

McGladrey & Pullen

Certified Public Accountants

STAMFORD WATER POLLUTION CONTROL AUTHORITY
An Enterprise Fund of the City of Stamford, Connecticut

FINANCIAL REPORT

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

To the City of Stamford
Board of Finance
Stamford Water Pollution Control Authority
Stamford, Connecticut

We have audited the accompanying financial statements of the Stamford Water Pollution Control Authority (SWPCA), an enterprise fund of the City of Stamford, Connecticut, as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the SWPCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

As discussed in Note 1, the financial statements present only the Stamford WPCA fund and do not purport to, and do not, present fairly the financial position of the City of Stamford, Connecticut as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stamford Water Pollution Control Authority as of June 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has chosen not to present a Management Discussion and Analysis for the Stamford WPCA that accounting principles generally accepted in the United States of America require to supplement, although not to be a part of the basic financial statements.

In accordance with "Government Auditing Standards," we have also issued our report dated September 28, 2006 on our consideration of the Stamford Water Pollution Control Authority'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," and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

New Haven, Connecticut
September 28, 2006

Financial Statements

STAMFORD WATER POLLUTION CONTROL AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2006

ASSETS

Current Assets

Usage receivable, net of allowance for doubtful accounts \$900,000	\$ 5,744,153
Other receivable	9,902
Intergovernmental receivable	42,285
Total current assets	5,796,340

Noncurrent Assets

Capital assets:

Land	2,833,278
Sewer and infrastructure	55,196,138
Building and improvements	60,468,710
Equipment	69,232,724
Construction in progress	2,725,764
	<u>190,456,614</u>
Less accumulated depreciation	40,846,013
	<u>149,610,601</u>

Restricted assets - cash	9,313,030
Special assessments, net of allowance for doubtful accounts \$800,000	3,662,270

Total noncurrent assets	162,585,901
Total assets	168,382,241

LIABILITIES

Current Liabilities

Accounts payable	1,466,103
Accrued liabilities	1,036,128
Current maturities of general obligation bonds	2,294,624
Current maturities on notes payable	8,574,604
Due to other funds	3,526,969
Unearned revenue	47,036
Total current liabilities	16,945,464

Noncurrent Liabilities

General obligation bonds (net of unamortized discount)	29,273,725
Notes payable	69,160,105
Other noncurrent liabilities	43,172
Total noncurrent liabilities	98,477,002

Total liabilities	115,422,466
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NET ASSETS

Invested in capital assets, net of related debt	40,465,291
Restricted	9,313,030
Unrestricted	3,181,454
Total net assets	\$ 52,959,775

See Notes to Financial Statements.

STAMFORD WATER POLLUTION CONTROL AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2006

Operating Revenues

Charges for services \$ 13,564,628

Operating Expenses

Salaries, benefits and claims 2,865,737
Operations and supplies 4,593,903
Depreciation and amortization 6,820,795
Total operating expenses 14,280,435

Net operating loss (715,807)

Nonoperating Expense

Interest income 361,720
Interest expense (1,142,393)
Total nonoperating expenses (780,673)

Capital Contributions

Capital grants 1,247,212
Special assessments 1,039,061
2,286,273

Change in net assets 789,793

Net assets, beginning 52,169,982

Net assets, ending \$ 52,959,775

See Notes to Financial Statements.

STAMFORD WATER POLLUTION CONTROL AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

Cash Flows From Operating Activities

Receipts from customers and users	\$ 7,754,207
Payments to suppliers	(5,061,552)
Payments to employees	(2,839,169)
Net cash provided by operating activities	<u>(146,514)</u>

Cash Flows From Capital and Related Financing Activities

Principal payments on debt	(2,772,567)
Interest paid on debt	(3,797,791)
Proceeds from notes payable	6,553,502
Purchase of property and equipment	(9,316,546)
Subsidy from State and Federal government	2,411,832
Advances from other funds	
Special assessment proceeds	<u>1,286,782</u>
Net cash (used in) capital and related financing activities	<u>(5,634,788)</u>

Cash Flows From Investing Activities

Interest received on investments	<u>361,720</u>
Net cash provided by investing activities	<u>361,720</u>
Net decrease in cash and cash equivalents	(5,419,582)

Cash and Cash Equivalents

Beginning	<u>14,732,612</u>
Ending	<u>\$ 9,313,030</u>

Reconciliation of Operating Loss to Net Cash

Provided by Operating Activities:

Operating loss	\$ (715,807)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	6,820,795
Changes in assets and liabilities:	
Increase in advances from other Funds	(727,945)
Increase in receivable accounts	(5,092,393)
Decrease in accrued expenses and accounts payable	(478,200)
Increase in deferred revenues	47,036
Net cash provided by operating activities	<u>\$ (146,514)</u>

See Notes to Financial Statements.

STAMFORD WATER POLLUTION CONTROL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies

Reporting entity

Article III, Ordinance Number 836, adopted October 6, 1997, created the Stamford Water Pollution Control Authority (SWPCA) to operate the Water Pollution Control Facility, sanitary sewage system, pumping stations and hurricane barrier pumping stations for the City of Stamford (the "City"). It is independent in terms of its relationship to other City functions and is reported as a business-type activity in the City's basic financial statements. Its operations are financed through direct charges to the user of the service. The financial statements present only the Stamford WPCA fund and do not purport to, and do not, present fairly the financial position of the City of Stamford, Connecticut as of June 30, 2006, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Significant accounting policies are as follows:

Basis of accounting

The SWPCA utilizes the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when a liability is incurred.

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of reporting cash flows, the SWPCA considers all highly liquid investments with an original maturity term of three months or less when purchased to be cash equivalents.

Accounts receivable

Accounts receivable are carried at the original amount billed less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

STAMFORD WATER POLLUTION CONTROL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2006

Capital assets

Property, plant and equipment is stated at cost. Normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Assets being constructed over a period of time are classified as construction in progress. No depreciation is computed on these assets until they are complete and placed into service. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows:

	<u>Years</u>
Land	-
Buildings and improvements	40-50
Equipment	5-20
Sewer infrastructure	50-100

The SWPCA capitalizes interest during the period of construction.

Compensated absences

Under terms of the bargaining unit agreements, employees are awarded vacation on July 1 of each year based on years of service, and can accumulate up to 45-60 days of unused vacation, depending upon their specific union contract. Employees are also allowed sick leave, which is earned monthly, and can accumulate up to 150 days. Upon termination of employment without eligibility for retirement, each employee is paid for unused vacation and 50 percent of unused sick leave up to 75 days.

Vested sick leave and accumulated vacation leave is recognized as an expense and liability as the benefits accrue to employees. Nonvested sick leave is recognized to the extent it is expected to be paid.

Revenues

Operating Revenue

Operating revenues are based on the SWPCA authorized minimum charges applied to customer consumption of water. The SWPCA accrues amounts earned at the end of each accounting period.

The SWPCA has the authority to file liens on past due accounts. The liens are payable second to property taxes upon transfer of the respective properties.

Capital Contributions

Special assessments are fees assessed by the SWPCA for new sewer lines and for new connections to existing sewer lines in residences and commercial businesses. The assessments

STAMFORD WATER POLLUTION CONTROL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2006

and the connection fees charged are payable over a 10-15 year period. Interest on the assessment fees is charged at an annual set rate by the SWPCA. State and federal capital grants are recognized when eligibility requirements are met.

Proprietary fund accounting

The SWPCA follows Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." This Statement provides guidance on the applicability of accounting pronouncements from other standard setting organizations. Under the SWPCA's election, it must apply all GASB pronouncements and the following pronouncements issued before November 30, 1989 unless they contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the SWPCA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The SWPCA has cash restricted for debt service requirement per the revenue bonds. Restricted resources are used first to fund appropriations.

Note 2. Cash and Cash Equivalents

The following is a summary of cash and cash equivalents at June 30, 2006:

	<u>Carrying and Fair Values</u>
Restricted cash	<u>\$ 9,313,030</u>

Responsibility for custodial credit risk of deposits rests with the City; accordingly, separate disclosure is not possible. The notes of the City's comprehensive annual financial report should be read to determine the City's custodial credit risk of deposits. The cash balance at June 30, 2006 is restricted for Clean Water Fund debt service reserve fund.

STAMFORD WATER POLLUTION CONTROL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2006

Note 3. Capital Assets

A summary of capital assets as of June 30, 2006 is as follows:

	Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,833,278	\$ -	\$ -	\$ 2,833,278
Construction in process	6,006,025	2,643,107	(5,923,368)	2,725,764
Total capital assets, not being depreciated	<u>8,839,303</u>	<u>2,643,107</u>	<u>(5,923,368)</u>	<u>5,559,042</u>
Capital assets being depreciated:				
Sewer and infrastructure	49,489,479	5,706,659		55,196,138
Building and improvements	53,578,517	6,890,193		60,468,710
Equipment	69,232,724	-		69,232,724
Total capital assets being depreciated	<u>172,300,720</u>	<u>12,596,852</u>	<u>-</u>	<u>184,897,572</u>
Less accumulated depreciation	34,025,218	6,820,795		40,846,013
Net capital assets	<u>\$ 147,114,805</u>	<u>\$ 8,419,164</u>	<u>\$ (5,923,368)</u>	<u>\$ 149,610,601</u>

STAMFORD WATER POLLUTION CONTROL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2006

Note 4. Long-Term Obligations

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 21,546,219	\$ -	\$ 2,130,618	\$ 19,415,601	\$ 2,039,624
Clean water fund revenue bonds, net of unamortized original issue premium	12,449,347	-	454,347	11,995,000	255,000
Notes payable	71,578,156	6,553,502	396,949	77,734,709	8,574,604
Deferred premiums	286,174	-	128,426	157,748	-
Total bonds and notes payable	105,859,896	6,553,502	3,110,340	109,303,058	10,869,228
Compensated absences	256,868	17,548	-	274,416	41,162
Self-insurance	43,172	-	-	43,172	6,476
Total other long- term obligations	300,040	17,548	-	317,588	47,638
Total	\$ 106,159,936	\$ 6,571,050	\$ 3,110,340	\$ 109,620,646	\$ 10,916,866

General obligation bonds

The SWPCA does not have the authority to issue general obligation bonds. General obligation bonds issued on behalf of the SWPCA is considered general obligation debt of the City of Stamford. The SWPCA pays the principal and interest due on its allocable portion of the City's debt.

STAMFORD WATER POLLUTION CONTROL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2006

The SWPCA's allocable portion of general obligation bonds outstanding as of June 30, 2006 consisted of the following:

Date of Issue	Interest Rate(s)(%)	Original Amounts	Maturity Dates	Balance June 30, 2006
January 1990	6.0 - 7.75	\$ 8,007,000	2001 - 2010	\$ 5,505,243
February 1998	4.1 - 5.25	10,295,000	2001 - 2018	471,588
June 1999	3.5-5.0	2,105,000	2001 - 2018	1,029,704
April 2001	4.0-5.0	3,640,000	2002 - 2020	1,381,795
April 2003	2.0-5.25	3,982,952	2003- 2015	3,175,742
November 2003	2.5 to 4.5	2,660,000	2004 - 2023	2,582,792
November 2003	2.0 to 5.25	2,027,600	2004 - 2018	2,091,651
September 2003	2.5 to 4.25	3,136,000	2005 - 2024	3,177,086
				<u>\$ 19,415,601</u>

Aggregate debt service requirements subsequent to June 30, 2005 are as follows:

	Principal	Interest	Total
2007	\$ 2,039,624	\$ 859,205	\$ 2,898,829
2008	1,975,582	798,698	2,774,280
2009	1,973,389	710,499	2,683,888
2010	1,854,810	512,672	2,367,482
2011	1,476,043	518,101	1,994,144
2012-2016	6,357,919	1,655,098	8,013,017
2017-2021	3,194,234	433,796	3,628,030
2022-2025	544,000	46,138	590,138
Total	<u>\$ 19,415,601</u>	<u>\$ 5,534,207</u>	<u>\$ 24,949,808</u>

STAMFORD WATER POLLUTION CONTROL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2006

Bonds payable

WPCA revenue bonds outstanding as of June 30, 2006 consisted of the following:

Stamford Water Pollution Control System and Facility Revenue Bonds - Series 2003. Issued in the aggregate amount of \$12,480,000 revenue bonds in October 2003 at interest rates ranging from 2.0% to 5.00%, due annually, on November 1. Interest is payable monthly, with principal maturity paid from July 2002 through July 2032. The aggregate new amount includes unamortized premium of \$182,331 at June 30, 2006.	\$ 12,177,331
Total revenue bonds payable	12,177,331
Less: current portion	<u>(255,000)</u>
Total revenue bonds payable - non-current	<u>\$ 11,922,331</u>

Debt service requirements - revenue bonds

Aggregate debt service requirements subsequent to June 30, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 255,000	\$ 532,930	\$ 787,930
2008	265,000	523,243	788,243
2009	270,000	516,555	786,555
2010	280,000	508,980	788,980
2011	285,000	500,505	785,505
2012-2016	1,585,000	2,348,762	3,933,762
2017-2021	1,940,000	1,996,325	3,936,325
2022-2026	2,460,000	1,472,645	3,932,645
2027-2031	3,155,000	784,875	3,939,875
2032-2033	1,500,000	76,000	1,576,000
Debt Service requirement	<u>11,995,000</u>	<u>9,260,820</u>	<u>21,255,820</u>
Plus bond premium	182,331	-	182,331
Net Debt Service requirement	<u>\$ 12,177,331</u>	<u>\$ 9,260,820</u>	<u>\$ 21,438,151</u>

STAMFORD WATER POLLUTION CONTROL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2006

Notes payable

The SWPCA has loans from the State of Connecticut for various sewer projects. The SWPCA has completed a \$105 million dollar upgrade of the waste water treatment facility. The project is also being funded through grants and a local share. The loans bear interest at 2%. The loans are payable in monthly installments of \$11,380 through November 2014; \$3,601 through January 2017; installments ranging from approximately \$12,000 to \$17,000 through June 2020 and a lump sum payment in August 2006 of \$3,678,000 and installments ranging from \$252,000, beginning September 30, 2006 to \$368,000 through August 2025, plus accrued interest. As of June 30, 2006 the combined loans' balance is \$77,734,709.

	Principal	Interest	Total
Fiscal year ending June 30:			
2007	\$ 8,574,604	\$ 2,711,216	\$ 11,285,820
2008	3,445,942	1,358,361	4,804,303
2009	3,552,280	1,288,040	4,840,320
2010	3,620,352	1,216,372	4,836,724
2011	3,689,797	1,143,332	4,833,129
2012-2016	18,917,443	4,576,664	23,494,107
2017-2021	19,942,095	2,599,118	22,541,213
2022-2025	15,632,196	593,066	16,225,262
Total	<u>\$ 77,374,709</u>	<u>\$ 15,486,169</u>	<u>\$ 92,860,878</u>

Note 5. Interest Cost

The total interest cost incurred during the year ended June 30, 2006 was approximately \$2,300,000, of which \$1,200,000 was capitalized as part of the cost of various capital projects.

Note 6. Commitments and Contingencies

The City is a defendant in several claims and lawsuits. In the opinion of the City's attorney and management, the resolution of these matters will not have a material adverse effect on the future financial statements of the SWPCA.

Note 7. Risk Management

The City is exposed to various risks of loss related to torts, theft or impairment to assets, errors and omissions, injury to employees, employee health insurance, and natural disasters.

STAMFORD WATER POLLUTION CONTROL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2006

The City is self-insured per claim for up to \$250,000 with an aggregate limit of \$750,000 for general and auto liability, \$1,500,000 for workers' compensation, \$100,000 for public officials' liability and \$100,000 for property losses. The City purchases commercial insurance for claims in excess of these retentions. Costs associated with these risks are reported in the insurance fund in addition to claims incurred but not reported. The SWPCA is charged by the City for its share of premiums cost and claims. Settled claims have not exceeded commercial coverage in any of the past three years.

Changes in the balances of claims liabilities, primarily workers' compensation during the past year, are as follows:

Fiscal Year Ended	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2006	\$ 300,000	\$ 438,000	\$ 420,000	\$ 318,000
2005	\$ 323,000	\$ 500,000	\$ 523,000	\$ 300,000

Note 8. Employee Retirement Plan

Nearly all full-time City employees are covered by a pension plan. The employees of the SWPCA are covered under the Classified Employees Retirement Fund. Employees become eligible at date of hire and can contribute between 0% and 5% until they have reached 33 years of service. Full benefits are payable to an employee who retires at age 60 with a minimum of 10 years of service or a vested employee who is age 58 and has reached at least 15 years of service.

As of June 30, 2006, no amount was required to be contributed; therefore, no amount was contributed.

Information with respect to the pension plan's net assets are contained in the City's basic financial statements.

Note 9. Pronouncements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2006 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City:

- ♦ GASB Statement Number 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," issued April 2004, will be effective for the City beginning

STAMFORD WATER POLLUTION CONTROL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2006

with its year ended June 30, 2007. This Statement establishes uniform financial reporting standards for OPEB (other postemployment benefits) and supersedes the interim guidance included in Statement No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans."

- ◆ GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," issued June 2004, will be effective for the City beginning with its year ending June 30, 2008. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits, expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.
- ◆ GASB Statement Number 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues," issued September 2006, is effective for periods beginning after December 15, 2006. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues.
- ◆ GASB Statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations, issued December 1, 2006, will be effective for the City beginning with its fiscal year June 30, 2008 but the liability should be measured at July 1, 2007 so that beginning net assets can be restated. This Statement identifies the circumstances under which a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted, if the pollution poses an imminent danger to the public or the environment, if the government has violated a pollution prevention permit or license, if the government has been named as a responsible party for cleaning up the pollution, if the government began to clean up the pollution, and if the government is named in a lawsuit. In addition, it provides disclosure information about their pollution obligations associated with clean up efforts.