ 112,890,393</u>

The District's net position increased by \$3,977,887 during the year ended June 30, 2016, the amount to which revenues have exceeded expenses.

Management's Discussion and Analysis (CONTINUED)

THE MATTABASSETT DISTRICT

Changes in Net Position

For The Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues:		
Assessments:		
Member Municipalities & Contractual Towns	\$ 10,402,599	9,086,053
Charges for Services:		
Septage/Liquids/Grease	453,265	513,804
Sludge Management	940,005	962,881
Other Revenues	5,733	4,847
	11,801,602	10,567,585
Total Operating Revenues		
Operating Expenses:		
Administration	1,061,095	1,079,065
Operating	2,907,650	2,073,569
Maintenance	1,391,124	1,329,964
Utilities	1,525,148	1,842,266
Depreciation	136,961	92,318
	7,021,978	6,417,182
Total Operating Expenses		
Operating Income	4,779,624	4,150,403
Nonoperating Revenue / (Expense):		
Clean Water Fund Grant - Nitrogen Treatment	421,069	3,989,499
Energy Audit Rebate	285,860	509,061
Interest Income	68,831	80,898
Interest Expense	(1,577,497)	(1,500,346)
	(801,737)	3,079,112
Net Nonoperating Revenue / (Expense)		
Change in Net Position	3,977,887	7,229,515
Net Position, beginning of year	112,890,393	105,660,878
Net Position, end of year	\$ 116,868,280	\$ 112,890,393

Management's Discussion and Analysis (CONTINUED)

Operating income increased by \$629,221 during the year. The increase was the net effect of the following:

- Assessments increased by \$1,316,546 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 \$82,529 due to decreased volume.
- Operating expenses increased by \$604,796. This was due to a net increase in Municipal Employees' Retirement System ("MERS") pension expense of \$816,611 as well as the decrease in utilities expenses of \$209,814, which was due to the increased efficiency of the natural gas boilers, less usage for the incinerator and lower pumping costs due to dry weather.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The District's investment in capital assets as of June 30, 2016 amounts to \$177,028,378 (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 one percent due mainly to the nitrogen upgrade project currently in progress. As of June 30, 2016, the nitrogen upgrade project is substantially complete.

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

- Construction, engineering design and other related costs on upgraded Nitrogen Removal System of \$1,814,208 were capitalized.
- Camera equipment, a phone system, a new Ford Explorer, and other equipment were purchased at a cost of \$234,841 which are subject to depreciation.

THE MATTABASSETT DISTRICT
Capital Assets – Net of Depreciation
 June 30, 2016 and 2015

	2016	2015
Land	\$ 100,000	\$ 100,000
Waste Water Treatment Facility	176,024,531	174,210,323
Equipment	727,201	644,405
Vehicles	176,646	161,562
Total Capital Assets - Net of Depreciation	\$ 177,028,378	\$ 175,116,290

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.

Management's Discussion and Analysis (CONTINUED)

Economic Factors and Next Year's Budgets and Rates

- Inflationary trends in the region compare favorably to national indices.
- The 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.
- Total project costs, construction, engineering oversight, inspection, and legal related to the Nitrogen Upgrade were \$105,667,519 through the year ended June 30, 2016. \$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. \$1,446,590 was paid for out of the District's reserves.
- For fiscal years ending June 30, 2017 and June 30, 2018, payments of principal and interest on the Clean Water Fund Loans will be \$5,532,214 and \$5,450,222 respectively.

All of these factors were considered when the annual assessment rates for the 2016-2017 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 Mattabasset District, 245 Main Street, Cromwell, CT 06416.

II. BASIC FINANCIAL STATEMENTS

THE MATTABASSETT DISTRICT

Statement of Net Position

June 30, 2016

Assets	
Current Assets	
Cash	\$ 2,385,579
Investments	576,492
Accounts Receivable, net	159,867
Inventory	486,255
Total Current Assets	<u>3,608,193</u>
Capital Assets - Utility Plant, net	
Land	100,000
Waste Water Treatment Facility	176,024,531
Equipment, net	727,201
Vehicles, net	176,646
Total Capital Assets - Utility Plant, net	<u>177,028,378</u>
Noncurrent Assets	
Investments	11,979,074
Total Assets	<u>192,615,645</u>
Deferred Outflows of Resources	
Deferred Outflows Related to Pension	<u>404,580</u>
Liabilities	
Current Liabilities	
Construction Payables	105,007
Trade Accounts Payable	298,139
Accrued Payroll Liabilities	56,567
Compensated Absences, current portion	67,615
Divers Bond Payable	125,000
Clean Water Fund Loan Payable, current portion	4,099,573
Total Current Liabilities	<u>4,751,901</u>
Noncurrent Liabilities	
Compensated Absences	270,462
Clean Water Fund Loan Payable	69,411,427
Net Pension Liability	1,718,155
Total Noncurrent Liabilities	<u>71,400,044</u>
Total Liabilities	<u>76,151,945</u>
Deferred Inflows of Resources	
Deferred Inflows Related to Pension	<u>-</u>
Net Position	
Invested in Capital Assets (net of related debt)	\$ 103,517,378
Unrestricted Surplus	13,350,902
Total Net Position	<u>\$ 116,868,280</u>

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

THE MATTABASSETT DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

For the year ended June 30, 2016

Operating Revenues:	
Assessments:	
Member Municipalities & Contractual Towns	\$ 10,402,599
Charges for Services:	
Septage/Liquids/Grease	453,265
Sludge Management	940,005
Other Revenues	<u>5,733</u>
 Total Operating Revenues	 <u>11,801,602</u>
 Operating Expenses:	
Administration	1,061,095
Operating	2,907,650
Maintenance	1,391,124
Utilities	1,525,148
Depreciation	<u>136,961</u>
 Total Operating Expenses	 <u>7,021,978</u>
 Operating Income	 <u>4,779,624</u>
 Nonoperating Revenue / (Expense):	
Clean Water Fund Grant - Nitrogen Treatment	421,069
Energy Audit Rebate	285,860
Interest Income	68,831
Interest Expense	<u>(1,577,497)</u>
 Net Nonoperating Revenue / (Expense)	 <u>(801,737)</u>
 Change in Net Position	 <u>3,977,887</u>
 Net Position, beginning of year	 <u>112,890,393</u>
 Net Position, end of year	 <u><u>\$ 116,868,280</u></u>

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

THE MATTABASSETT DISTRICT

Statement of Cash Flows

For the year ended June 30, 2016

Cash Flows From Operating Activities:	
Receipts from Customers	\$ 1,436,775
Receipts from Member and Contractual Towns	9,975,056
Payments to Suppliers	(3,569,135)
Payments to Employees	<u>(3,258,855)</u>
Net Cash Provided by Operating Activities	<u>4,583,841</u>
Cash Flows From Capital and Related Financing Activities	
Principal paid on Clean Water Fund loan	(9,136,241)
Interest paid on Clean Water Fund loan	(4,183,215)
Proceeds from Clean Water Fund loan	2,337,065
Proceeds from Clean Water Fund grant	709,348
Proceeds from divers bond payable	(120,351)
Acquisition and construction of capital assets	<u>(4,402,165)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(14,795,559)</u>
Cash Flows From Investing Activities	
Energy Audit Rebate	285,860
Investment income	<u>68,831</u>
Net Cash Provided by Investing Activities	<u>354,691</u>
Net Decrease in Cash and Cash Equivalents	(9,857,027)
Cash and Cash Equivalents, beginning of year	<u>24,798,172</u>
Cash and Cash Equivalents, end of year	<u>\$ 14,941,145</u>
Reconciliation to Cash:	
Cash and Cash Equivalents per Above	\$ 14,941,145
Cash and Cash Equivalents Reported as Investments	<u>(12,555,566)</u>
Cash	<u>\$ 2,385,579</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	<u>\$ 4,779,624</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	136,961
Changes in Assets and Liabilities:	
Accounts Receivable	37,772
Inventory	37,842
Deferred Outflows and Inflows of Resources, net	(404,580)
Accounts Payable	(191,631)
Accrued Liabilities	75,773
Net Pension Liability	539,623
Deferred Revenue	<u>(427,543)</u>
Total Adjustments	<u>(195,783)</u>
Net Cash Provided by Operating Activities	<u>\$ 4,583,841</u>

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

THE MATTABASSETT DISTRICT

Notes to the Financial Statements

June 30, 2016

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 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 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 four standing committees (Finance, Engineering, Human Resource 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 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 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.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

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 Statutes 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 Receivable

Accounts receivable are shown net of an allowance for uncollectible accounts. The allowance percentage for June 30, 2016 was approximately two percent of outstanding receivable balances, calculated based upon prior collections.

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 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.

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 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).

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).

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, grantors, contributors or laws and regulation). This amount is restricted for capital and nonrecurring expenses. The District had no restricted net position at June 30, 2016.

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

Estimates

The preparation of 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 the year ended June 30, 2016 through January 19, 2017 the date on which financial statements were available to be issued.

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, 2016, \$14,206,449 of the District's bank balance of \$14,941,145 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 13,629,958
Uninsured and collateral held by the pledging banks	
Trust department, not in the District's name	576,491
Total amount subject to custodial credit risk	<u>\$ 14,206,449</u>

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

At June 30, 2016, 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	\$ 11,979,075	\$ 11,979,075
Pooled Fixed Income	75,152	75,152
Money Market	501,339	501,339
Total	<u>\$ 12,555,566</u>	<u>\$ 12,555,566</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.

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 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2016, are as follows:

Gross Receivables	\$ 164,867
Less Allowances for Uncollectible	(5,000)
Net Receivables	<u>\$ 159,867</u>

NOTE 4 – CAPITAL ASSETS

Activity for the year ended June 30, 2016	Balance as of July 1, 2015	Increases	Decreases	Balance as of June 30, 2016
Capital Assets, not being depreciated:				
Land and Land Rights	\$ 100,000	\$ -	\$ -	\$ 100,000
Wastewater Treatment Facility	174,210,323	1,814,208	-	176,024,531
Total Capital Assets, not being depreciated	174,310,323	1,814,208	-	176,124,531
Capital Assets, being depreciated:				
Equipment	979,606	202,567	-	1,182,173
Vehicles	298,285	32,274	-	330,559
Total Capital Assets, being depreciated	1,277,891	234,841	-	1,512,732
Total Capital Assets	175,588,214	2,049,049	-	177,637,263
(Less) Accumulated Depreciation for:				
Equipment	(335,201)	(119,771)	-	(454,972)
Vehicles	(136,723)	(17,190)	-	(153,913)
Total Accumulated Depreciation	(471,924)	(136,961)	-	(608,885)
Total Capital Assets, being depreciated, net	805,967	97,880	-	903,847
Capital Assets, net	\$ 175,116,290	\$ 1,912,088	\$ -	\$ 177,028,378

NOTE 5 – COMPENSATED ABSENCES

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016	Current Portion
Compensated Absences	\$ 282,545	\$ 262,767	\$ 207,235	\$ 338,077	\$ 67,615

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; there have not been any claims in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

NOTE 7 – 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 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.

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.

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 contributions for the past 3 years were as follows:

<u>Year Ending June 30,</u>	
2014	285,200
2015	295,113
2016	269,470

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

At June 30, 2016, the District has a recorded liability of \$1,718,155 for its proportionate share of the net pension liability. The net pension liability for the plan in total was measured as of June 30, 2015 and determined by an actuarial valuation as of June 30, 2014. The District's proportionate share of the total net pension liability was based on the ratio of 2014 reported payroll of \$1,993,031 relative to the total reported payroll applicable to our specific type of employees of \$126,874,694 from all participating employers. At June 30, 2015, the District's proportionate share was \$1.570866%.

NOTE 7 – PENSION PLAN (CONTINUED)

For the year ended June 30, 2016, the District recognized a pension expense of \$270,906, its proportionate share of the total pension expense.

In addition, the District recognized \$113,007 of additional pension expense for the year ended June 30, 2016 due to a change in actuarial assumptions.

At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description of Outflows/Inflows</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Changes in proportional share of employer	-	-
Net difference between projected and actual earnings on pension plan investments	135,110	-
District contributions subsequent to measurement date	<u>269,470</u>	<u>-</u>
Total	<u>404,580</u>	<u>-</u>
Net amount of deferred inflows and outflows excluding District contributions subsequent to measurement date		<u>135,110</u>

The \$135,110 reported as deferred outflows 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 30, 2017 through 2020.

The \$269,470 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

	<u>Pension expense reduction</u>
2017	\$ 5,526
2018	5,526
2019	5,526
2020	<u>118,532</u>
	<u>\$ 135,110</u>

NOTE 7 – PENSION PLAN (CONTINUED)

Actuarial Assumptions

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 2010 and the next experience study is scheduled for 2016.

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

Measurement date	June 30, 2015
Valuation Date	June 30, 2014
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%

Mortality Assumptions

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

NOTE 7 – PENSION PLAN (CONTINUED)

Expected Rate of Return

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. 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	16.0%	5.8%
Developed non-U.S. equities	14.0%	6.6%
Emerging markets (non-U.S.)	7.0%	8.3%
Core fixed income	8.0%	1.3%
Inflation linked bond fund	5.0%	1.0%
Emerging market bond	8.0%	3.7%
High yield bonds	14.0%	3.9%
Real estate	7.0%	5.1%
Private equity	10.0%	7.6%
Alternative investments	8.0%	4.1%
Liquidity fund	3.0%	0.4%
	<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.

Discount Rate	<u>1% Decrease (7.00%)</u>	<u>Current rate (8.00%)</u>	<u>1% increase (9.00%)</u>
Proportionate share of the Net Pension Liability	\$ 3,184,028	\$ 1,718,155	\$ 475,506

NOTE 8 – 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 \$105,667,519 through the year ended June 30, 2016. \$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. \$1,446,590 was paid for out of the District's reserves. For the year ending June 30, 2016, the District recognized \$421,069 in grant revenue and \$2,335,064 in loans. The composition of the two loans as of June 30, 2016 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.	\$ 2,520,787	\$ 173,847	\$ 2,346,940
DEEP Clean Water Fund, Project 567-C 2% loan maturing in July of 2035, payable in monthly principal payments of \$327,144 plus related interest.	<u>70,990,213</u>	<u>3,925,726</u>	<u>67,064,487</u>
Total	<u>\$ 73,511,000</u>	<u>\$ 4,099,573</u>	<u>\$ 69,411,427</u>

The future minimum payments based on the outstanding balances as of June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	4,099,573	1,432,641	5,532,214
2018	4,099,574	1,350,649	5,450,223
2019	4,099,573	1,268,658	5,368,231
2020	4,099,574	1,186,666	5,286,240
2021	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	12,104,322	383,306	12,487,628
	<u>\$ 73,511,000</u>	<u>\$ 13,264,177</u>	<u>\$ 86,775,177</u>

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

NOTE 9 – DIVERS BOND PAYABLE

The Divers Bond Payable represents a cash bond held in relation to outfall dredging and valve installation. The bond is held in a certificate of deposit totaling \$125,000.

NOTE 10 - SUBSEQUENT EVENT

A fire damaged the sludge incinerator in August 2016. Damages are currently estimated to be \$1,000,000 including lost revenues and expenses incurred during the business interruption. Repairs to the incinerator are expected to take approximately 4 to 6 months. During this time, the District may experience some loss in sludge revenue due to this business interruption. At this time, management expects that the costs of repair will be mostly absorbed by the contractor and insurance. Therefore, no loss contingency has been estimated or recorded at this time.

III. REQUIRED SUPPLEMENTARY INFORMATION

THE MATTABASSETT DISTRICT
Required Supplementary Information
Assets Using the Modified Approach
Wastewater Treatment Plant and Collection System
June 30, 2016

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 is in compliance with the District's policy.

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

Equipment Type	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Plant Equipment	98%	98%	80%	85%
Trunk Sewer and Outfall	93%	95%	90%	90%

**PERCENTAGE OF SEWER TREATMENT SYSTEM IN LESS THAN GOOD OR BETTER
CONDITION**

Equipment Type	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Plant Equipment	2%	2%	20%	15%
Trunk Sewer and Outfall	7%	5%	10%	10%

COMPARISON OF ESTIMATED-TO-ACTUAL MAINTENANCE/PRESERVATION

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Estimated	\$ 461,500	\$ 524,000	\$ 524,000	\$ 524,000
Actual	\$ 570,187	\$ 561,459	\$ 426,012	\$ 296,949

THE MATTABASSETT DISTRICT
Required Supplementary Information
Schedule of Expenditures – Budget and Actual
June 30, 2016

	Original and Final Budget	Actual	Variance with Budget
Administrative Expenditures:			
Insurance	\$ 140,000	\$ 108,627	(31,373)
Engineering	80,000	95,324	15,324
Legal	90,000	80,166	(9,834)
Accounting	35,976	35,956	(20)
Training	20,000	28,193	8,193
Board	31,000	23,720	(7,280)
Legislative Payment - Cromwell	100,000	100,000	-
Business Services	115,000	121,022	6,022
Permit Fees	26,500	14,614	(11,886)
Office Supplies	20,000	18,288	(1,712)
Miscellaneous	10,000	11,958	1,958
Total Administrative Expenditures	668,476	637,868	(30,608)
Employee Expenditures:			
Salaries & Wages	2,420,894	2,345,374	(75,520)
Overtime & Meals	106,061	110,819	4,758
Shift Differential	40,752	33,495	(7,257)
Workers' Comp	70,000	45,876	(24,124)
Medical & Dental, etc.	502,362	454,662	(47,700)
Life	8,556	9,099	543
Unemployment	9,000	5,415	(3,585)
Retirement Benefits	299,955	303,715	3,760
Miscellaneous Employee Benefits	30,076	26,173	(3,903)
Total Employee Expenditures	3,487,656	3,334,628	(153,028)
DEPARTMENT EXPENDITURES			
Operations Department:			
Operations Supplies	32,000	25,236	(6,764)
Cleaning Supplies	18,000	11,911	(6,089)
Chemicals	465,000	415,412	(49,588)
Electricity	1,630,000	1,401,997	(228,003)
Fuel: Natural Gas & Oil	180,000	123,151	(56,849)
Potable Water	45,000	59,401	14,401
Gasoline & Diesel	11,000	4,618	(6,382)
Sludge Disposal	45,000	18,986	(26,014)
Ash Handling	95,000	106,550	11,550
Total Operations Department	2,521,000	2,167,262	(353,738)

THE MATTABASSETT DISTRICT

Required Supplementary Information

Schedule of Expenditures -- Budget and Actual (CONTINUED)

June 30, 2016

	Original and Final Budget	Actual	Variance with Budget
Maintenance Department:			
Plant Maintenance Supplies	220,000	192,471	(27,529)
Lubricants	19,000	26,587	7,587
Plant Maintenance Services	147,500	94,220	(53,280)
Buildings & Grounds	75,000	76,912	1,912
Capital Outlay	-	179,997	179,997
Total Maintenance Department	461,500	570,187	108,687
Laboratory Department:			
Laboratory Supplies	19,000	19,060	60
Laboratory Services	32,000	20,969	(11,031)
Total Laboratory Department	51,000	40,029	(10,971)
Bonded Debt Payment:			
Bonded Debt Payment	13,317,472	13,319,456	1,984
Contingencies:			
Contingencies	-	-	-
Capital Expenditures:			
Capital Outlay, General, Solids, Incinerator	499,854	234,841	(265,013)
Nitrogen Upgrade and Facility	4,359,474	1,814,208	(2,545,266)
Total Capital Expenditures	4,859,328	2,049,049	(2,810,279)
Total Expenditures	\$ 25,366,432	\$ 22,118,479	\$ (3,247,953)
Reconciliation to Audited Financial Statements:			
Total Expenditures per Above			\$ 22,118,479
Depreciation Expense			136,961
Reclass of Debt Payment to Notes Payable Principal			(9,136,241)
Reclass of Debt Interest Expense			(4,183,215)
Capital Asset Additions Capitalized from Capital Outlay Above			(234,841)
Capital Asset Additions Capitalized from Nitrogen Upgrade and Facility Above			(1,814,208)
Reclass of MERS pension payment to deferred outflow			(269,470)
To record pension expense per MERS actuarial report			404,513
Total Operating Expenses Per Financial Statement June 30, 2016			\$ 7,021,978

THE MATTABASSETT DISTRICT

Required Supplementary Information

Schedule of the District's Proportionate Share of the Net Pension Liability
June 30, 2016

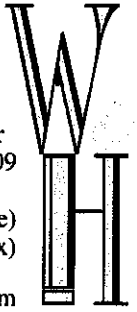
Year Ended	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Actual Covered Member Payroll	Net Pension Liability as a Percentage of Covered Payroll	Fiduciary Net Position as a Percentage of Total Pension Liability
6/30/2016	1.570866%	\$ 1,718,155	1,993,031	86.21%	92.72%
6/30/2015	1.570866%	1,178,532	1,993,031	59.13%	90.48%
6/30/2014	1.570866%	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 Ending	Statutorily Required Contribution	Actual Employer Contribution	Contribution Excess/Deficiency	Actual Covered Member Payroll	Contributions as a Percentage of Covered Payroll
6/30/2016	\$ 269,470	\$ 269,470	\$ -	1,993,031	13.52%
6/30/2015	295,113	295,113	-	1,993,031	14.81%
6/30/2014	285,200	285,200	-	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.

**IV. REPORT IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***



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

Board of Directors of
The Mattabassett District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of The Mattabassett District ("the District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated January 19, 2017.

Internal Control over Financial Reporting

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

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

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

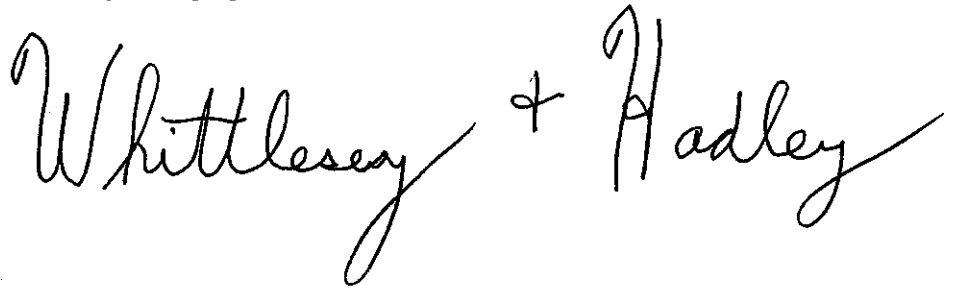
Compliance and Other Matters

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

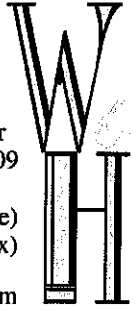
Purpose of This Report

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

Hartford, Connecticut
January 19, 2017

A handwritten signature in cursive script that reads "Whittlesey & Hadley". The signature is written in black ink and is positioned to the right of the typed date and location.

**V. REPORTS IN ACCORDANCE WITH
STATE SINGLE AUDIT ACT**



INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR EACH MAJOR STATE PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE STATE SINGLE AUDIT ACT

To the Board of Directors of
The Mattabassett District

Report on Compliance for Each Major State Program

We have audited The Mattabassett District's compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of The Mattabassett District's major state programs for the year ended June 30, 2016. The Mattabassett District's major state programs are identified in the summary of auditors' results section of the accompanying schedule of state findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The Mattabassett District's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about The Mattabassett District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of The Mattabassett District's compliance.

Opinion on Each Major State Program

In our opinion, The Mattabassett District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

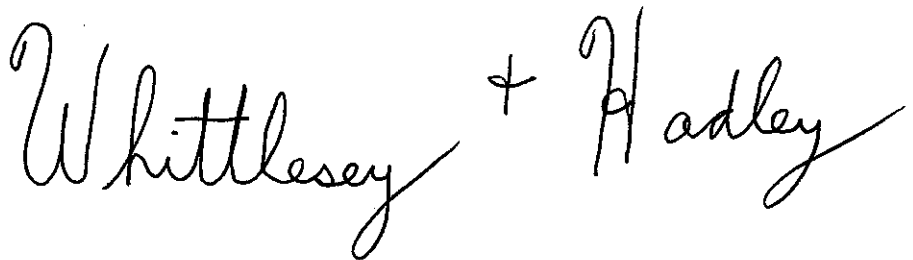
Management of The Mattabasset District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Mattabasset District's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Mattabasset District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Hartford, Connecticut
January 19, 2017

Handwritten signatures of Whittlesey and Hadley, separated by a plus sign.

THE MATTABASSETT DISTRICT

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2016

State Grantor/Pass-Through Grantor/Program Title	State Grant Program Core-CT Number	State Expenditures
Department of Energy and Environmental Protection		
Clean Water Funds		
Loan	21015-DEP43720-42318	\$ 623,665
Grant	21015-DEP43720-40001	<u>421,069</u>
Total State Expenditures		<u><u>\$ 1,044,734 *</u></u>

* Represents Nitrogen Upgrade costs capitalized that were paid for using DEEP funding and included in the audited financial statements for the year ended June 30, 2016.

See accompanying notes to schedule.

THE MATTABASSETT DISTRICT

Note to Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2016

The accompanying Schedule of Expenditures of State Financial Assistance includes state grant activity of the Mattabassett District under programs of the State of Connecticut for the fiscal year ended June 30, 2016. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including the detailed design of the Nitrogen Removal Upgrade and Related Improvements to the existing wastewater treatment facility.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Mattabassett District conform to accounting principles generally accepted in the United States of America as applicable to government entities.

The information in the Schedule of Expenditures of State Financial Assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Basis of Accounting

The expenditures reported on the Schedule of Expenditures of State Financial Assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

NOTE 2 - LOAN PROGRAMS

In accordance with Section 4-236-23(a)(4)(F) of the Regulations to the State Single Audit Act, the notes to the Schedule of Expenditures of State Financial Assistance shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2016.

Department of Energy and Environmental Protection:

Clean Water Funds 21015-DEP43720-42318

Project No.	Issue Date	Interest Rate	Original Amount	Beginning Balance	Issued	Retired	Ending Balance
567-D	6/30/2011	2.0%	\$ 3,476,946	\$ 2,694,634	\$ -	\$ 173,847	\$ 2,520,787
567-C	6/29/2012	2.0%	\$ 83,183,533	\$ 77,615,540	\$ 2,337,065	\$ 8,962,392	\$ 70,990,213

THE MATTABASSETT DISTRICT

Schedule of State Findings and Questioned Costs

For the year ended June 30, 2016

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? yes no

- The following schedule reflects the major programs included in the audit:

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
DEEP Clean Water Funds Loan	21015-DEP43720-42318	\$ 623,665
DEEP Clean Water Funds Grant	21015-DEP43720-40001	\$ 421,069

- Dollar threshold used to distinguish between type A and type B programs was \$200,000

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

No matters were reported.