

**First Taxing District
City of Norwalk, Connecticut**

Financial Statements and
Supplementary Information

Year Ended June 30, 2014

**First Taxing District
City of Norwalk, Connecticut**

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Independent Auditors' Report

The Honorable Commissioners of the
First Taxing District
City of Norwalk, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the First Taxing District, City of Norwalk, Connecticut ("District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 the *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 District'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 District'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

O'CONNOR DAVIES, LLP

3001 Summer Street - 5th Floor, East, Stamford, CT 06905 | Tel: 203.323.2400 | Fax: 203.967.8733 | www.odpkf.com

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Schedule of Funding Progress – Other Post Employment Benefits 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The statement of net position (with comparative totals for 2013), the comparative schedules of revenues and expenditures-budget to actual for the Water Fund and the First District Fund, the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profits Organizations and the schedule of expenditures of state financial assistance as required by the State Single Audit Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information 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 October 27, 2014 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 the 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.

O'Connor Davies, LLP

O'Connor Davies, LLP
Stamford, Connecticut
October 27, 2014

FIRST TAXING DISTRICT WATER DEPARTMENT

Management's Discussion and Analysis June 30, 2014

As management of the First Taxing District, City of Norwalk, Connecticut, Water Department, we offer the readers of the financial statements this narrative overview and analysis of the financial activities of the Water Department for the fiscal year ending June 30, 2014. We encourage readers to consider the information presented here along with the audited basic financial statements which follow this section.

OVERVIEW FOR THE FINANCIAL STATEMENTS

This discussion and analyses is intended to serve as an introduction to the Water Department's basic financial statements, including the related notes to the financial statements which explain in detail some of the information included in those statements. The basic financial statements are comprised of three components: (1) the Statement of Net Position, (2) Statement of Activities, and (3) the Statement of Cash Flows. This report also contains other supplementary information associated with the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Water Department report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles generally accepted in the United States of America. The Statement of Net Position includes information on the Water Department's assets and liabilities, and provides information about the nature and amounts of investments in assets and the obligations to creditors (liabilities).

The Statement of Activities identifies the Water Department's revenues and expenses for the fiscal year ending June 30, 2014. This statement provides information on the Water Department's operations over the past fiscal year and can be used to determine whether the Water Department has recovered all of its actual and projected costs through user fees and other charges.

The Statement of Cash Flows provides information on the Water Department's cash receipts, cash payments and changes in cash resulting from operations financing and investing activities. From the Statement of Cash Flow, the reader can obtain comparative information on the sources and uses of cash, and the change in the cash and cash equivalents balance for the fiscal year.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2014

- The assets of the Water Department exceed its liabilities resulting in the total net position of \$24,996,655 at the close of the fiscal year, which represents an increase of \$1,292,790 or 5.5 % from FY 2013.
- As of June 30, 2014, the Water Department's net investment in capital assets totaled approximately \$30 million, an increase of \$4.358 million, or 17.0 % compared to the previous fiscal year.

- At the close of this fiscal year, the Water Department's operating revenue increased to \$7,876,642 from \$7,445,889, an increase of 0.6 % over the previous year. As part of the FY 2014 Budget approval process and effective July 1, 2014, new user rates and charges were approved that would generate sufficient revenues to repay loans payable to the City of Norwalk and fund future capital projects.
- The Water Department's operating expenses increased from \$6,751,904 to \$7,089,335, an increase of \$337,431 or 5.0 % over the previous year.
- The Water Department's total liabilities reflect an increase of \$4,759,290, 42.2 %. A significant portion of the increase is due to borrowing for capital construction.

DEBT SERVICE

The First Taxing District, City of Norwalk, Connecticut ("District") has the legal authority to issue bonds. In practice, the District has generally financed capital improvements from operating cash, and has not exercised its bonding authority. Until recently, this was workable because capital needs were rather modest. However, over the next five years it would be necessary to expend significant monies to fund mandated safety repairs to two dams, replace undersized water mains, improve fire flows, replace a pumping station and storage tank. The plan was to issue debt to cover \$8,585,000 of this amount, and to finance the remaining portion incrementally from annual operating revenues.

The District is currently not rated by the major rating agencies, and the expense associated with bringing an inaugural bond issue to market would be considerable. The interest rate that would be achieved in the market would be higher than the rate the City of Norwalk ("City") enjoys, because the District is not a well-known issuer like the City. The District requested and the City agreed to allow the District to "piggyback" on their bonding capabilities for purposes of this financing. The District is responsible for repaying all principal and interest to the City.

In December, 2010, a loan agreement between the City and the District was executed. This agreement provides that the District pledges its full faith and credit to secure the loan, and further requires that a lien be established on certain revenues to secure repayment. The District was also required to establish and fund a debt service reserve equal to one year of principal and interest, and establish a mechanism to intercept revenues to ensure that this debt service reserve remains fully funded. With these security features in place, the likelihood of a default by the District is remote.

In addition, the District does not only pay principal, interest and cost of issuance on this obligation, but also pays the City an annual administrative fee equal to 35 basis points on the balance of any outstanding debt. The Board of Commissioners expressed their appreciation and gratitude of the District to the City's willingness to work together in the best interest of Norwalk residents which will result in the lowest possible interest rates and therefore, significant savings for the District's ratepayers.

On June 26, 2013, the District was informed that the Connecticut Department of Health Drinking Water Section completed its review and final ranking of all project eligibility applications received during the fall of 2012 call for projects and that funds are available for our Spring Hill Area System Reliability Improvements Project in the amount of \$7,000,000. The District subsequently filed a Financial Assistance Application along with all required

supporting documents and has received authorization to proceed with design. Participation in the Drinking Water State Revolving Fund (“DWSRF”) program will result in significant financing cost savings for District customers.

In order to insure compliance with the required schedule to maintain eligibility for the Connecticut Drinking Water State Revolving Fund for the Water System Reliability Improvements in the Spring Hill Area Project, an additional appropriation to the FY 2013 Annual Capital Budget was approved by the Board of Commissioners on January 8, 2013. A Public Hearing was held on January 8th, and at two (2) Special Meetings of the Electors held on January 22nd and February 12th, the additional appropriation in the amount of \$7,000,000 was approved and ratified.

The Approved FY 2014 Annual Operating Budget proposes to phase in the full debt service payment over three years and anticipates a closing on the Final Loan Agreement on or about December, 2015. This phased approach would allow a gradual and level increase in the rates to meet the loan obligations. The unexpended debt service budget would be utilized to establish a debt service restricted reserve account to guarantee re-payment or reduce the amount of the initial loan which would result in a reduction in the amount of the annual debt service payment.

On June 30, 2013, the District closed on the Interim Funding Obligation and authorization to award contracts and begin construction was granted by the Connecticut Department of Public Health.

FINANCIAL ANALYSIS

The Statement of Net Position and the Statement of Activities provide an indication of the Water Department’s financial condition. The Water Department’s net position reflects the difference between assets and liabilities. The increase in total net position during FY 2014 resulted in large part from the increase in user rates and charges. A more detailed analysis follows:

CONDENSED STATEMENT OF NET POSITION

	2014	2013	\$Change	% Change
Current Assets	\$ 11,048,586	\$ 9,354,721		
Net Capital Assets	\$ 29,974,548	\$ 25,616,333		
Total Assets	\$ 41,023,134	\$ 34,971,054	\$6,052,080	17.31 %
Total Liabilities	\$ 16,026,479	\$ 11,267,189	\$4,759,290	42.24 %
Net Investment in capital assets	\$ 18,127,768	\$ 17,618,290	\$ 509,478	
Restricted for Capital Projects	\$ 6,837,727	\$ 6,388,617	\$ 449,110	
Restricted for Connection Fees	\$ 356,569	\$ 167,750	\$ 188,819	
Restricted for Debt Service	\$ 1,339,562	\$ 939,663	\$ 399,899	
Restricted for other post employment benefits	\$ 140,345	\$ -	\$ -	
Unrestricted	\$ (1,805,316)	\$ (1,410,455)	\$ (394,861)	
Total Net Position	\$ 24,996,655	\$ 23,703,865	\$1,292,790	5.45 %

STATEMENT OF ACTIVITIES

	2014	2013	\$ Change	% Change
Operating Revenues	\$ 7,876,642	\$ 7,445,889	\$ 430,753	
Non-operating Revenues	\$ 811,490	\$ 804,402	\$ 84,615	
Total Revenues	\$ 8,688,132	\$ 8,250,291	\$ 428,449	5.48 %
Depreciation Expense	\$ 1,026,592	\$ 963,445	\$ 63,147	
Other Operating Expenses	\$ 6,062,743	\$ 5,788,459	\$ 274,284	
Total Expenses	\$ 7,089,335	\$ 6,751,904	\$ 337,431	5.00 %
Changes in Net Position	\$ 1,292,790	\$ 1,136,569	\$ 156,221	
Beginning Net Position	\$ 23,703,865	\$ 22,567,296	\$ 1,136,569	
Ending Net Position	\$ 24,996,655	\$ 23,703,865	\$ 1,292,790	5.45 %

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the First Taxing District, City of Norwalk, Connecticut Water Department's customers, and other interested parties with an overview of the Water Department's financial operations and financial condition. Should the reader have questions regarding the information included in this report, please contact the First Taxing District Water Department at 12 New Canaan Avenue, P.O. Box 27, Norwalk, CT 06851.

**First Taxing District
City of Norwalk, Connecticut**

Statement of Net Position
June 30, 2014

	Water Fund	First District Fund	Total
ASSETS			
Current assets			
Cash and equivalents	\$ 8,974,471	\$ 810,798	\$ 9,785,269
Restricted cash	677,601	-	677,601
Accounts receivable, net	1,271,198	-	1,271,198
Inventory	125,316	-	125,316
Total Current Assets	<u>11,048,586</u>	<u>810,798</u>	<u>11,859,384</u>
Noncurrent assets			
Capital assets			
Not being depreciated	15,086,090	777,108	15,863,198
Being depreciated, net	14,888,458	198,484	15,086,942
	<u>29,974,548</u>	<u>975,592</u>	<u>30,950,140</u>
Total Assets	<u>41,023,134</u>	<u>1,786,390</u>	<u>42,809,524</u>
LIABILITIES			
Current liabilities			
Accounts payable	172,806	31,185	203,991
Accrued expenses	821,881	-	821,881
Accrued interest payable	32,242	-	32,242
Retainage payable	249,565	-	249,565
Loan payable - City of Norwalk, current portion	429,250	-	429,250
Compensated absences, current portion	11,000	-	11,000
Total Current Liabilities	<u>1,716,744</u>	<u>31,185</u>	<u>1,747,929</u>
Noncurrent liabilities			
Loan payable - City of Norwalk, less current portion	7,139,543	-	7,139,543
Loan payable - State of Connecticut	4,277,987	-	4,277,987
Compensated absences, less current portion	99,732	-	99,732
Other post employment benefit obligations payable	2,792,473	-	2,792,473
Total Noncurrent Liabilities	<u>14,309,735</u>	<u>-</u>	<u>14,309,735</u>
Total Liabilities	<u>16,026,479</u>	<u>31,185</u>	<u>16,057,664</u>
NET POSITION			
Net investment in capital assets	18,127,768	975,592	19,103,360
Restricted for parks	-	437,099	437,099
Restricted for capital projects	6,837,727	-	6,837,727
Restricted for connection fees	356,569	-	356,569
Restricted for debt service	1,339,562	-	1,339,562
Restricted for other post employment benefits	140,345	-	140,345
Unrestricted	(1,805,316)	342,514	(1,462,802)
Total Net Position	<u>\$ 24,996,655</u>	<u>\$ 1,755,205</u>	<u>\$ 26,751,860</u>

The notes to financial statements are an integral part of this statement.

**First Taxing District
City of Norwalk, Connecticut**

Statement of Activities
June 30, 2014

	Water Fund	First District Fund	Total
OPERATING REVENUES			
Water revenue	\$ 7,276,624	\$ -	\$ 7,276,624
Fire service fees	208,728	-	208,728
Fire hydrant charges	91,800	-	91,800
Connection fees	186,250	-	186,250
Other revenue	50,069	-	50,069
Miscellaneous	63,171	-	63,171
Total Operating Revenues	7,876,642	-	7,876,642
OPERATING EXPENSES			
Water treatment	1,600,462	-	1,600,462
Operations	1,157,294	-	1,157,294
General services	997,670	-	997,670
Administrative and general	380,152	-	380,152
Customer service	180,466	-	180,466
Engineering	165,088	-	165,088
Employee benefits	1,077,972	-	1,077,972
Maintenance	-	317,616	317,616
Depreciation	1,026,592	6,347	1,032,939
Other post employment benefit expense	503,639	-	503,639
Total Operating Expenses	7,089,335	323,963	7,413,298
Income (Loss) from Operations	787,307	(323,963)	463,344
NONOPERATING INCOME (EXPENSE)			
Interest income	35,007	2,372	37,379
Federal aid	25,298	-	25,298
State aid	14,455	-	14,455
Revenue from leases	659,692	324,000	983,692
Contributions	77,038	-	77,038
Interest expense	(306,007)	-	(306,007)
Total Nonoperating Income	505,483	326,372	831,855
Change in Net Position	1,292,790	2,409	1,295,199
NET POSITION			
Beginning	23,703,865	1,752,796	25,456,661
Ending	<u>\$ 24,996,655</u>	<u>\$ 1,755,205</u>	<u>\$ 26,751,860</u>

The notes to financial statements are an integral part of this statement.

**First Taxing District
City of Norwalk, Connecticut**

Statement of Cash Flows
Year Ended June 30, 2014

	Water Fund	First District Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 7,936,770	\$ -	\$ 7,936,770
Payments to suppliers and employees	(5,169,123)	(336,480)	(5,505,603)
Net Cash from Operating Activities	<u>2,767,647</u>	<u>(336,480)</u>	<u>2,431,167</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(5,384,807)	(274,425)	(5,659,232)
Proceeds from capital debt	4,277,987	-	4,277,987
Principal paid on capital debt	(429,250)	-	(429,250)
Interest paid on capital debt	(273,765)	-	(273,765)
Capital contributions	77,038	-	77,038
Net Cash from Capital and Related Financing Activities	<u>(1,732,797)</u>	<u>(274,425)</u>	<u>(2,007,222)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Investment income	35,007	2,372	37,379
Revenues from leases	659,692	324,000	983,692
Federal and State aid	39,753	-	39,753
Net Cash from Investing Activities	<u>734,452</u>	<u>326,372</u>	<u>1,060,824</u>
Net Change in Cash, Equivalents and Restricted Cash	1,769,302	(284,533)	1,484,769
Cash, Equivalents and Restricted Cash - Beginning	<u>7,882,770</u>	<u>1,095,331</u>	<u>8,978,101</u>
Cash, Equivalents and Restricted Cash - Ending	<u>\$ 9,652,072</u>	<u>\$ 810,798</u>	<u>\$ 10,462,870</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES			
Income (loss) from operations	\$ 787,307	\$ (323,963)	\$ 463,344
Adjustments to reconcile income (loss) from operations to net cash from operating activities			
Depreciation	1,026,592	6,347	1,032,939
Changes in assets and liabilities			
Accounts receivable	60,128	-	60,128
Inventory	9,476	-	9,476
Prepaid expenses	5,833	-	5,833
Accounts payable	(185,193)	(18,864)	(204,057)
Accrued expenses	751,139	-	751,139
Retainage payable	(190,948)	-	(190,948)
Compensated absences	(325)	-	(325)
Other post employment benefit obligations payable	503,638	-	503,638
Net Cash From Operating Activities	<u>\$ 2,767,647</u>	<u>\$ (336,480)</u>	<u>\$ 2,431,167</u>

The notes to financial statements are an integral part of this statement.

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**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies

Reporting Entity

First Taxing District of the City of Norwalk, Connecticut ("District") was established in 1913. It operates under a Board of Commissioners, which consists of three Commissioners and a Treasurer, which are elected by the electors of the District and serve six and two year terms, respectively.

The District's main source of revenue is provided through the Water Department, which is authorized to supply an adequate amount to any person or corporation within or out of the geological limits of the District. In addition to supplying water, the District provides street lighting and maintenance of public property within the District.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the District have been prepared in conformity with generally accepted accounting principles. The Governmental Accounting Standards Board ("GASB") is the accepted standard body for establishing governmental accounting and financial reporting principles. The more significant policies are described below.

The District is comprised of two individual enterprise funds which are described below. The District is responsible for its debt and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the District.

The District and its enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchanges and exchange-like transactions are recognized when the exchange takes place.

Proprietary funds include enterprise funds that are used to account for operations that are financed and operated in a manner similar to private enterprises or where the governing body has decided that periodic determinations of revenues earned, expenses incurred and/or net income is necessary for management accountability. Enterprise funds are used to account for those operations that provide the following services to the public.

Water Enterprise Fund - used to record the water utility operations for sale and distribution of water to recipients within and outside of the District.

First District Enterprise Fund - collects rents for usage of District properties and maintains the parks and open spaces within the District.

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Continued)
June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position

Cash and equivalents

Cash and equivalents consist of funds deposited in demand accounts, time deposit accounts and certificates of deposits with maturities at the time of purchase of less than three months.

Restricted Cash

Certain assets are classified as restricted because their use is limited. Restricted cash of \$677,601 represents funding of a debt service reserve under the terms of the loan agreement between the District and the City of Norwalk.

Accounts Receivable

Accounts receivable represent billings for water usage to customers within and outside the District. Based on past and current collections, management has determined that an allowance for uncollectible accounts is not required.

Inventory

Inventories are stated at the lower of cost or market using the consumption method on the weighted average method basis for enterprise fund types.

Capital Assets

Capital assets include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items). Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the net assets or materially extend asset lives is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction-in-progress are not depreciated. Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 Years
Machinery and Equipment	5-20 Years
Infrastructure	15 - 50 Years

1. Summary of Significant Accounting Policies (Continued)

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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

As of June 30, 2014, no amounts were required to be reported as deferred outflows/inflows of resources.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Net Position

Net position represents the difference between assets, deferred outflows of resources and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

The components of net position are detailed below:

Net investment in capital assets groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category while unexpended debt increases it.

Restricted for Parks - the component of net position that has been established for the purchase of parkland or until then may be used for the maintenance of existing parks and park activities.

Restricted for Capital Projects - the component of net position that reports the amounts restricted for capital projects, exclusive of unexpended debt proceeds and unrestricted interest earnings.

Restricted for Connection Fees - the component of net position that restricts new customer connection fees to be reinvested in the system's infrastructure replacement program.

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Continued)
June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

Restricted for Debt Service - the component of net position that reports the difference between assets and liabilities with constraints placed on their use by the Board of Commissioners.

Restricted for Other Post Employment Benefits – the component of net position that allocates fifty percent (50) of the Water Fund's annual operating budget cash surplus (after adjustments for other restrictions) if available.

Unrestricted - all other amounts that do not meet the definition of "restricted" or "net investment in capital assets".

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 27, 2014.

2. Stewardship, Compliance and Accountability

Budgetary Information

The budget policies are as follows:

- a) The annual meeting of the electors is held on the third Wednesday of November for the purpose of hearing the reports of the Commissioners for making annual appropriations and other matters. At this meeting, electors' comments are obtained.
- b) Public notice of the time and place of the annual meeting must be made at least ten days before the meeting.
- c) The Commissioners shall deliver the proposed budgets for the First Taxing District and the Water Fund to the office of the District Clerk and make them available for public inspection at least one week before the annual meeting.
- d) The appropriated budgets are prepared by fund, function and department. Transfers of appropriations between funds require the approval of the Commissioners. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the department level.

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Continued)
June 30, 2014

3. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging institution's trust department but not in the District's name.

As of June 30, 2014, the District's bank balance of \$10,552,020 was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 750,000
Covered by Connecticut State Statutes	1,055,202
Uninsured and uncollateralized	<u>8,746,818</u>
Total	<u>\$ 10,552,020</u>

Interest Rate Risk

The District mitigates the risk of loss of its uninsured or uncollateralized deposits in the event of failure of any of its depository institutions (DI) by actively monitoring all DI's where it has uninsured or uncollateralized deposits. This monitoring is based on a review of the DI's quarterly report to its primary regulator. The review insures the DI is considered "well capitalized" by its primary regulator, has a positive earnings trend and has no significant regulatory enforcement orders. In the event, the review finds an issue with a DI, management takes appropriate action to safeguard the District's deposits.

Credit Risk

State Law limits investments to the obligations of the United States of America, including the joint and several obligations of the Federal Home Mortgage Corporation, Federal National Mortgage Association, the Government National Mortgage Association, the Federal Savings and Loan Insurance Corporation, obligations of the United States Postal Service, all the federal home loan banks, all federal land banks, all the federal intermediate credit banks, the Central Bank of Cooperatives, the Tennessee Valley Authority or any other Agency of the United States Government.

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Continued)
June 30, 2014

4. Receivables

The receivables as of June 30, 2014 for the District's Water Fund are as follows:

Accounts Receivable - Customers	\$ 613,365
Unbilled revenue	654,424
Other receivables	3,409
	<u>\$ 1,271,198</u>

5. Capital Assets

Changes in the District's capital assets is as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2014</u>
Water Fund				
Capital Assets, Not Being Depreciated				
Land	\$ 2,187,349	\$ -	\$ -	\$ 2,187,349
Construction-in-Progress	7,627,151	5,271,590	-	12,898,741
Total Capital Assets, Not Being Depreciated	<u>9,814,500</u>	<u>5,271,590</u>	<u>-</u>	<u>15,086,090</u>
Capital Assets, Being Depreciated				
Buildings	3,331,211	-	-	3,331,211
Machinery and Equipment	13,017,115	113,217	14,119	13,116,213
Infrastructure	19,029,027	-	-	19,029,027
Total Capital Assets, Being Depreciated	<u>35,377,353</u>	<u>113,217</u>	<u>14,119</u>	<u>35,476,451</u>
Less Accumulated Depreciation				
Buildings	1,527,623	107,203	-	1,634,826
Machinery and Equipment	7,559,850	465,410	14,119	8,011,141
Infrastructure	10,488,047	453,979	-	10,942,026
Total Accumulated Depreciation	<u>19,575,520</u>	<u>1,026,592</u>	<u>14,119</u>	<u>20,587,993</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>15,801,833</u>	<u>(913,375)</u>	<u>-</u>	<u>14,888,458</u>
Total Water Fund	<u>\$ 25,616,333</u>	<u>\$ 4,358,215</u>	<u>\$ -</u>	<u>\$ 29,974,548</u>

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Continued)
June 30, 2014

5. Capital Assets (Continued)

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Balance June 30, 2014</u>
First District Fund			
Capital Assets, Not Being Depreciated			
Land - Parks	\$ 441,575	\$ -	\$ 441,575
Construction-in-Progress	<u>61,108</u>	<u>274,425</u>	<u>335,533</u>
Total Capital Assets Not Being Depreciated	<u>502,683</u>	<u>274,425</u>	<u>777,108</u>
Capital Assets, Being Depreciated			
Land Improvements	728,871	-	728,871
Machinery and Equipment	<u>108,556</u>	<u>-</u>	<u>108,556</u>
Total Capital Assets Being Depreciated	<u>837,427</u>	<u>-</u>	<u>837,427</u>
Less Accumulated Depreciation			
Land Improvements	568,441	3,008	571,449
Machinery and Equipment	<u>64,155</u>	<u>3,339</u>	<u>67,494</u>
Total Accumulated Depreciation	<u>632,596</u>	<u>6,347</u>	<u>638,943</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>204,831</u>	<u>(6,347)</u>	<u>198,484</u>
Total First District Fund	<u>\$ 707,514</u>	<u>\$ 268,078</u>	<u>\$ 975,592</u>

Depreciation expense was charged to the following funds:

Water Department	\$ 1,026,592
First District	<u>6,347</u>
Total Depreciation Expense	<u>\$ 1,032,939</u>

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Continued)
June 30, 2014

6. Accrued Expenses

The District recognized the following expenses at June 30, 2014.

Payroll and employee benefits	\$ 42,359
Construction, engineering and other	<u>779,522</u>
	<u>\$ 821,881</u>

7. Long-Term Liabilities

The activity of the District's long-term liabilities for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Maturities and/or Payments</u>	<u>Balance</u>	<u>Due in One Year</u>
Loan Payable - City of Norwalk	\$ 7,998,043	\$ -	429,250	\$ 7,568,793	\$ 429,250
Loan Payable - State of Connecticut	-	4,277,987	-	4,277,987	-
Compensated Absences	111,057	10,775	11,100	110,732	11,000
Other Post Employment Benefits Obligations Payable	<u>2,288,835</u>	<u>738,578</u>	<u>234,940</u>	<u>2,792,473</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 10,397,935</u>	<u>\$ 5,027,340</u>	<u>\$ 675,290</u>	<u>\$ 14,749,985</u>	<u>\$ 440,250</u>

Loan Payable - City of Norwalk

The District had indebtedness payable to the City of Norwalk as follows:

<u>Purpose</u>	<u>Year of Issue</u>	<u>Original Amount</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Amount Outstanding at June 30, 2014</u>
Capital Improvements	8/16/2011	\$ 4,585,000	2031	3.43 %	\$ 3,935,458
Capital Improvements	8/15/2012	4,000,000	2033	2.81	<u>3,633,335</u>
					<u>\$ 7,568,793</u>

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Continued)
June 30, 2014

7. Long-Term Liabilities (Continued)

Payments to Maturity

The annual requirements to amortize the loan payable to the City of Norwalk as of June 30, 2014 including interest payments of \$2,095,888 are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 429,250	\$ 230,903	\$ 660,153
2016	429,250	217,420	646,670
2017	429,250	203,936	633,186
2018	429,250	190,453	619,703
2019	429,250	176,970	606,220
2020-2024	2,146,250	682,601	2,828,851
2025-2029	2,146,250	345,519	2,491,769
2030-2033	1,130,043	48,086	1,178,129
	<u>\$ 7,568,793</u>	<u>\$ 2,095,888</u>	<u>\$ 9,664,681</u>

The loan agreement between the City and the District provides that the District pledge its full faith and credit to secure the loan, and further requires that a lien be established on revenues to secure repayment. The District is also required to maintain an escrow account equal to one year of principal and interest, and establish a mechanism to intercept revenues to ensure that this escrow accounts fund remains fully funded. With these security features in place, the likelihood of a default by the District is remote.

Project Loan Obligation– State of Connecticut

Financial assistance was made available to the District under the Drinking Water State Revolving Fund (DWSRF) Program. This financial assistance is passed through the Connecticut Department of Public Health (“DPH”) to the District. The State of Connecticut agreed to lend the District, an amount not to exceed \$7,000,000, subject to the terms and condition of the Loan Agreement, DWSRF No. 2013-7024. The interest is accruing on the unpaid balance at the rate of 2% per annum. The District is drawing funds under an Interim Funding Obligation. Principal and interest payments are expected to begin twelve months after the scheduled completion date of the project estimated to be November 2014. The maturity date for the loan is December 31, 2034 and shall not be more than twenty (20) years from the scheduled completion date.

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Continued)
June 30, 2014

7. Long-Term Liabilities (Continued)

The outstanding balance on the loan at June 30, 2014 is as follows:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance Beginning</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance Ending</u>
6/24/2013	2.00%	\$ 7,000,000	\$ -	\$4,277,987	\$ -	\$4,277,987

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred in the Water Fund.

Other Post Employment Benefit Obligations Payable

In addition to providing pension benefits, the District provides certain health care benefits for retired employees. Contributions by the District may vary according to length of service. The cost of providing post-employment health care benefits is shared between the District and the retired employee. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District.

The District's annual other post employment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. GASB Statement No. 45 establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance. As a result, reporting of expenses and liabilities will no longer be done under the "pay-as-you-go" approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a "normal cost", an "actuarial accrued liability", and ultimately the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the assumptions and projections utilized do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations of the OPEB plan reflect a long-term perspective.

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Continued)
June 30, 2014

7. Long-Term Liabilities (Continued)

The District is required to accrue the amounts necessary to finance the plan as actuarially determined, which is equal to the expected rate of return on the District's general assets. Funding for the Plan has been established on a pay-as-you-go basis. The assumed rates of increase in post retirement benefits are as follows:

Year Ended June 30,	Medical	
	Pre-65	Post-65
2014	5.00 %	3.00 %
2015+	5.45	3.00

The amortization basis is the level percentage of payroll method with 25 years remaining in the amortization period. The actuarial assumptions included a 0.35% investment rate of return. The District currently has no assets set aside for the purpose of paying post employment benefits. The actuarial cost method utilized was the entry age actuarial cost method.

The number of participants as of June 30, 2014 was as follows:

Active Employees	21
Retired Employees	<u>14</u>
Total	<u><u>35</u></u>

Amortization Component	
Actuarial Accrued Liability as of June 30, 2014	\$ 7,839,931
Assets at Market Value	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 7,839,931</u></u>
Funded Ratio	<u><u>0.00%</u></u>
Covered Payroll (active plan members)	<u><u>\$ 1,673,394</u></u>
UAAL as a Percentage of Covered Payroll	<u><u>468.50%</u></u>
Annual Required Contribution	780,231
Interest on Net OPEB Obligation	8,011
Adjustment to Annual Required Contribution (ARC)	<u>(49,664)</u>
Annual OPEB Cost	738,578
Contributions Made	<u>(234,940)</u>
Increase in Net OPEB Obligation	503,638
Net OPEB Obligation - Beginning of year	<u>2,288,835</u>
Net OPEB Obligation - End of year	<u><u>\$ 2,792,473</u></u>

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Continued)
June 30, 2014

7. Long-Term Liabilities (Continued)

The District's annual OPEB cost, percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 738,578	31.80 %	\$ 2,792,473
2013	725,626	26.00	2,288,835
2012	699,577	11.66	1,751,860

The schedule of funding progress for the OPEB plan immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing relative to the actuarial liability of the benefits over time.

8. Commitments and Contingencies

Litigation, Risk Management and Insurance

The District is exposed to various risks of loss involving torts, theft of, damage to and destruction of assets, errors and omissions, injuries of employees, natural disaster and public official liabilities. The District obtains commercial insurance for these risks. Settled claims have not exceeded commercial coverage in any of the past three years.

Contracts

The District has the following outstanding construction contract commitments:

C.H. Nickerson and Company, Inc.	\$ 2,902,216
Cadwell Tanks	4,611,447
M. Rondano, Inc.	<u>2,278,817</u>
Total outstanding construction contracts	<u><u>\$ 9,792,480</u></u>

9. Employee Retirement Plans

Defined Benefit Plan

All full-time employees of the District are participants in the State of Connecticut Municipal Employees Retirement System, a cost sharing multiple-employer public employee retirement system with approximately 170 employers. The system is considered to be part of the State of Connecticut's financial reporting entity and is included in the State's financial reports as a pension trust fund. Financial reports are provided by the State of Connecticut Retirement and Benefit Services Division.

**First Taxing District
City of Norwalk, Connecticut**

Notes to Financial Statements (Concluded)
June 30, 2014

9. Employee Retirement Plans (Continued)

Plan benefits are set by statute of the State of Connecticut, and include death and disability in addition to retirement benefits. All benefits vest after five years of continuous service. Members who retire after age 55 with five years of service or after twenty-five years of service are entitled to an annual retirement benefit payment monthly for life, equal to 1 1/2% of average earnings (not in excess of each year's breakpoint) for the three highest paid years plus 2% of the average of earnings for the three highest paid years which were in excess of the year's breakpoint. The most recent breakpoint was \$69,200.

**First Taxing District
City of Norwalk, Connecticut**

Required Supplementary Information - Schedule of Funding Progress
Other Post Employment Benefits
Last Three Fiscal Years

Valuation Date	Actuarial		Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as of Percentage of Covered Payroll
	Value of Assets	Accrued Liability				
June 30, 2014	\$ -	\$ 7,839,931	\$ 7,839,931	- %	\$ 1,673,394	468.50 %
June 30, 2013	-	7,839,931	7,839,931	-	1,543,156	508.05
June 30, 2012	-	8,569,143	8,569,143	-	1,701,004	503.77

**First Taxing District
City of Norwalk, Connecticut**

Statement of Net Position
June 30, 2014
(With Comparative Totals for 2013)

	Water Fund	First District Fund	Totals	
			2014	2013
ASSETS				
Current assets				
Cash and equivalents	\$ 8,974,471	\$ 810,798	\$ 9,785,269	\$ 8,292,168
Restricted cash	677,601	-	677,601	685,933
Accounts receivable, net	1,271,198	-	1,271,198	1,331,326
Inventory	125,316	-	125,316	134,792
Prepaid expenses	-	-	-	5,833
Total Current Assets	11,048,586	810,798	11,859,384	10,450,052
Capital assets	50,562,541	1,614,535	52,177,076	46,531,963
Less - Accumulated depreciation	(20,587,993)	(638,943)	(21,226,936)	(20,208,116)
	29,974,548	975,592	30,950,140	26,323,847
Total Assets	41,023,134	1,786,390	42,809,524	36,773,899
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable	172,806	31,185	203,991	408,048
Accrued expenses	821,881	-	821,881	70,742
Retainage payable	249,565	-	249,565	440,513
Loan payable - City of Norwalk	429,250	-	429,250	429,250
Accrued interest payable	32,242	-	32,242	-
Compensated absences	11,000	-	11,000	11,100
Total Current Liabilities	1,716,744	31,185	1,747,929	1,359,653
Noncurrent liabilities				
Loan payable - City of Norwalk	7,139,543	-	7,139,543	7,568,793
Loan payable - State of Connecticut	4,277,987	-	4,277,987	-
Compensated absences	99,732	-	99,732	99,957
Other post employment benefit obligations payable	2,792,473	-	2,792,473	2,288,835
Total Noncurrent Liabilities	14,309,735	-	14,309,735	9,957,585
Total Liabilities	16,026,479	31,185	16,057,664	11,317,238
NET POSITION				
Net investment in capital assets	18,127,768	975,592	19,103,360	18,325,804
Restricted for parks	-	437,099	437,099	435,978
Restricted for capital projects	6,837,727	-	6,837,727	6,388,617
Restricted for connection fees	356,569	-	356,569	167,750
Restricted for debt service	1,339,562	-	1,339,562	939,663
Restricted for OPEB	140,345	-	140,345	-
Unrestricted	(1,805,316)	342,514	(1,462,802)	(801,151)
Total Net Position	\$ 24,996,655	\$ 1,755,205	\$ 26,751,860	\$ 25,456,661

**First Taxing District
City of Norwalk, Connecticut**

Comparative Schedule of Revenues and Expenditures - Budget to Actual
Water Fund
Years Ended June 30,

	2014			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUE				
Water revenue				
First district sales	\$ 906,304	\$ 906,304	\$ 851,232	\$ (55,072)
Outside district sales	3,286,526	3,286,526	3,143,745	(142,781)
Industrial sales	2,000,750	2,000,750	1,902,553	(98,197)
Service charges	1,463,305	1,463,305	1,379,094	(84,211)
Revenues from leases	640,215	640,215	659,692	19,477
Fire service charges	212,000	212,000	208,728	(3,272)
Fire hydrant rentals	91,300	91,300	91,800	500
Connection fees	4,000	4,000	186,250	182,250
Other revenue	52,500	52,500	50,069	(2,431)
Contributions	20,000	20,000	77,038	57,038
Interest income	15,000	15,000	35,007	20,007
Federal aid	-	-	25,298	25,298
State aid	-	-	14,455	14,455
Miscellaneous	30,000	30,000	63,171	33,171
TOTAL REVENUE	\$ 8,721,900	\$ 8,721,900	\$ 8,688,132	\$ (33,768)
EXPENDITURES				
Water treatment	\$ 1,645,265	\$ 1,650,510	\$ 1,600,462	\$ 50,048
Operations	1,273,420	1,297,625	1,157,294	140,331
General services	1,118,750	1,118,750	997,670	121,080
Administrative and general	367,935	387,370	380,152	7,218
Customer service	191,500	191,500	180,466	11,034
Engineering	158,425	169,745	165,088	4,657
Transfer out to First District Fund	-	-	-	-
Employee benefits	1,156,090	1,156,090	1,077,972	78,118
Depreciation	-	-	1,026,592	(1,026,592)
Other post employment benefit expense	-	-	503,639	(503,639)
Interest	1,085,515	1,085,515	306,007	779,508
Contingency	200,000	139,795	-	139,795
TOTAL EXPENDITURES	\$ 7,196,900	\$ 7,196,900	\$ 7,395,342	\$ (198,442)

2013

Original Budget	Final Budget	Actual	Variance Positive (Negative)
\$ 861,120	\$ 861,120	\$ 810,941	\$ (50,179)
3,175,380	3,175,380	2,990,460	(184,920)
1,912,680	1,912,680	1,778,679	(134,001)
1,505,310	1,505,310	1,315,500	(189,810)
642,850	642,850	639,287	(3,563)
212,000	212,000	214,640	2,640
90,400	90,400	91,300	900
4,000	4,000	148,850	144,850
55,500	55,500	59,773	4,273
15,000	15,000	70,589	55,589
55,000	55,000	40,262	(14,738)
-	-	54,264	54,264
-	-	-	-
18,445	18,445	35,746	17,301
<u>\$ 8,547,685</u>	<u>\$ 8,547,685</u>	<u>\$ 8,250,291</u>	<u>\$ (297,394)</u>
\$ 1,680,320	\$ 1,671,495	\$ 1,457,163	\$ 214,332
1,328,210	1,344,310	1,094,743	249,567
1,118,750	1,118,315	967,843	150,472
358,695	360,755	344,898	15,857
171,950	176,350	172,141	4,209
235,615	249,265	212,228	37,037
68,000	68,000	68,000	-
1,196,845	1,222,695	1,002,468	220,227
-	-	963,445	(963,445)
-	-	536,975	(536,975)
689,300	689,735	293,818	395,917
200,000	146,765	-	146,765
<u>\$ 7,047,685</u>	<u>\$ 7,047,685</u>	<u>\$ 7,113,722</u>	<u>\$ (66,037)</u>

**First Taxing District
City of Norwalk, Connecticut**

Comparative Schedule of Revenues and Expenditures - Budget to Actual
First District Fund
Years Ended June 30,

	2014			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUE				
Investment income	\$ 8,000	\$ 8,000	\$ 2,372	\$ (5,628)
Transfers in from Water Fund	-	-	-	-
Revenues from leases	324,000	324,000	324,000	-
Miscellaneous	-	-	-	-
TOTAL REVENUE	<u>\$ 332,000</u>	<u>\$ 332,000</u>	<u>\$ 326,372</u>	<u>\$ (5,628)</u>
EXPENDITURES				
Salaries and benefits	\$ 37,600	\$ 37,600	\$ 37,600	\$ -
Office printing	2,750	3,550	3,548	2
Miscellaneous	30,000	15,480	13,724	1,756
Special projects	-	-	-	-
Concerts	14,000	19,410	18,458	952
Legal	8,000	8,000	935	7,065
Accounting	3,000	3,000	3,000	-
Advertising	8,000	10,535	10,535	-
Street lighting	160,000	152,775	152,774	1
Contractual services	27,400	17,150	13,783	3,367
Utilities	11,250	11,450	10,246	1,204
Repairs and maintenance	30,000	53,050	53,013	37
Depreciation	-	-	6,347	(6,347)
TOTAL EXPENDITURES	<u>\$ 332,000</u>	<u>\$ 332,000</u>	<u>\$ 323,963</u>	<u>\$ 8,037</u>

2013

Original Budget	Final Budget	Actual	Variance Positive (Negative)
\$ 8,000	\$ 8,000	\$ 4,851	\$ (3,149)
68,000	68,000	68,000	-
324,000	324,000	324,000	-
-	-	2,500	(2,500)
\$ 400,000	\$ 400,000	\$ 399,351	\$ (5,649)
\$ 37,600	\$ 37,600	\$ 37,300	\$ 300
2,750	7,250	3,796	3,454
30,000	30,000	8,064	21,936
68,000	68,000	46,393	21,607
14,000	14,635	14,631	4
8,000	2,965	2,503	462
3,000	3,000	1,500	1,500
8,000	8,700	8,698	2
160,000	155,000	136,344	18,656
27,400	27,900	22,276	5,624
11,250	10,615	7,818	2,797
30,000	34,335	34,330	5
-	-	6,347	(6,347)
\$ 400,000	\$ 400,000	\$ 330,000	\$ 70,000

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**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**

Independent Auditors' Report

**The Honorable Commissioners of the
First Taxing District
City of Norwalk, Connecticut**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the First Taxing District, City of Norwalk, Connecticut ("District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 a 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 a 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*.

We noted certain matters that we reported to the management of the District in a separate letter.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor Davies, LLP

O'Connor Davies, LLP
Stamford, Connecticut
October 27, 2014

**Report on Compliance For Each Major Federal Program and Report on
Internal Control Over Compliance Required by OMB-A133**

Independent Auditors' Report

**The Honorable Commissioners of the
First Taxing District
City of Norwalk, Connecticut**

Report on Compliance for Each Major Federal Program

We have audited the First Taxing District, City of Norwalk, Connecticut's ("District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 federal program occurred. An audit includes examining, on a test basis, evidence about the School 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 federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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 federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the 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 District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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 federal 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 federal 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

O'Connor Davies, LLP

O'Connor Davies, LLP
Stamford, Connecticut
October 27, 2014

**First Taxing District
City of Norwalk, Connecticut**

Schedule of Expenditures of Federal Awards
June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Environmental Protection Agency			
Pass-through from the Connecticut Department of Public Health Capitalization Grants for Drinking Water State Revolving Funds	66.468	21018-DPH48500-42319	\$ 3,355,591
Department of Homeland Security			
Pass-through State of Connecticut Department of Emergency Services & Public Protection, Division of Emergency Management & Homeland Security Disaster Grants - Public Assistance	97.036	FEMA-4087-DR-CT	<u>25,298</u>
Total Federal Expenditures			<u><u>\$ 3,380,889</u></u>

**First Taxing District
City of Norwalk, Connecticut**

Notes to Schedule of Expenditures of Federal Awards
June 30, 2014

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the First Taxing District, City of Norwalk, Connecticut ("District") under programs of the federal government for the year ended June 30, 2014. Federal awards passed through other government agencies are included in the Schedule. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, which establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments.

Note 3 - Financing Available under the Capitalization Grants for Drinking Water State Revolving Funds Program CFDA 66.458

Financial assistance was made available to the District under the Drinking Water State Revolving Fund (DWSRF) Program. This financial assistance is passed through the Connecticut Department of Public Health ("DPH") to the District. Federal capitalization grants are awarded to States to create and maintain Drinking Water State Revolving Funds (DWSRF) programs. States can use capitalization grant funds to establish a revolving loan fund (DWSRF) to assist public water systems to finance the costs of infrastructure needed to achieve or maintain compliance with Safe Drinking Water Act (SDWA) requirements and protect the public health objectives of the Act.

The State of Connecticut agreed to lend the District, an amount not to exceed \$7,000,000, subject to the terms and condition of the Loan Agreement, DWSRF No. 2013-7024. The Project Loan bears interest at the rate of 2% per annum. The note is scheduled to convert to long term debt on the scheduled completion date of the project. The maturity date for the loan is December 31, 2034 and shall not be more than twenty (20) years from the scheduled completion date.

The District is utilizing the financing for the costs associated with the Spring Hill Water System Reliability Improvements. The project consists of a storage tank, booster pumping station and installation of water mains. Eligible costs incurred for the year ending June 30, 2014 for the loan amounted to \$4,277,987 of which the Federal portion is 78% or \$3,336,830 and is reported on the Schedule of Expenditures of Federal Awards (SEFA).

The following is a summary of the loan program activity for the year ended June 30, 2014:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance Beginning</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance Ending</u>
6/24/2013	2.00%	\$ 7,000,000	\$ -	\$4,277,987	\$ -	\$4,277,987

**First Taxing District
City of Norwalk, Connecticut**

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section 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? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? 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 510(a) of OMB Circular A-133? yes no

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program</u>
66.458	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

**First Taxing District
City of Norwalk, Connecticut**

Summary Schedule of Prior Years Audit Findings
Year Ended June 30, 2014

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None

**Report on Compliance For Each Major State Program and Report on
Internal Control Over Compliance Required by the State Single Audit Act**

Independent Auditors' Report

**The Honorable Commissioners of the
First Taxing District
City of Norwalk, Connecticut**

Report on Compliance for Each Major State Program

We have audited the First Taxing District, City of Norwalk, Connecticut's ("District") 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 District's major state programs for the year ended June 30, 2014. The District's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 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 Connecticut's compliance.

Opinion on Each Major State Program

In our opinion, the 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, 2014.

O'CONNOR DAVIES, LLP

3001 Summer Street - 5th Floor, East, Stamford, CT 06905 | Tel: 203.323.2400 | Fax: 203.967.8733 | www.odpkf.com

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Report on Internal Control over Compliance

Management of the 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 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 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.

O'Connor Davies, LLP

O'Connor Davies, LLP
Stamford, Connecticut
October 27, 2014

**First Taxing District
City of Norwalk, Connecticut**

Schedule of Expenditures of State Financial Assistance
June 30, 2014

<u>State Grantor Pass-Through Grantor Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Department of Energy and Environmental Protection		
Drinking Water Program	21018-DPH48500-42319	\$ 921,552
Department of Transportation		
Local Bridge Program Transportation Fund	DOT01020319PE-4154 Contract ID 13DOT1314AA	<u>14,455</u>
		<u>\$ 936,007</u>

**First Taxing District
City of Norwalk, Connecticut**

Notes to Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies

The accounting policies of the First Taxing District, City of Norwalk, Connecticut (“District”) conform to accounting principles generally accepted in the United States of America as applicable to Government Organizations. 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.

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 loan program activity for the year ended June 30, 2014:

Department of Energy and Environmental Protection

Drinking Water Program 21018-DPH48500-42319

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance Beginning</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance Ending</u>
6/24/2013	2.00%	\$ 7,000,000	\$ -	\$4,277,987	\$ -	\$4,277,987

Eligible costs incurred for the year ending June 30, 2014 for of the loan amounted to \$4,277,987 of which the State portion is \$921,552 and is reported on the Schedule of Expenditures of State Financial Assistance (SESFA).

**First Taxing District
City of Norwalk, Connecticut**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's opinion issued

Unmodified

Internal control over financial reporting

• Material weakness(es) identified?

_____ yes X no

• Significant deficiency(ies) identified ?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

State Financial Assistance

Internal control over major programs

• Material weakness(es) identified?

_____ yes X no

• Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditor's opinion 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 X no

The following schedule reflects the major program included in the audit:

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
Department of Energy and Environmental Protection Drinking Water Program	21018-DPH48500-42319	\$ 921,552

Dollar threshold used to distinguish between type A and type B programs

\$ 200,000

**First Taxing District
City of Norwalk, Connecticut**

Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section II - Financial Statement Findings

None

Section III - State Financial Assistance Findings And Questioned Costs

None

**First Taxing District
City of Norwalk, Connecticut**

Summary of Prior Years Audit Findings
For the Year Ended June 30, 2014

None

