

**THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT**

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

WITH INDEPENDENT AUDITORS' REPORT

THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT

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O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the First Taxing District of the City of Norwalk, Connecticut ("District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

O'Connor Davies Munns & Dobbins, LLP

O'Connor Davies Munns & Dobbins, LLP

Stamford, CT

October 28, 2011

**FIRST TAXING DISTRICT WATER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

As management of the First Taxing District of the City of Norwalk 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, 2011. We encourage readers to consider the information presented here along with additional information we have furnished in our letter of transmittal as well as the audited basic financial statements which follow this section.

OVERVIEW FOR THE FINANCIAL STATEMENTS

This discussion and analyses are intended to serve as an introduction to the Water Department's basic financial statements, including notes 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 Assets, (2) the Statement of Revenues, Expenses and Changes in Net Assets, 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 which are generally accepted in the United States of America. The Statement of Net Assets 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 Revenues, Expenses and Changes in Net Assets identifies the Water Department's revenues and expenses for the fiscal year ending June 30, 2011. This statement provides information on the First Taxing District 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 third financial statement is the Statement of Cash Flow which provides information on the Water Department's cash receipts, cash payments and changes in cash resulting from operations and investments. From the Statement of Cash Flow, the reader can obtain comparative information on the source and use of cash, and the change in the cash and cash equivalents balance for the fiscal year.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2011

- The assets of the Water Department exceed its liabilities resulting in the total net assets of \$22,024,065 at the close of the fiscal year, which represents an increase of \$863,548 or 4.1 % from FY 2010. Total assets consist of current and other assets as well as capital assets.
- As of June 30, 2011, the First Taxing District Water Department's investments in capital assets totaled \$18.2 Million, an increase of \$873,743, or 5.1 % compared to the previous fiscal year.
- At the close of this fiscal year, the Water Department's operating revenue increased to \$7,028,570 from \$4,874,715 an increase of 44.2 % over the previous year. As part of the FY 2011 Budget approval process and effective July 1, 2011, new user rates and charges were approved that would generate sufficient revenues to repay general obligation bonds and fund future capital projects.
- The Water Department's operating expenses increased from \$6,706,779 to \$6,733,463, an increase of \$26,684 or 4.0 % over the previous year.
- The Water Department's bond portfolio, consisting of both short-term, money market instruments and long term certificates of deposit realized a reasonable rate of return on investment during this fiscal year.
- The Water Department's total liabilities reflect a decrease of \$1,353,843, 45.3%. A significant portion of the decrease is due to the pay off of long term debt related to residential property at 1124 Valley Road, New Canaan.

BONDS

The First Taxing 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 \$18,755,000 to fund mandated safety repairs to two dams, replace undersized water mains, and improve fire flows. 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 enjoys, because the District is not a well-know 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 would be responsible for repaying all principal and interest to the City.

In December, 2010, a loan agreement between the City and the First 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 revenues to secure repayment. The District is also required to establish a debt service reserve fund equal to one year of principal and interest, and establish a mechanism to intercept revenues to ensure that this debt service reserve fund remains fully funded. With these security features in place, the likelihood of a default by the District is remote.

In addition, the District will not only pay principal, interest, cost of issuance on this obligation, but will also pay to 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.

FINANCIAL ANALYSIS

The Statements of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets provide an indication of the Water Department's financial condition. The Water Department's net assets reflect the difference between assets and liabilities. The increase in total net assets during FY 2011 resulted in large part from the increase in user rates and charges. A more detailed analysis follows:

CONDENSED STATEMENT OF NET ASSETS

	2011	2010	\$ Change	% Change
Current Assets	\$ 5,484,678	\$ 6,848,716		
Net Capital Assets	\$ 18,176,343	\$ 17,302,600		
Total Assets	\$ 23,661,021	\$ 24,151,316	\$ (490,295)	-2.03%
Total Liabilities	\$ 1,636,956	\$ 2,990,799	\$(1,353,843)	-45.27%
Investment in capital assets net of related debt	\$ 18,176,343	\$ 15,277,600	\$ 2,898,743	
Restricted for Capital Projects	\$ 2,559,783	\$ 2,357,299	\$ 124,485	
Restricted for Debt Service	\$ 600,002	\$ -	\$ 600,002	
Unrestricted	\$ 687,937	\$ 3,525,618	\$(2,759,682)	
Total Net Assets	\$ 22,024,065	\$ 21,160,517	\$ 863,548	4.08%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2011	2010	\$ Change	% Change
Operating Revenues	\$ 7,028,570	\$ 4,874,715	\$ 2,153,855	
Non-operating Revenues	\$ 649,187	\$ 572,230	\$ 76,957	
Contributions	\$ 15,323	\$ 120,078	\$ (104,755)	
Total Revenues	\$ 7,693,080	\$ 5,567,023	\$ 2,126,057	38.19 %
Depreciation Expense	\$ 818,917	\$ 900,844	\$ (81,927)	
Other Operating Expenses	\$ 6,010,615	\$ 5,898,326	\$ 112,289	
Total Expenses	\$ 6,829,532	\$ 6,799,170	\$ 30,362	0.45 %
Changes in Net Assets	\$ 863,548	\$ (1,232,147)	\$ 2,095,695	
Beginning Net Assets	\$ 21,160,517	\$ 22,392,664	\$ (1,232,147)	
Ending Net Assets	\$ 22,024,065	\$ 21,160,517	\$ 863,548	2.66 %

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the First Taxing District 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.

THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Water Fund	Nonmajor - First District Fund	Total
ASSETS			
Current assets:			
Cash and equivalents	\$ 3,626,603	\$ 910,300	\$ 4,536,903
Investments	137,379	49,810	187,189
Accounts receivable, net	1,380,008	-	1,380,008
Inventory	143,240	-	143,240
Prepaid expenses	197,448	-	197,448
Total Current Assets	<u>5,484,678</u>	<u>960,110</u>	<u>6,444,788</u>
Capital assets	35,815,340	1,279,002	37,094,342
Less - Accumulated depreciation	(17,638,997)	(619,691)	(18,258,688)
	<u>18,176,343</u>	<u>659,311</u>	<u>18,835,654</u>
Total Assets	<u>23,661,021</u>	<u>1,619,421</u>	<u>25,280,442</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	224,304	23,159	247,463
Accrued expenses	171,287	-	171,287
Compensated absences	10,750	-	10,750
Total Current Liabilities	<u>406,341</u>	<u>23,159</u>	<u>429,500</u>
Noncurrent liabilities:			
Compensated absences	96,740	-	96,740
Other post employment benefit obligations payable	<u>1,133,875</u>	<u>-</u>	<u>1,133,875</u>
Total Noncurrent Liabilities	<u>1,230,615</u>	<u>-</u>	<u>1,230,615</u>
Total Liabilities	<u>1,636,956</u>	<u>23,159</u>	<u>1,660,115</u>
NET ASSETS			
Investments in capital assets, net of related debt	18,176,343	659,311	18,835,654
Restricted for parks	-	427,213	427,213
Restricted for capital projects	2,559,783	-	2,559,783
Restricted for debt service	600,002	-	600,002
Unrestricted	<u>687,937</u>	<u>509,738</u>	<u>1,197,675</u>
Total Net Assets	<u>\$ 22,024,065</u>	<u>\$ 1,596,262</u>	<u>\$ 23,620,327</u>

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

THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

	Water Fund	Nonmajor - First District Fund	Total
OPERATING REVENUES			
Water revenue	\$ 6,752,394	\$ -	\$ 6,752,394
Other revenue	265,126	-	265,126
Miscellaneous	11,050	-	11,050
Total Operating Revenues	<u>7,028,570</u>	<u>-</u>	<u>7,028,570</u>
OPERATING EXPENSES			
Water treatment	1,585,499	-	1,585,499
Operations	1,070,257	-	1,070,257
General services	1,078,727	-	1,078,727
Administrative and general	340,342	-	340,342
Customer service	152,898	-	152,898
Engineering	148,573	-	148,573
Employee benefits	942,132	-	942,132
Maintenance	-	238,842	238,842
Depreciation	818,917	6,559	825,476
Other post employment benefit expense	596,118	-	596,118
Total Operating Expenses	<u>6,733,463</u>	<u>245,401</u>	<u>6,978,864</u>
Operating Income (Loss)	<u>295,107</u>	<u>(245,401)</u>	<u>49,706</u>
NONOPERATING INCOME (EXPENSE)			
Investment income	58,181	11,076	69,257
Revenue from leases	591,006	335,000	926,006
Contributions	15,323	-	15,323
Interest expense	(75,569)	-	(75,569)
Total Nonoperating Income	<u>588,941</u>	<u>346,076</u>	<u>935,017</u>
Net Income Before Transfers	<u>884,048</u>	<u>100,675</u>	<u>984,723</u>
Transfers in	-	20,500	20,500
Transfers out	(20,500)	-	(20,500)
Total Transfers	<u>(20,500)</u>	<u>20,500</u>	<u>-</u>
Change in Net Assets	863,548	121,175	984,723
Beginning Net Assets	<u>21,160,517</u>	<u>1,475,087</u>	<u>22,635,604</u>
Ending Net Assets	<u>\$ 22,024,065</u>	<u>\$ 1,596,262</u>	<u>\$ 23,620,327</u>

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

THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

	Water Fund	Nonmajor - First District Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 6,648,035	\$ 45,000	\$ 6,693,035
Payments to suppliers and employees	<u>(5,394,290)</u>	<u>(228,787)</u>	<u>(5,623,077)</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,253,745</u>	<u>(183,787)</u>	<u>1,069,958</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(20,500)	-	(20,500)
Transfers from other funds	<u>-</u>	<u>20,500</u>	<u>20,500</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(20,500)</u>	<u>20,500</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(1,677,337)	(15,961)	(1,693,298)
Repayment of loan payable	(2,025,000)	-	(2,025,000)
Interest paid on debt	<u>(75,569)</u>	<u>-</u>	<u>(75,569)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(3,777,906)</u>	<u>(15,961)</u>	<u>(3,793,867)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Sales of investments	950,031	479,561	1,429,592
Investment income	58,181	11,076	69,257
Revenues leased to others	<u>591,006</u>	<u>335,000</u>	<u>926,006</u>
Net Cash Provided by Investing Activities	<u>1,599,218</u>	<u>825,637</u>	<u>2,424,855</u>
Net Increase (Decrease) in Cash and Equivalents	(945,443)	646,389	(299,054)
Cash and Equivalents, Beginning of Year	<u>4,572,046</u>	<u>263,911</u>	<u>4,835,957</u>
Cash and Equivalents, End of Year	<u>\$ 3,626,603</u>	<u>\$ 910,300</u>	<u>\$ 4,536,903</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ 295,107	\$ (245,401)	\$ 49,706
Depreciation	818,917	6,559	825,476
Changes in assets and liabilities:			
Accounts receivable	(333,936)	45,000	(288,936)
Inventory	(5,077)	-	(5,077)
Prepaid expenses	(192,423)	1,850	(190,573)
Accounts payable	(17,883)	8,205	(9,678)
Accrued expenses	136,243	-	136,243
Customer's deposits	(46,599)	-	(46,599)
Compensated absences	3,278	-	3,278
Other post employment benefit obligations payable	<u>596,118</u>	<u>-</u>	<u>596,118</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,253,745</u>	<u>\$ (183,787)</u>	<u>\$ 1,069,958</u>
Non Cash Activity - Donated property	\$ 15,323	\$ -	\$ 15,323

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

1. **Summary of Significant Accounting Policies**

Reporting Entity

The 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 Districts 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.

Additionally, the District maintains the following as a non-major enterprise fund:

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

1. **Summary of Significant Accounting Policies (Continued)**

Assets, Liabilities and Net Assets

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.

Investments

Investments are reported at fair market value.

Inventories and prepaid items

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

Receivables and payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Due to/from other funds" (current portion of interfund loans) or "Advances to/from other funds" (noncurrent portion of interfund loans).

All trade receivables are shown net of an allowance for uncollectible accounts. Trade account allowance for uncollectible accounts is estimated based on the inherent risk associated with the accounts. For June 30, 2011 an allowance of \$20,501 for uncollectible accounts was recorded.

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

1. **Summary of Significant Accounting Policies (Continued)**

Long-Term Obligations

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

Net Assets

In the financial statements, net assets are classified in the following categories:

Investment in capital assets, net of related debt groups all capital assets, including infrastructure, into one component of net assets. 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.

The ***restricted net assets*** present external restrictions imposed by creditors, grantors, contributors and laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

The ***unrestricted net assets*** are those net assets not categorized in the other categories.

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 28, 2011.

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.

2. Stewardship, Compliance and Accountability (Continued)

- 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.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2011, actual expenditures exceeded final budget appropriations in the Water Fund by \$89,326.

3. Deposits and Investments

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, 2011, \$2,803,404 of the District's bank balance of \$5,146,872 was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 2,031,979
Covered by Connecticut State Statues	311,489
Uninsured and uncollateralized	<u>2,803,404</u>
Total	<u><u>\$ 5,146,872</u></u>

Investments

As of June 30, 2011, the District held the following investments:

Investment Type:	Fair Value	Maturities (In Years)	
		Less Than 1	1-5
Money Market Fund	\$ 57,901	\$ 57,901	\$ -
Certificates of Deposits	74,193	49,810	24,383
U.S. Treasury Notes	55,095	55,095	-
Total Investments	<u><u>\$ 187,189</u></u>	<u><u>\$ 162,806</u></u>	<u><u>\$ 24,383</u></u>

3. Deposits and Investments (Continued)

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.

4. Receivables

The receivables as of June 30, 2011 for the District's individual major fund, the Water Fund, including the applicable allowance for uncollectible accounts is as follows:

Accounts Receivable - Customers	\$ 746,780
Unbilled revenue	602,914
Other receivables	<u>50,815</u>
Gross receivables	1,400,509
Less: allowance for doubtful collections	<u>(20,501)</u>
Total Accounts Receivable	<u><u>\$ 1,380,008</u></u>

5. Capital Assets

Capital assets activity for the year ended June 30, 2011 is as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2011</u>
Water Fund:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,187,349	\$ -	\$ -	\$ 2,187,349
Construction-in-Progress	<u>1,051,016</u>	<u>1,684,999</u>	<u>433,604</u>	<u>2,302,411</u>
Total Capital Assets, Not Being Depreciated	<u>3,238,365</u>	<u>1,684,999</u>	<u>433,604</u>	<u>4,489,760</u>

THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

5. Capital Assets (Continued)

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Capital Assets, Being Depreciated:				
Buildings	\$ 2,729,372	\$ -	\$ -	\$ 2,729,372
Machinery and Equipment	12,079,800	7,661	-	12,087,461
Infrastructure	16,075,143	433,604	-	16,508,747
Total Capital Assets, Being Depreciated	<u>30,884,315</u>	<u>441,265</u>	<u>-</u>	<u>31,325,580</u>
Less Accumulated Depreciation:				
Buildings	1,249,735	76,916	-	1,326,651
Machinery and Equipment	6,261,810	422,841	-	6,684,651
Infrastructure	9,308,535	319,160	-	9,627,695
Total Accumulated Depreciation	<u>16,820,080</u>	<u>818,917</u>	<u>-</u>	<u>17,638,997</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>14,064,235</u>	<u>(377,652)</u>	<u>-</u>	<u>13,686,583</u>
Total Water Fund	<u>\$ 17,302,600</u>	<u>\$ 1,307,347</u>	<u>\$ 433,604</u>	<u>\$ 18,176,343</u>

	Balance July 1, 2010	Additions	Balance June 30, 2011
First Taxing District:			
Capital Assets, Not Being Depreciated -			
Land - Parks	<u>\$ 441,575</u>	<u>\$ -</u>	<u>\$ 441,575</u>
Capital Assets, Being Depreciated:			
Land Improvements	\$ 712,910	\$ 15,961	\$ 728,871
Equipment	<u>108,556</u>	<u>-</u>	<u>108,556</u>
Total Capital Assets Being Depreciated	<u>\$ 821,466</u>	<u>\$ 15,961</u>	<u>\$ 837,427</u>

THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS (Concluded)
JUNE 30, 2011

5. Capital Assets (Continued)

	Balance July 1, 2010	Additions	Balance June 30, 2011
Less Accumulated Depreciation:			
Land Improvements	\$ 559,417	\$ 3,008	\$ 562,425
Equipment	53,715	3,551	57,266
	<u>613,132</u>	<u>6,559</u>	<u>619,691</u>
Total Accumulated Depreciation			
	<u>\$ 613,132</u>	<u>\$ 6,559</u>	<u>\$ 619,691</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	\$ 208,334	\$ 9,402	\$ 217,736
	<u>208,334</u>	<u>9,402</u>	<u>217,736</u>
Total First Taxing District	<u>\$ 649,909</u>	<u>\$ 9,402</u>	<u>\$ 659,311</u>

Depreciation expense was charged to the following funds:

Water Department	\$ 818,917
First District	<u>6,559</u>
Total Depreciation Expense	<u>\$ 825,476</u>

6. Accrued Expenses

The District recognized the following expenses at June 30, 2011.

Accrued payroll	\$ 32,997
Accrued Purchases	<u>138,290</u>
	<u>\$ 171,287</u>

7. Long-Term Liabilities

The activity of the District's long-term liabilities for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Maturities and/or Payments	Balance	Due in One Year
Compensated Absences	\$ 104,212	\$ 13,678	\$ 10,400	\$ 107,490	\$ 10,750
Other Post Employment Benefits Obligations Payable	537,757	709,872	113,754	1,133,875	-
	<u>641,969</u>	<u>723,550</u>	<u>124,154</u>	<u>1,241,365</u>	<u>10,750</u>
Total Long-Term Liabilities	<u>\$ 641,969</u>	<u>\$ 723,550</u>	<u>\$ 124,154</u>	<u>\$ 1,241,365</u>	<u>\$ 10,750</u>

7. Long-Term Liabilities (Continued)

Loan Payable

The district had indebtedness in the amount of \$2,025,000 payable to a bank and maturing on August 9, 2011. The District paid the loan on the maturity date.

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.

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:

THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS (Concluded)
JUNE 30, 2011

7. **Long-Term Liabilities (Continued)**

Year Ended June 30,	Medical	
	Pre-65	Post-65
2012	7.00 %	7.00 %
2013	5.00	6.00
2014+	5.45	5.45

The amortization basis is the level percentage of payroll method with 28 years remaining in the amortization period. The actuarial assumptions included a 0.50% 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, 2011 was as follows:

Active Employees	20
Retired Employees	<u>26</u>
Total	<u>46</u>

Amortization Component:

Actuarial Accrued Liability as of June 30, 2011	\$ 8,569,143
Assets at Market Value	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 8,569,143</u>
Funded Ratio	<u>0.00%</u>
Covered Payroll (active plan members)	<u>\$ 1,643,965</u>
UAAL as a Percentage of Covered Payroll	<u>521.25%</u>
Annual Required Contribution	707,183
Interest on Net OPEB Obligation	<u>2,689</u>
Annual OPEB Cost	709,872
Contributions Made	<u>(113,754)</u>
Increase in Net OPEB Obligation	596,118
Net OPEB Obligation - Beginning of year	<u>537,757</u>
Net OPEB Obligation - End of year	<u>\$ 1,133,875</u>

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:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 709,872	16.0 %	\$ 1,133,875
2010	698,212	23.0	537,757

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:

Replace Ex. 4" Dia Water Mains East Norwalk	\$ 418,879
FIS, CIS	119,204
Browns Dam - Rizzo	9,561
Browns Dam Construction	18,355
CDM Wellfield	27,283
CDM Water Audit	<u>763</u>
Total outstanding construction contracts	<u>\$ 594,045</u>

9. Employee Retirement Plans

Deferred 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.

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 \$54,800.

Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency.

10. Subsequent Events

On December 1, 2010 the District entered into a loan and security agreement with the City of Norwalk, Connecticut, ("City"). The District requested that the City issue general obligation bonds and under the loan agreement lend the proceeds of the bond to the District, for the purpose of financing capital projects.

The City agreed to loan the District \$8,585,000. The City will make scheduled payments as follows:

2011 - 2012	\$ 4,585,000
2012 - 2013	2,000,000
2013 - 2014	2,000,000

On August 22, 2011 the District received the first payment of \$4,585,000. The commissioners established a Debt Service Reserve in accordance with the loan agreement, which represented one year of interest and principal payments on the total loan for \$8,585,000. Since the full amount of the borrowing was delayed, the commissioner kept the reserve at its current level to offset any rate increases.

THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT

REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF FUNDING PROGRESS
OTHER POST EMPLOYMENT BENEFITS

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, 2011	\$ -	\$ 8,569,143	\$ 8,569,143	- %	\$ 1,643,965	521.25 %
June 30, 2010	\$ -	\$ 8,569,143	\$ 8,569,143	- %	\$ 1,635,185	524.05 %

THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL - WATER FUND
YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUE				
Water revenue:				
First district sales	\$ 906,300	\$ 906,300	\$ 911,686	\$ 5,386
Outside district sales	3,303,400	3,303,400	3,225,677	(77,723)
Industrial sales	1,780,000	1,780,000	2,016,065	236,065
Service charges	1,287,000	1,287,000	598,966	(688,034)
Leases	560,000	560,000	591,006	31,006
Other revenue	362,310	362,310	265,126	(97,184)
Contributions	10,000	10,000	15,323	5,323
Investment income	25,000	25,000	58,181	33,181
Miscellaneous	3,100	3,100	11,050	7,950
TOTAL REVENUE	\$ 8,237,110	\$ 8,237,110	\$ 7,693,080	\$ (544,030)
EXPENSES				
Operating expense:				
Water treatment	\$ 1,572,030	\$ 1,639,565	\$ 1,585,499	\$ 54,066
Operations	1,266,860	1,267,456	1,070,257	197,199
General services	1,127,200	1,215,929	1,078,727	137,202
Administrative and general	329,840	362,685	340,342	22,343
Customer service	213,650	165,125	152,898	12,227
Engineering	153,820	181,805	148,573	33,232
Transfer out to District Fund	20,500	20,500	20,500	-
Employee benefits	1,149,910	1,164,735	942,132	222,603
Depreciation	-	-	818,917	(818,917)
Other post employment benefit expense	-	-	596,118	(596,118)
Interest	728,300	675,571	75,569	600,002
Contingency	175,000	46,835	-	46,835
TOTAL EXPENSES	\$ 6,737,110	\$ 6,740,206	\$ 6,829,532	\$ (89,326)

THE FIRST TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL - FIRST DISTRICT FUND

YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUE				
Investment income	\$ 600	\$ 600	\$ 11,076	\$ 10,476
Transfers in from Water Fund	20,400	20,400	20,500	100
Revenues from leases	335,000	335,000	335,000	-
TOTAL REVENUE	<u>\$ 356,000</u>	<u>\$ 356,000</u>	<u>\$ 366,576</u>	<u>\$ 10,576</u>
EXPENSES				
Salaries	\$ 14,100	\$ 29,100	\$ 27,787	\$ 1,313
Office printing	7,500	6,750	1,221	5,529
Miscellaneous	37,900	42,130	6,592	35,538
Legal	17,500	12,500	7,893	4,607
Accounting	3,000	3,000	3,000	-
Advertising	5,000	7,500	7,457	43
Street lighting	200,000	172,070	135,767	36,303
Parks	-	5,000	1,080	3,920
Contractual services	10,000	15,250	10,417	4,833
Utilities	11,000	12,700	8,531	4,169
Repairs and maintenance	50,000	50,000	29,097	20,903
Depreciation	-	-	6,559	(6,559)
TOTAL EXPENSES	<u>\$ 356,000</u>	<u>\$ 356,000</u>	<u>\$ 245,401</u>	<u>\$ 110,599</u>