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We have audited the accompanying statements of net assets and fiduciary net assets of South Central Connecticut Regional Water Authority (the Authority) as of and for the years ended May 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund net assets, cash flows and changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 basic 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 Authority'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 basic 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority and its fiduciary funds as of May 31, 2010 and 2009, and the respective changes in financial position and cash flows of the Authority, and changes in net assets of its fiduciary funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 9 and the schedule of funding progress for pension and retiree trust funds on page 36 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blum, Shapiro & Company, P.C.

August 30, 2010

Management's Discussion and Analysis Year Ended May 31, 2010

Introduction

As noted in the Independent Auditors' Report from Blum, Shapiro & Company, P.C., Management's Discussion and Analysis (MD&A) provides supplemental information to the audit and should be read in conjunction with it. The purpose of the MD&A is to introduce and highlight the more detailed information provided in the audited financial statements. For example, it will assess improvement to or deterioration of the Authority's financial position and will identify factors that, in management's opinion, affected financial performance during the fiscal period under review.

Contents of the Audited Financial Statements

The Authority's audited financial statements include the following:

- **Statement of net assets**
This statement provides information about the Authority's investments in resources (assets) and its obligations to creditors (liabilities), with the difference between them reported as net assets.
- **Statement of revenues, expenses and changes in net assets**
This statement demonstrates changes in net assets from one fiscal period to another by accounting for revenues and expenditures and measuring the financial results of operations. The information may be used to determine how the Authority has funded its costs.

- **Statement of cash flows**

This statement provides information concerning the Authority's cash receipts and payments, as well as net changes in cash resulting from operations, capital and related financing, and investing activities.

- **Fiduciary financial statements**

These statements provide information about net assets available for benefits under the Authority's employee benefit plans and changes in net assets available for benefits.

- **Notes to financial statements**

Notes to the audited financial statements contain information essential to understanding them, such as the Authority's accounting methods and policies.

The Authority's Business

The primary purpose of the Authority, according to its enabling legislation, is to provide and assure an adequate supply of pure water at a reasonable cost to its water district and, to the degree consistent with the foregoing, to advance water conservation and the conservation and compatible recreational use of land held by the Authority.

The Watershed Fund, established by the Authority for the purpose of protecting land on the watershed through the acquisition of open space and promotion of environmental education, is included as a blended component unit in the audited financial statements. (See Note 1 to the audited financial statements, *Organization*.)

Financial Highlights

Summary:

Revenues, expenses and changes in net assets

May 31,

	2010	2009	2008
	(In thousands of dollars)		
Operating revenues:			
Water revenues	\$ 76,619	\$ 75,225	\$ 74,271
Other	6,796	6,121	5,960
Total operating revenues	83,415	81,346	80,231
Operating expenses:			
Operating and maintenance	38,457	39,423	39,601
Other water expenses	1,478	1,013	837
Cost of other revenue	1,971	3,000	3,432
Depreciation	16,427	16,385	14,296
Payments in lieu of taxes (PILOT)	5,716	5,652	5,321
Total operating expenses	64,049	65,473	63,487
Operating income	19,366	15,873	16,744
Nonoperating income and expenses:			
Interest expense—net	(22,948)	(21,454)	(17,276)
Gain (loss) on disposal of assets	1,025	(213)	(373)
Realized and unrealized gains/(losses) on investments	552	(239)	199
Amortization of bond discount, premium, issuance costs and deferred refunding losses	(2,691)	(2,693)	(2,634)
Total nonoperating revenues and expenses	(24,062)	(24,599)	(20,084)
Loss before contributions	(4,696)	(8,726)	(3,340)
Capital contributions	2,881	4,381	2,398
Change in net assets	\$ (1,815)	\$ (4,345)	\$ (942)

The following items 1-5 highlight differences in revenues, expenses and changes in net assets for the three fiscal years ended May 31st of 2008, 2009 and 2010, respectively, as presented above.

The following explanations first address differences between FY 2009 and FY 2010 and, secondly, between FY 2008 and FY 2009.

1. Operating revenues

The increase in operating revenues from FY 2009 to FY 2010 is primarily attributable to the Authority's increased rates and charges, effective April 8, 2010. Cool temperatures and above average precipitation during the summer months of 2009 substantially offset the effect of the rate increase. The increase in operating revenues from FY 2008 to FY 2009 is primarily attributable to the Authority's increased rates and charges, effective April 3, 2008, together with a full 12 months of revenue from the approximately 9,500 customers who joined the Authority's district when it merged with Birmingham Utilities on January 16, 2008. Cool temperatures and above average precipitation during the summer months of 2008 substantially offset the effect of the rate increase and the merger.

2. Operating expenses

Operating and maintenance expense from FY 2009 to FY 2010 decreased by \$1 million. In FY 2010, the Authority implemented a reorganization that resulted in the reduction of 26 full-time positions. The Authority also entered into a new electric generation contract that reduced electric costs by \$569,000 compared to FY 2009. Additionally, the Authority implemented a cost reduction plan to help offset lower revenue. A portion of the aforementioned savings was offset by higher costs related to salary and wage increases (\$592,000) and healthcare cost increases (\$1.3 million). Operating and maintenance expense from FY 2008 to FY 2009 shows a slight decrease. Increases of \$665,000 in salaries and wages, \$202,000 in electrical pumping and \$218,000 in chemical costs were more than offset by cost-cutting efforts implemented in October 2008 as a result of lower draft and revenue during the summer of 2008.

Depreciation expense increased from FY 2009 to FY 2010 because of additions to utility plant. Depreciation expense increased from FY 2008 to FY 2009 because of additions to utility plant, including a full year of depreciation on assets acquired from Birmingham Utilities in January 2008.

Payments-in-Lieu-of-Taxes (PILOT) to municipalities in the water district increased from FY 2009 to FY 2010 as a net result of pipe additions and land acquisitions, less pipe retirements and land sales. Payments-in-Lieu-of-Taxes (PILOT) to municipalities in the water district increased from FY 2008 to FY 2009 primarily as a result of a full year of PILOT on assets acquired from Birmingham Utilities.

3. Non-operating income and expenses

Net interest expense increased from FY 2009 to FY 2010, primarily because the Authority paid a full year of interest expense on the debt it issued in April 2009. Net interest expense increased from FY 2008 to FY 2009, primarily because the Authority paid a full year of interest expense on the debt it issued to fund the acquisition of Birmingham Utilities in January 2008.

Realized and unrealized gains on investment increased by \$791,000 from FY 2009 to FY 2010 due to an improvement in market conditions. Realized and unrealized gains on investment decreased by \$438,000 from FY 2008 to FY 2009 due to a deterioration in market conditions.

4. Disposal of assets

In FY 2010, the Authority sold several land parcels and retired certain assets characterized as "plant," which produced a net gain on disposal of assets. In FY 2009 and FY 2008, the Authority retired certain assets characterized as "plant," resulting in a loss on disposal of assets.

5. Amortization

The amortization of bond discount, premium, issuance costs and deferred refunding losses (e.g., termination of an interest rate swap) was level in FY 2010 and FY 2009. The amortization of bond discount, premium, issuance costs and deferred refunding losses (e.g., termination of an interest rate swap) was higher in FY 2009 than in FY 2008 because the Authority issued new debt in April 2009, which increased the amortization for cost of issuance.

Summary: Net assets	May 31,		
	2010	2009	2008
	(In thousands of dollars)		
Assets:			
Capital assets	\$ 559,081	\$ 549,333	\$ 532,918
Goodwill	14,424	14,424	14,295
Other assets:			
Current	31,136	28,883	30,258
Restricted assets	94,552	75,432	73,402
Other long-term	9,477	9,735	11,288
Total assets	\$ 708,670	\$ 677,807	\$ 662,161
Liabilities:			
Current liabilities	\$ 29,865	\$ 31,251	\$ 34,017
Other long-term liabilities	3,100	2,000	2,000
Long-term debt	539,249	506,286	483,528
Total liabilities	572,214	539,537	519,545
Net assets:			
Invested in capital assets—net of related debt	61,586	70,589	75,793
Restricted	45,460	40,187	39,266
Unrestricted	29,410	27,494	27,557
Total net assets	136,456	138,270	142,616
Total liabilities and net assets	\$ 708,670	\$ 677,807	\$ 662,161

The following items 1-11 explain the differences between FY 2010 and FY 2009, as well as between FY 2009 and FY 2008 on the summarized statement of net assets presented on the previous page.

1. Capital assets:

The increase in capital assets from FY 2009 to FY 2010 is attributable to land purchases and additions to plant, such as pumping equipment, improvements to existing water treatment plants, upgrades to the distribution system (including new pipe) and improvements in information technology. The increase in capital assets from FY 2008 to FY 2009 is attributable to land purchases and additions to plant, such as pumping equipment, improvements to existing

water treatment plants, upgrades to the distribution system (including new pipe) and improvements in information technology. (See Note 4, *Utility Plant*, for details.)

2. Goodwill:

Goodwill results from the Authority's acquisition of Birmingham Utilities on January 16, 2008. No impairment has been recognized since its inception.

3. Current assets:

The following itemizes the increase of \$2.3 million in current assets between FY 2009 and FY 2010 and the decrease of \$1.4 million between FY 2008 and 2009:

	From 6/1/09 to 5/31/10	From 6/1/08 to 5/31/09
Increase (decrease) in cash and cash equivalents and short-term investments	\$ 1,171,258	\$ (854,944)
Increase in accounts receivable, net	557,657	483,598
Increase (decrease) in accrued water revenue	1,106,168	(421,363)
Increase (decrease) in interest receivable	33,208	(58,158)
(Decrease) increase in materials and supplies	(435,140)	71,993
Decrease in prepayments and other current assets	(180,989)	(528,880)
Net increase (decrease) in current assets	\$ 2,252,162	\$ (1,307,754)

Increase in net assets from June 1, 2009 to May 31, 2010

The increase in cash and cash equivalents reflects better cash collections in FY 2010 as a result of increased effort in the collections area as well as higher cash receipts resulting from the rate increase effective April 2009.

The increase in accounts receivable reflects higher billed amounts resulting from the rate increase effective April 2009.

The increase in accrued water revenue is due to warmer-than-expected weather in May 2010, which resulted in increased consumption as well as the April 2009 rate increase.

Material and supplies are lower due to implementing an effort to purchase materials as they are needed.

The decrease in prepayments and other assets from FY 2009 to FY 2010 reflects lower jobbing receivables.

Decrease in net assets from June 1, 2008 to May 31, 2009

The decrease in cash and cash equivalents reflects lower cash collections in FY 2009 as a result of below-budget draft, reduced sales and slower customer payments in the context of global recession.

The increase in accounts receivable reflects higher billed amounts resulting from the rate increase effective April 2008 as well as the global recession.

Wetter-than-normal weather during the spring of 2009 and the global recession reduced consumption, which reduced accrued water revenue.

Higher-priced inventory increased the amounts shown for materials and supplies.

The decrease in prepayments and other assets from FY 2008 to FY 2009 reflects the receipt of a tax refund for \$1.1 million that was partially offset by higher jobbing receivables and prepaid deferred contracts.

4. Restricted assets (investments)

The term "restricted assets" refers primarily to certain funds established under the Authority's *General Bond Resolution* whose use is restricted as required by that document, e.g.:

- Construction Fund;
- Rate Stabilization Fund;
- Debt Reserve Fund;
- Operating Reserve Fund;
- Debt Service Funds

The Authority invests these restricted assets in securities as allowed by the *General Bond Resolution*, e.g., in direct obligations of the federal or state governments (or agencies) or in obligations guaranteed by the federal government. The increase of \$19.1 million in restricted assets between FY 2009 and FY 2010, primarily reflects higher balances in the Debt Reserve Fund, Debt Service Funds and Construction Fund, partially offset by lower balances in construction receivables and Rate Stabilization Fund. The increase of \$2.0 million in restricted assets between FY 2008 and FY 2009 primarily reflects higher balances in the Debt Reserve Fund, Debt Service Funds and Construction receivables, partially offset by lower balances in the Construction Fund and Rate Stabilization Fund.

5. Other long-term assets

This category of asset has four components, one being an interest rate swap associated with the Authority's Eighteenth Series Bonds issued in May 2003, which the Authority terminated in September 2004. Also referred to as a "regulatory asset," the amount shown for the terminated swap decreases each month as the Authority amortizes the cost of the termination, resulting in decreases of \$1.4 million between FY 2009 and FY 2010, and between FY 2008 and FY 2009, respectively.

The second component of this line item is a second regulatory asset, representing an estimated cost of \$4.7 million for the Authority's anticipated environmental remediation of a site on Newhall Road in

Hamden, Connecticut. In FY 2010, this regulatory asset was increased from \$3.7 million to \$4.7 million based on updated estimates for remediation. (See Note 13, *Pollution Remediation Obligation*.)

The third component of this line item comprises assets of the Watershed Fund. There were increases of \$142,869 from FY 2009 to FY 2010 and decreases of \$477,753 from FY 2008 to FY 2009.

The final component of this line item is pension and other post-employment (OPEB) assets, which are overfunded by \$-0- and \$266,949, respectively, as of May 31, 2010 and \$24,784 and \$321,140, respectively, as of May 31, 2009.

6. Current liabilities

The Authority's current liabilities decreased by \$1.4 million between FY 2009 and FY 2010 primarily because of decreased payables associated with capital expenses as well as other payables reflecting the Authority's cost reduction initiatives. The Authority's current liabilities decreased by \$2.8 million between FY 2008 and FY 2009, primarily because of decreased payables associated with the Authority's acquisition of Birmingham Utilities in January 2008, as well as insurance claims and payables associated with capital expenses.

7. Long-term debt

The Authority increased its long-term debt by \$33 million between FY 2009 and FY 2010 because it issued its Twenty-Fifth Series Bonds and 2010 Series A, Build America Bonds, in April 2010 to fund its program of capital improvements. Partially offsetting the increase were the Authority's payments of principal on other debt outstanding. The Authority increased its long-term debt by \$22.8 million between FY 2008 and FY 2009 because it issued its Twenty-Fourth Series Bonds in April 2009 to fund its program of capital improvements. Partially offsetting the increase were the Authority's payments of principal on other debt outstanding. (See Note 7, *Revenue Bonds Payable*, for detail.)

8 Invested in capital, net of related debt

This line represents the Authority's total capital assets, less related long-term debt. The amount invested in capital, net of related debt, decreased by \$9 million between FY 2009 and FY 2010, and by \$5.2 million between FY 2008 and FY 2009 because the Authority increased its long-term debt more than its utility plant-in-service.

9. Net assets, restricted

Restricted net assets increased by \$5.3 million between FY 2009 and FY 2010, and by \$0.9 million between FY 2008 and FY 2009 primarily because the value of the invested assets exceeded amounts payable from them on the latter date.

10. Unrestricted net assets

Unrestricted net assets increased \$1.9 million between FY 2009 and FY 2010 because the Authority had higher balances of current assets and lower balances of current payables on the latter date. Unrestricted net assets decreased slightly between FY 2008 and FY 2009 because the Authority had lower balances of current assets and current payables on the latter date.

11. Total net assets

The Authority's total net assets showed net decreases from FY 2009 to FY 2010 (\$2.1 million), and from FY 2008 to FY 2009 (\$4.3 million) due to the net effect of variances noted in items 7 through 9 above.

The Authority's Customer Base

The Authority's customer base is primarily residential and commercial. Of the Authority's approximately 117,900 customers, 107,000 are residential and 7,000 are commercial. The remainder are industrial, public authority and "miscellaneous." In fiscal years 2010 and 2009, as is typical, 84% of the Authority's total water revenue came from its residential and commercial customers.

The Operating Budget for FY 2010

Operating revenue in FY 2010 was less than the amount budgeted by approximately 4.2%, primarily as a result of cool temperatures and significantly above average precipitation during the summer of 2009. Operating and maintenance expenses for FY 2010 were under budget by \$2.4 million, due to a re-organization that resulted in the reduction of 26 full-time positions as well as cost reduction initiatives to help offset the lower revenue that resulted from cool, wet summer weather.

Liquidity and Capital Resources in FY 2010

In FY 2010, the Authority received \$80 million in cash from operations, and \$0.4 million from earnings on investment. The Authority also withdrew \$3.2 million from its Rate Stabilization Fund making total cash received sufficient to pay for operations and maintenance (\$39 million) and to fund transfers associated with debt service (\$37 million) and PILOT (\$5.7 million).

The Authority funds its program of capital improvements largely through issuing debt, most recently in April 2010, with its Water System Revenue Bonds, Twenty-Fifth Series, in the amount of \$11.4 million and 2010 Series A, in the amount of \$31.4 million. In conjunction with this issuance, the Authority implemented an increase in revenues from water rates and charges.

Credit Rating

In March 2010, the national credit rating agencies, Standard & Poor's Rating Services and Moody's Investors Service, affirmed underlying ratings of A+ and A2, respectively, on the Authority's outstanding debt. On May 1, 2010, Moody's completed its plan to recalibrate its long-term U.S. municipal rating to its global rating scale. As a result of the recalibration, the Authority's rating increased from A2 to Aa3.

Financial Statement Presentation

The Authority prepares its financial statements on an accrual basis in accordance with accounting principles generally accepted in the United States of America.

Request For Information

Please note that the Authority's audited financial statements include data from its fiscal years ended May 31, 2010 and 2009. Comparable information for earlier years is available, as noted below.

This report is designed to provide a financial overview of the South Central Connecticut Regional Water Authority. Questions concerning the information in this report or requests for additional information should be addressed in writing to the Vice President, Business Planning, Development and Finance, South Central Connecticut Regional Water Authority, 90 Sargent Drive, New Haven, Connecticut 06511.

Statements of Net Assets May 31, 2010 and 2009

	2010	2009
ASSETS		
UTILITY PLANT		
Property, plant, and equipment in service	\$ 666,309,146	\$ 647,869,078
Accumulated depreciation	(186,234,831)	(170,891,090)
Utility plant in service	480,074,315	476,977,988
Construction work in progress	16,263,593	11,052,673
Total utility plant, net	496,337,908	488,030,661
NONUTILITY LAND	62,743,761	61,302,383
GOODWILL	14,423,704	14,423,704
CURRENT ASSETS		
Cash and cash equivalents	5,707,507	4,536,249
Accounts receivable, less allowance for doubtful accounts of \$310,000 in 2010 and \$363,300 in 2009	8,257,049	7,699,392
Accrued water revenue	12,749,849	11,643,681
Accrued interest receivable	154,346	121,138
Materials and supplies	2,002,658	2,437,798
Prepaid expenses and other assets	2,264,399	2,468,560
Total current assets	31,135,808	28,906,818
RESTRICTED INVESTMENTS	94,552,669	75,431,820
NET BENEFIT PLAN ASSETS	266,949	345,924
WATERSHED FUND ASSETS	1,369,621	1,227,752
REGULATORY ASSETS	7,839,858	8,138,427
TOTAL ASSETS	\$ 708,670,278	\$ 677,807,489
LIABILITIES AND NET ASSETS		
LIABILITIES		
Revenue bonds payable net of deferred refunding losses, less current portion	\$ 539,248,835	\$ 506,285,785
Current liabilities		
Current maturities of bonds payable	11,594,000	11,335,000
Accounts payable	2,396,167	2,799,397
Customer deposits and advances	523,359	831,197
Other accrued liabilities	5,183,085	5,494,336
Total current liabilities	19,696,611	20,459,930
Payable from restricted assets		
Accounts payable for construction	796,048	1,439,232
Accrued interest payable	8,708,234	8,081,180
Customer deposits and advances	664,625	1,270,734
Total liabilities payable from restricted assets	10,168,907	10,791,146
Pollution remediation obligation	3,100,000	2,000,000
Total liabilities	572,214,353	539,536,861
NET ASSETS		
Invested in capital assets, net of related debt	61,585,963	70,589,413
Restricted assets	45,460,336	40,187,223
Unrestricted	29,409,626	27,493,992
Total net assets	136,455,925	138,270,628
TOTAL LIABILITIES AND NET ASSETS	\$ 708,670,278	\$ 677,807,489

The accompanying notes are an integral part of these financial statements

Statements of Revenue, Expenses, and Changes in Fund Net Assets

for the Years Ended May 31, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Water revenues		
Residential and commercial	\$ 61,991,444	\$ 60,283,031
Industrial	1,558,925	1,809,730
Fire protection	7,045,243	6,707,865
Public authority	2,776,439	2,797,584
Wholesale	617,143	494,575
Other	2,630,001	3,131,761
Other revenue	6,795,516	6,121,034
Total operating revenues	83,414,711	81,345,580
OPERATING EXPENSES		
Operating and maintenance expense	38,457,206	39,422,580
Depreciation	16,426,898	16,385,156
Payments in lieu of taxes	5,715,870	5,651,980
Other water expenses	1,476,828	1,013,185
Cost of other revenue	1,971,853	2,999,760
Total operating expenses	64,048,655	65,472,661
Operating income	19,366,056	15,872,919
NONOPERATING INCOME (EXPENSE)		
Interest income	1,522,440	1,939,897
Gain (loss) on disposal of assets	1,024,687	(213,294)
Realized and unrealized gain (loss) on investments	552,653	(239,436)
Interest expense	(24,470,437)	(23,393,482)
Amortization of bond discount, premium, issuance cost, and deferred losses	(2,691,178)	(2,692,570)
Total nonoperating income (expense)	(24,061,835)	(24,598,885)
Loss before contributions	(4,695,779)	(8,725,966)
CAPITAL CONTRIBUTIONS		
Change in net assets	(1,814,703)	(4,344,916)
NET ASSETS—beginning of year	138,270,628	142,615,544
NET ASSETS—end of year	\$ 136,455,925	\$ 138,270,628

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows for the Years Ended May 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 74,727,958	\$ 75,199,652
Cash received from other services	9,597,779	5,676,182
Cash paid to employees	(15,771,532)	(16,145,094)
Cash paid to suppliers for operations	(23,146,642)	(25,271,569)
Cash paid to suppliers for other services	(2,197,509)	(2,852,297)
Payments in lieu of taxes	(6,292,479)	(5,112,053)
Net cash provided by operating activities	36,917,575	31,494,821
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,489,232	1,998,055
Purchase of restricted investments	(118,509,330)	(80,516,573)
Sale of restricted investments	96,962,003	76,797,473
Net cash used in investing activities	(20,058,095)	(1,721,045)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for utility plant	(27,997,626)	(34,992,105)
Proceeds from disposition of assets	1,352,831	469,338
Proceeds from issuance of revenue bonds	43,567,936	33,073,538
Principal payments on revenue bonds	(11,335,000)	(10,423,500)
Interest paid	(24,157,439)	(23,137,041)
Capital contributions	2,881,076	4,381,050
Net cash used in capital and related financing activities	(15,688,222)	(30,628,720)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,171,258	(854,944)
CASH AND CASH EQUIVALENTS—beginning of year	4,536,249	5,391,193
CASH AND CASH EQUIVALENTS—end of year	\$ 5,707,507	\$ 4,536,249
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 19,366,056	\$ 15,872,919
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	16,426,898	16,385,156
Transfer from Rate Stabilization Fund	3,205,000	1,400,000
Transfer from General Fund	35,126	120,064
Change in:		
Prepaid expenses and other assets	204,160	528,880
Accounts receivable and accrued water revenue	(1,663,825)	(62,235)
Net benefit plan assets	78,975	(345,924)
Materials and supplies	435,140	(71,993)
Watershed Fund assets	(147,636)	531,580
Accounts payable	(403,230)	2,293,759
Customer deposits and advances	(307,838)	286,949
Other accrued liabilities	(311,251)	(856,816)
Total adjustments	17,551,519	15,621,902
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 36,917,575	\$ 31,494,821

The accompanying notes are an integral part of these financial statements

Statements of Fiduciary Net Assets—Pension Trust Fund

May 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 497,179	\$ 172,216
Investments		
Equity securities	26,970,149	25,308,304
Accrued income	8,756	6,127
Total assets	27,476,084	25,486,647
NET ASSETS		
Held in trust for pension benefits	\$ 27,476,084	\$ 25,486,647

Statements of Changes in Fiduciary Net Assets—Pension Trust Fund

For the Years Ended May 31, 2010 and 2009

	2010	2009
ADDITIONS		
Contributions:		
Employer	\$ 1,716,716	\$ 1,411,416
Retirees	545	—
Transfer from Birmingham Utilities	—	1,070,684
Total contributions	1,717,261	2,482,100
Investment earnings:		
Net increase (decrease) in fair value of investments	4,031,676	(8,199,447)
Realized gain (loss) on sale of investments	163,219	(332,545)
Investment earnings and other income	307,869	658,223
Total investment earnings (loss)	4,502,764	(7,873,769)
Total additions (reductions)	6,220,025	(5,391,669)
DEDUCTIONS		
Benefits	(3,997,331)	(3,441,674)
Expenses	(233,257)	(232,646)
Total deductions	(4,230,588)	(3,674,320)
CHANGE IN NET ASSETS	1,989,437	(9,065,989)
NET ASSETS—beginning of year	25,486,647	34,552,636
NET ASSETS—end of year	\$ 27,476,084	\$ 25,486,647

The accompanying notes are an integral part of these financial statements

Statements of Fiduciary Net Assets— Retired Employees' Contributory Trust Fund

May 31, 2010 and 2009

	2010		2009
ASSETS			
Cash and cash equivalents	\$ 228,263	\$	51,634
Investments			
Equity securities	620,342		514,289
Fixed income	256,135		230,507
Total assets	1,104,740		796,430
NET ASSETS			
Held in trust for retiree benefits	\$ 1,104,740	\$	796,430

Statements of Changes in Fiduciary Net Assets— Retired Employees' Contributory Trust Fund

For the Years Ended May 31, 2010 and 2009

	2010		2009
ADDITIONS			
Contributions:			
Employer	\$ 1,276,308	\$	1,435,225
Retirees	124,493		104,757
Transfer from Birmingham Utilities	—		564,462
Total contributions	1,400,801		2,104,444
Investment earnings:			
Net increase in fair value of investments	112,380		3,009
Investment earnings and other income	19,301		17,433
Total investment earnings	131,681		20,442
Total additions	1,532,482		2,124,886
DEDUCTIONS			
Benefits	(1,212,833)		(1,327,527)
Expenses	(11,339)		(929)
Total deductions	(1,224,172)		(1,328,456)
CHANGE IN NET ASSETS	308,310		796,430
NET ASSETS—beginning of year	796,430		—
NET ASSETS—end of year	\$ 1,104,740	\$	796,430

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements as of and for the Years Ended May 31, 2010 and 2009

1. Organization

The South Central Connecticut Regional Water Authority and Component Units (Authority) was created, effective July 25, 1977, pursuant to State of Connecticut Special Act No. 77-98 (the Act), as amended. Per this enabling legislation, the primary purpose of the Authority is to provide and assure an adequate supply of pure water at a reasonable cost to the South Central Connecticut Regional Water District (District) and, to the degree consistent with the foregoing, to advance water conservation and the conservation and compatible recreational use of land held by the Authority. The five-member Authority is elected by the seventeen member Representative Policy Board (RPB), which consists of a member from each of the sixteen municipalities within the District and one member appointed by the Governor of Connecticut.

In 1999, the Authority established the Watershed Fund, a separate legal entity organized for the purpose of protecting watershed land that has a distinctive ecological significance through open space acquisition and environmental education. Although it is a separate legal entity from the Authority, the Watershed Fund is included as a blended component unit in the Authority's financial statements (see Note 6, Watershed Fund). Requests for complete financial statements for the Watershed Fund should be addressed in writing to President, The Watershed Fund, 90 Sargent Drive, New Haven, CT 06511.

2. Summary of Significant Accounting Policies

The accounting records of the Authority are maintained in accordance with accounting principles generally accepted in the United States of America. All assets, liabilities, net assets, revenues and expenses are accounted for in a proprietary fund except for employee benefit trusts, which are reported as fiduciary funds. For both proprietary and fiduciary funds, revenues are recognized when earned and expenses are recognized when incurred. The more significant accounting policies are summarized below.

The Authority has elected, under the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, to follow only statements issued by GASB after November 30, 1989.

Basis of Accounting – The Authority utilizes the accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred.

Regulatory Accounting Policies – The Authority follows accounting principles generally accepted in the United States of America for regulated public utilities. Under these principles, regulated companies defer certain costs and credits on the statement of net assets as regulatory assets and liabilities (see "Regulatory Assets" in Note 2) when it is probable that those costs and credits will be recoverable through the ratemaking process in a period different from when they otherwise would have been reflected in income. These deferred regulatory assets and liabilities are then reflected in revenues or expenses in the period in which the same amounts are reflected in rates.

Utility Plant – Capital assets in the utility plant are defined by the Authority as assets with an initial cost of more than \$2,000 and an estimated life of more than one year. Such assets are recorded at cost if purchased or constructed, which includes material and direct labor,

as well as indirect items, e.g., engineering, supervision, payroll taxes, employee benefits, transportation and capitalized interest on significant construction projects. The costs of maintenance and repairs are charged to the appropriate operations and maintenance expense accounts as incurred, while the costs of renewal and betterments are capitalized. The book value of depreciable utility plant retired in the ordinary course of business is removed from the asset and accumulated depreciation accounts. Gain or loss realized upon disposal is credited or charged to income.

Donated capital assets are recognized at estimated fair market value at date of donation. The cost of normal maintenance and repairs that do not add to the value of the related assets or materially extend their lives is charged to operations. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation expense is computed using the straight-line method based on estimated service lives. Half of a year's depreciation is provided for capital assets in the year they are placed in or removed from service.

The estimated service lives of capital assets are as follows:

Asset Description	Useful Life (Years)
Source of supply and supply mains	100
Wells and springs	30
Other water source structures	10
Power and pumping structures	30
Pumping equipment	20
Water treatment plant structure	43
Water treatment equipment	23
Distribution tanks	50
Distribution mains	85
Services	50
Meters	15
Hydrants	60
Hydraulic shovel and front loader	8
Hydraulic backhoe	6
Compressors	10
Computer equipment	5
General structures	32
Furniture and fixtures	12
Autos and trucks	5
Other equipment	10

Goodwill – Goodwill is not amortized, but is reviewed for impairment at least annually by applying a fair value-based test. The Authority determined that for the years ended May 31, 2010 and May 31, 2009, no impairment of goodwill has occurred.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, amounts due from banks and repurchase agreements that are collateralized by U.S. government securities. The Authority considers all unrestricted investments with an original maturity of three months or less to be cash equivalents.

Short-term Investments – The Authority considers all unrestricted investments with a maturity date of more than three months, but less than one year, to be short-term investments.

Investments – Investments are reported at fair market value.

Materials and Supplies – Materials and supplies are presented at the lower of weighted average cost or market.

Restricted Assets – Restricted assets, consisting principally of investments in U.S. Government and State of Connecticut obligations, are carried at fair market value.

Watershed Fund Assets – The primary assets held in the Watershed Fund are investments, which are stated at fair market value.

Regulatory Assets – Regulatory assets include the following deferred charges as of May 31, 2010: a \$4.7 million of anticipated environmental remediation costs in the town of Hamden and a \$3.1 million unamortized loss from terminating an interest rate swap in 2004, associated with the Authority's Eighteenth Series Bonds, issued in May 2003.

Bonds Payable – Bond discount, premium and issuance costs are amortized using the interest method, meaning amortization is based on interest payments over the terms of the series. The Authority records and amortizes deferred losses on debt refunding using a straight-line method over the shorter of the life of the new debt or the old debt.

Customers' Advances for Construction – Cash advances to reimburse the Authority for costs to construct supply mains are contributed to the Authority by customers, real estate developers and builders in order to extend water service to their properties. These contributions are recognized as "customer deposits and advances." The Authority makes refunds on these deposits and advances in accordance with the deposit and advance agreements. After making refunds, the Authority records the remaining balance in the customer advance account for which work has been completed as a capital contribution.

Operating Items – Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenue Recognition – The Authority accrues revenue based on an estimate of water service provided to each customer, net of allowance for uncollectible accounts, from the last meter reading date to the balance sheet date. Interest is accrued on unpaid customer accounts after 30 days from the billing date.

Other Revenue – Other revenue includes revenue from the PipeSafe and PipeSafe-Plus service protection plans, laboratory testing services, computer billing services, data hosting fees, fleet repairs and miscellaneous charges.

Capital Contributions – Capital contributions include contributions-in-aid-of-construction resulting from direct nonrefundable contributions and the portion of customers' advances for construction that become nonrefundable. Also included are capital grants representing nonrefundable contributions for construction purposes from governmental agencies.

Use of 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 certain reported amounts and disclosures in the financial statements. Actual results may differ from those estimates. Significant estimates used in the preparation of the financial statements include the determination of claims incurred but not reported and the actuarially determined cost and net assets or liabilities relating to pension and postemployment benefit plans.

Recent Accounting Pronouncements – In 2010, the Authority adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as required. This statement establishes standards for measurement, recognition and disclosures relating to pollution remediation obligations. Specifically, the statement requires recognition of such obligations based on the present value of probability-weighted estimated future cash flows.

3. Deposits and Investments

Authority revenue is processed daily and deposited promptly in accordance with the Authority's *General Bond Resolution* Section 404A.

Section 411A of the Authority's *General Bond Resolution* requires that money held in its various funds by the Authority or its trustee be invested in investment securities, which are defined as follows:

- Direct obligations of the United States of America;
- Obligations guaranteed by the United States of America;
- Debt issued by federal agencies;
- Debt issued by states or their agencies (with ratings qualifications);
- Repurchase agreements;
- Short-term investment funds administered by a state;
- Any obligation approved in writing by Moody's Investors Service and Standard & Poor's Ratings Group.

The Authority utilizes a variety of these investment options.

Deposits

Deposit Custodial Credit Risk - Custodial credit risk is that, in the event of a bank failure, the Authority's deposit will not be returned. The Authority participated in the FDIC Transaction Account Guarantee program for the year ended May 31, 2010. This program guarantees insurance on all balances without limit in commercial checking accounts.

Accordingly, none of the Authority's cash was exposed to custodial credit risk.

Cash Equivalents

At May 31, 2010 and 2009, the Authority's cash equivalents amounted to \$69,629,018 and \$68,797,297, respectively, and consisted solely of the State Short-Term Investment Fund (STIF), with a credit rating of AA-Am by Standard and Poor's.

Investments

As of May 31, 2010, the Authority had the following investments:

Investment Type	Credit Rating	Fair Market Value	Investment Maturities (Years)	
			Less Than 1	1-10
Interest-bearing investments				
U.S. Government obligations	N/A	\$ 27,767,036	\$ 5,873,011	\$ 21,894,025
Other investments:				
Common stock	—	5,983,038	—	—
Mutual funds	—	22,597,786	—	—
Total investments	—	\$ 56,347,860	—	—

N/A – Not applicable

As of May 31, 2009, the Authority had the following investments:

Investment Type	Credit Rating	Fair Market Value	Investment Maturities (Years)	
			Less Than 1	1-10
Interest-bearing investments				
U.S. Government obligations	N/A	\$ 8,073,609	\$ 3,992,025	\$ 4,081,584
Other investments:				
Common stock	—	5,586,490	—	—
Mutual funds	—	20,696,587	—	—
Total investments	—	\$ 34,356,686	—	—

N/A – Not applicable

Interest Rate Risk – The Authority typically limits its investment maturities to ten years. Investments with maturities over one year are held within reserve accounts with limited liquidity requirements.

Credit Risk – Investments – As indicated above, the Authority's *General Bond Resolution* limits the investment options of the Authority. The Authority has an investment policy that allows the same type of investments as the *General Bond Resolution*.

Concentration of Credit Risk – The Authority has no policy limiting an investment in any one issuer that is in excess of 5% of the Authority's total investments.

Custodial Credit Risk – Custodial credit risk for an investment is the risk that, in the event of the failure

of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Authority or that sells investments to or buys them for the Authority), the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. At May 31, 2010, the Authority was not subject to custodial risk because it did not have any uninsured and unregistered securities held by the counterparty or by its trust department or agent that were not in the Authority's name.

4. Utility Plant

The following is a summary of utility plant:

2010	June 1, 2009	Additions	Transfers	Retirements	May 31, 2010
Capital assets not being depreciated:					
Land	\$ 26,508,004	\$ 283,988	\$ —	\$ (1,795)	\$ 26,790,197
Construction work in progress	11,052,673	24,558,367	(19,142,348)	(205,099)	16,263,593
Total capital assets not being depreciated	37,560,677	24,842,355	(19,142,348)	(206,894)	43,053,790
Other capital assets:					
Source of supply	32,539,973	—	622,239	(3,000)	33,159,212
Pumping structures and equipment	26,364,742	—	1,156,931	(302,659)	27,219,014
Water treatment plant and equipment	164,634,040	—	3,990,013	(8,973)	168,615,080
Transmission and distribution	354,472,842	—	12,916,954	(761,878)	366,627,918
General plant	43,349,477	837,905	456,211	(745,867)	43,897,726
Total other capital assets	621,361,074	837,905	19,142,348	(1,822,377)	639,518,950
Less accumulated depreciation:					
Source of supply	7,338,045	717,810	—	(387)	8,055,468
Pumping structures and equipment	12,179,726	1,050,149	—	(291,423)	12,938,452
Water treatment plant and equipment	50,337,829	4,985,213	—	(8,950)	55,314,092
Transmission and distribution	71,272,060	6,651,026	—	(563,290)	77,359,796
General plant	29,763,430	3,513,597	—	(710,003)	32,567,024
Total accumulated depreciation	170,891,090	16,917,795	—	(1,574,053)	186,234,832
Total other capital assets—net	450,469,984	(16,079,890)	19,142,348	(248,324)	453,284,118
Utility plant—net	\$ 488,030,661	\$ 8,762,465	\$ —	\$ (455,218)	\$ 496,337,908
2009	June 1, 2008	Additions	Transfers	Retirements	May 31, 2009
Capital assets not being depreciated:					
Land	\$ 25,044,144	\$ 1,475,862	\$ —	\$ (12,002)	\$ 26,508,004
Construction work in progress	13,320,119	28,439,558	(30,621,775)	(85,229)	11,052,673
Total capital assets not being depreciated	38,364,263	29,915,420	(30,621,775)	(97,231)	37,560,677
Other capital assets:					
Source of supply	29,587,209	—	2,986,498	(33,734)	32,539,973
Pumping structures and equipment	26,210,473	—	214,549	(60,280)	26,364,742
Water treatment plant and equipment	158,137,101	—	6,745,229	(248,290)	164,634,040
Transmission and distribution	336,686,703	51,319	19,092,470	(1,357,650)	354,472,842
General plant	40,703,647	1,734,062	1,583,029	(671,261)	43,349,477
Total other capital assets	591,325,133	1,785,381	30,621,775	(2,317,215)	621,361,074
Less accumulated depreciation:					
Source of supply	6,591,752	753,841	—	(7,548)	7,338,045
Pumping structures and equipment	11,188,723	1,042,587	—	(51,584)	12,179,726
Water treatment plant and equipment	45,673,649	4,812,287	—	(148,107)	50,337,829
Transmission and distribution	65,490,522	6,650,750	—	(869,212)	71,272,060
General plant	26,833,432	3,533,093	—	(603,095)	29,763,430
Total accumulated depreciation	155,778,078	16,792,558	—	(1,679,546)	170,891,090
Total other capital assets—net	435,547,055	(15,007,177)	30,621,775	(691,669)	450,469,984
Utility plant—net	\$ 473,911,318	\$ 14,908,243	\$ —	\$ (788,900)	\$ 488,030,661

During fiscal years 2010 and 2009, the Authority retired assets with accumulated depreciation totaling approximately \$1.6 million and \$1.7 million, respectively.

5. Restricted Assets

Pursuant to the Water System Revenue Bond Resolution: General Bond Resolution (the *General Bond Resolution*) of the Authority adopted July 31, 1980, as amended and supplemented, the following funds of restricted assets must be maintained. The Authority may use the assets of these funds only for the following purposes specified in the General Bond Resolution.

Construction – Bond proceeds and other amounts deposited in the Construction Fund may be applied only toward payment of the costs of water system capital projects upon submission of a requisition to the trustee.

Debt Service – The Authority is required to maintain a Debt Service Fund to ensure payment of interest and principal when due. The Authority must make a deposit each month to provide funds for payment of interest and principal becoming due. No such deposits need be made if the fund already contains sufficient dollars to satisfy interest coming due within six months and principal coming due within twelve months. The *General Bond Resolution* provides that, if the balances of the Debt Service Fund and Debt Reserve Fund are insufficient to pay interest, principal or sinking fund payments, the Authority must withdraw the deficiency from any of the other funds maintained by it.

Debt Reserve – The Authority is required to maintain a Debt Reserve Fund in an amount equal to the maximum aggregate of principal and interest payments becoming due in any one year in which bonds are outstanding. Amounts in the Debt Reserve Fund are to be used by the Authority in the event debt service requirements cannot be fully paid from amounts in the Debt Service Fund. To satisfy the requirements of the *General Bond Resolution*, the Authority's Debt Reserve Fund comprises surety bonds and bond proceeds.

Payments-in-Lieu-of-Taxes (PILOT) – The Act requires the Authority to make PILOT to the municipalities in which the Authority owns property. The Authority is required to make monthly deposits into the PILOT Fund in amounts sufficient to provide funds for PILOT that have become due in that month.

Operating Reserve – The Authority is required to maintain an Operating Reserve Fund in an amount equal to at least one-sixth of the amount budgeted for operating expenses at the beginning of its fiscal year. Amounts in the Operating Reserve Fund may be used to pay operating expenses to the extent monies are not otherwise available.

Capital Contingency – The Authority must maintain a Capital Contingency Fund in an amount equal to or greater than 1% of outstanding bonds, less principal deposits at the time of calculation, to provide for the cost of capital projects made necessary by emergency or other unforeseen circumstances or events.

Insurance Reserve – The *General Bond Resolution* requires the Authority both to keep its property insured and to carry general liability insurance (or maintain an insurance reserve fund). The Authority does not maintain an insurance reserve fund because it carries property insurance and has coverage for general liability through a member-owned program of "captive" insurance.

Rate Stabilization – The Authority established its Rate Stabilization Fund in 1996. Per the *General Bond Resolution*, before the last day of the first month of each fiscal year, the Authority will deposit in the Rate Stabilization Fund Variable Rate Bonds Sub-account the amount, if any, by which the interest on variable rate bonds assumed for rate-making purposes or, if lower, the maximum amount of interest payable under an interest rate limitation contract, exceeded the amount of interest and related costs paid during the previous fiscal year. On October 1, 2004, the Authority converted \$30 million of its Eighteenth Series Bonds to variable rate bonds and funded the Variable Rate Bonds Sub-account appropriately in January 2005. In March 2008, the Authority converted its outstanding variable rate debt to fixed rate.

The balances in the various funds as of May 31, 2010 and 2009, are as follows:

	May 31, 2010	May 31, 2009
Construction	\$ 43,030,673	\$ 24,698,908
Debt reserve	9,391,067	6,100,131
Debt service	22,007,337	20,576,482
Payments-in-lieu-of-taxes (PILOT)	2,083,872	1,519,884
Operating reserve	7,297,779	7,133,193
Capital contingency	5,744,052	5,158,430
Rate stabilization	3,021,900	6,215,022
Other purposes	1,975,989	4,029,770
Restricted assets	\$ 94,552,669	\$ 75,431,820

The level of funds required by the *General Bond Resolution* was met on May 31, 2010 and 2009.

6. Watershed Fund

In January 1999, with an initial donation of \$1,234,000, the Authority established the Watershed Fund, a separate legal entity organized and operated exclusively for charitable, educational and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, specifically for the purpose of protecting watershed land that has distinctive ecological significance through open space acquisition and environmental education. The Watershed Fund is governed by a Board of Directors, which includes certain members of the five-member Authority and the Representative Policy Board (RPB), as well as employees of the Authority. The five-member Authority elects the Board of Directors. The Watershed Fund is included as a blended component unit in the Authority's financial statements.

7. Revenue Bonds Payable

The Authority issues Water System Revenue Bonds to finance capital projects and to provide certain restricted funds, as required by the *General Bond Resolution*.

Activity in bonds payable for the years ended May 31, 2010 and 2009, was as follows:

2010	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 524,911,000	\$ 42,840,000	\$ (11,335,000)	\$ 556,416,000	\$ 11,594,000
Bond issuance costs	(9,779,246)	(565,177)	574,125	(9,770,298)	—
Bond premium	11,290,864	1,012,970	(846,057)	11,457,597	—
Bond discount	(665,603)	—	50,766	(614,837)	—
Surety bond costs	(436,624)	—	19,406	(417,218)	—
Loss on bond refunding	(7,699,606)	—	1,471,197	(6,228,409)	—
Total bonds payable	\$ 517,620,785	43,287,613	(10,065,563)	550,842,835	11,594,000

2009

Revenue bonds	\$ 501,604,500	\$ 33,730,000	\$ (10,423,500)	\$ 524,911,000	\$ 11,335,000
Bond issuance costs	(9,040,767)	(1,302,849)	564,370	(9,779,246)	—
Bond premium	11,737,265	402,111	(848,512)	11,290,864	—
Bond discount	(722,378)	—	56,775	(665,603)	—
Surety bond costs	(476,029)	—	19,405	(436,624)	—
Loss on bond refunding	(9,170,804)	—	1,471,198	(7,699,606)	—
Total bonds payable	\$ 493,951,787	\$ 32,829,262	\$ (9,160,264)	\$ 517,620,785	\$ 11,335,000

Revenue bonds outstanding comprise the following:

2010	Issuance Date	Original Maturity Date	Original Principal	Interest Rate	May 31, 2010
Fourteenth	1996	2016	15,245,000	3.60%–5.375%	229,000
Fifteenth	1999	2029	40,767,500	4.00%–5.125%	197,000
Seventeenth (Refunding bonds)	2002	2016	43,605,000	3.00%–5.250%	24,350,000
Eighteenth (Refunding and new money bonds)	2003	2033	236,535,000	2.00%–5.250%	203,430,000
Nineteenth	2004	2033	44,300,000	2.00%–4.625%	31,655,000
Twentieth	2005	2035	23,405,000	3.00%–5.000%	22,095,000
Twentieth A (Refunding bonds)	2007	2030	63,330,000	4.00%–5.250%	63,330,000
Twenty-first	2007	2037	27,825,000	4.00%–4.250%	27,630,000
Twenty-second	2008	2038	77,965,000	3.00%–5.000%	77,965,000
Twenty-third	2008	2038	29,015,000	3.00%–5.000%	28,965,000
Twenty-fourth	2009	2039	29,015,000	3.00%–5.000%	33,730,000
Twenty-fifth	2010	2023	11,455,000	1.37%–3.740%	11,455,000
2010 Series A	2010	2040	31,385,000	6.243%–6.393%	31,385,000
					\$ 556,416,000

2009	Issuance Date	Original Maturity Date	Original Principal	Interest Rate	May 31, 2009
Fourteenth	1996	2016	15,245,000	3.60%–5.375%	229,000
Fifteenth	1999	2029	40,767,500	4.00%–5.125%	307,000
Seventeenth (Refunding bonds)	2002	2016	43,605,000	3.00%–5.250%	27,675,000
Eighteenth (Refunding and new money bonds)	2003	2033	236,535,000	2.00%–5.250%	208,095,000
Nineteenth	2004	2033	44,300,000	2.00%–4.625%	34,290,000
Twentieth	2005	2035	23,405,000	3.00%–5.000%	22,545,000
Twentieth A (Refunding bonds)	2007	2030	63,330,000	4.00%–5.250%	63,330,000
Twenty-first	2007	2037	27,825,000	4.00%–4.250%	27,730,000
Twenty-second	2008	2038	77,965,000	3.00%–5.000%	77,965,000
Twenty-third	2008	2038	29,015,000	3.00%–5.000%	29,015,000
Twenty-fourth	2009	2039	29,015,000	3.00%–5.000%	33,730,000
					\$ 524,911,000

Bonds require annual payments of principal in varying amounts on the respective due dates.

Aggregate maturities of the Authority's water system revenue bonds are as follows:

Year Ending May 31	Principal	Interest
2011	\$ 11,594,000	\$ 26,214,587
2012	12,359,000	25,965,294
2013	12,940,000	25,355,276
2014	11,008,000	24,956,936
2015	14,150,000	24,298,744
2016-2020	74,050,000	112,192,900
2021-2025	92,685,000	93,299,800
2026-2030	117,025,000	68,241,869
2031-2035	131,070,000	35,844,154
2036-2040	77,020,000	9,599,157
Thereafter	2,515,000	80,392
Total	\$ 556,416,000	\$ 446,049,109

The following represents the more significant requirements of the *General Bond Resolution*:

Rate Covenants – The Authority is required to establish rates and charges at levels sufficient to cover annual operating and maintenance expenses (exclusive of depreciation), Payments-in-Lieu-of-Taxes (PILOT), all debt service requirements and any amounts necessary to meet reserve requirements established by the *General Bond Resolution*. In addition, collected revenues (as defined by the *General Bond Resolution*), less operating and maintenance expenses incurred and PILOT, must equal 110% of annual debt service. Also, collected revenues, less operating and maintenance expenses incurred, must equal 125% of annual debt service before PILOT.

The Act provides that the rates and charges proposed by the Authority are subject to approval by the RPB following a public hearing. However, the Act also provides that the RPB shall approve such rates and charges proposed by the Authority unless it finds that such rates and charges will provide funds insufficient for, or significantly in excess of, the amounts required to meet expenses of the Authority and the requirements of the *General Bond Resolution*.

As of May 31, 2010 and 2009, the Authority was in compliance with the requirements of the *General Bond Resolution*.

Maintenance of Funds – The *General Bond Resolution* provides for the maintenance of certain funds as discussed in Note 5, which for financial reporting purposes, are subparts of the Authority's overall enterprise fund. All revenues (as defined by the *General Bond Resolution*) collected by the Authority are deposited into the Revenue Fund and applied first to the payment of operating expenses, as defined, and then deposited to restricted funds required to be maintained by the *General Bond Resolution*. Funds remaining in the Revenue Fund at the end of the year, after the above requirements are met, are to be transferred to the General Fund, which is available to the Authority for any lawful purpose of the Authority. As of May 31, 2010 and 2009, the Authority designated no cash or cash equivalents for use in the Construction Fund.

8. Designation of the 2010 Series A Bonds As Build America Bonds

The Federal American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009), enacted February 17, 2009 (the Recovery Act), authorizes state and local governments to issue two general types of taxable Build America Bonds (Taxable BABs) with the federal government providing subsidies for a portion of their borrowing cost. One type of Taxable BAB provides a federal tax credit to the bondholder; the other provides a credit in the form of an interest subsidy payment directly to the issuer (Taxable BABs - Direct Payment). The 2010 Series A Bonds were issued as Taxable BABs - Direct Payment. Pursuant to the Recovery Act, the Authority will receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the 2010 Series A Bonds on or about each interest payment date. Such subsidy payment will be a revenue of the Authority under the General Bond Resolution. No holders of the 2010 Series A Bonds will be entitled to a tax credit with respect to the 2010 Series A Bonds. The receipt of the subsidy by the Authority is not a condition of payment of any portion of the principal and interest on the 2010 Series A Bonds. However, if the subsidy payments are reduced or eliminated, the 2010 Series A Bonds are subject to extraordinary optional redemption.

9. Defeasance of Long-Term Debt

On January 30, 2002, the Authority issued \$43,605,000 in Water System Revenue Bonds, Seventeenth Series, in order to advance refund \$41,410,000 of the Authority's Tenth, Eleventh and Thirteenth through Sixteenth Series Water System Revenue Bonds (the Refunded Bonds). The net proceeds of the refunding portion of the Seventeenth Series Bonds and certain other cash amounts were deposited in escrow with the trustee and invested in U.S. Government securities such that the earnings thereon, together with principal, suffice solely for the purpose of paying principal and interest on the Refunded Bonds. In the opinion of bond counsel, by deposit of the investment securities with the trustee, the Authority effected a legal defeasance under the terms of its *General Bond Resolution*, and the Refunded Bonds will not be considered as outstanding for any purpose. Accordingly, the Refunded Bonds are considered extinguished, and the investment securities and Refunded Bonds do not appear on the Authority's statements of net assets. Principal payments on the defeased debt began on August 1, 2002. As of May 31, 2010, principal of the defeased debt has been reduced by \$43,045,000, leaving a balance of \$1,365,000. The aggregate principal and interest payments of the Seventeenth Series Bonds total \$60.2 million, replacing the aggregate principal and interest payments of \$69.5 million on the Refunded Bonds. The transaction generated a deferred loss of \$1.9 million, which the Authority is amortizing over the life of the refunded debt.

On January 31, 2007, the Authority issued \$63,330,000 in Water System Revenue Bonds, Twentieth Series A Bonds, in order to refund \$65,245,000 of the Authority's Fifteenth, Sixteenth and Eighteenth Series A Water System Revenue Bonds (the Refunded Bonds). The Authority deposited net proceeds of the refunding portion of the Twentieth Series A Bonds and certain other cash amounts in escrow with the trustee and invested in U.S. Government securities such that the earnings thereon, together with principal, will suffice solely for

the purpose of paying principal and interest on the Refunded Bonds. In the opinion of bond counsel, by deposit of the investment securities with the trustee, the Authority effected a legal defeasance under the terms of its *General Bond Resolution*, and the Refunded Bonds will not be considered as outstanding for any purpose. Accordingly, the Refunded Bonds are considered extinguished, and the investment securities and Refunded Bonds do not appear on the Authority's statements of net assets. Principal payments on the defeased debt began on August 1, 2009. As of May 31, 2010, principal of the defeased debt has been reduced by \$30,990,000, leaving a balance of \$34,255,000. The aggregate principal and interest payments of the Twentieth Series A Bonds total \$114.4 million, replacing the aggregate principal and interest payments of \$119.8 million on the Refunded Bonds. The transaction generated a deferred loss of \$3.6 million, which the Authority is amortizing over the life of the refunded debt.

10. Defined Benefit Pension Plans

Plan Description

The Authority's two retirement plans are single-employer defined benefit pension plans administered under a master trust agreement by the five-member Authority. The retirement plans provide retirement, disability and death benefits to the plans' members and their beneficiaries. Cost-of-living adjustments are not provided to members and beneficiaries, but may be made at the discretion of the Authority. The Authority establishes and amends benefit provisions of the plan. The pension plan is included in the Authority's financial reporting entity and accounted for in the pension trust fund. The Authority does not issue a stand-alone financial report.

At January 1, 2010, which is the last date of actuarial valuation, membership consisted of the following:

	Salaried Plan	Bargaining Unit Plan
Retirees, disabled and beneficiaries currently receiving benefits	127	135
Vested terminated members entitled to but not yet receiving benefits	95	38
Current active members	136	121
Total members	358	294

Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting – The Pension Trust Fund's financial statements are prepared on the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which employee services are

performed. Benefits and refunds are recognized when due and payable in accordance with plan provisions. Administrative costs of the plan are financed through investment earnings.

Valuation of Investments – Investments are reported at fair value as determined by quoted prices in active markets.

Funding Policy

The Authority is required to contribute at an actuarially determined rate.

Annual Pension Cost and Net Pension Obligation

The retirement plans' annual pension cost and net pension benefit for the years ended May 31, 2010 and 2009, were as follows:

	2010		
(Dollar Amounts in Thousands)	Salaried Plan	Bargaining Unit Plan	
Annual required contribution	\$ 999	\$	742
Contributions made	(999)		(717)
Decrease in net pension asset	—		25
Net pension asset—beginning of period	—		(25)
Net pension asset—end of period	\$ —	\$	—
	2009		
(Dollar Amounts in Thousands)	Salaried Plan	Bargaining Unit Plan	
Annual required contribution	\$ 786	\$	600
Contributions made	(786)		(625)
Increase in net pension asset	—		(25)
Net pension asset—beginning of period	—		—
Net pension asset—end of period	\$ —	\$	(25)

The annual required contributions for the current period (FY 2010) were determined as part of the January 1, 2009 actuarial valuations using the aggregate cost method. Because the actuarial valuations were performed on a calendar-year basis, the Authority's contributions differ from amounts used to calculate the pension asset in the financial statements. The actuarial assumptions included the following: (a) 8.5% rate of return on investments (net of administrative expenses), and, (b) projected salary increases of 4% (salaried plan only) per year. The Authority's actuary determined the actuarial value of the assets using techniques that smooth the effects of short-term volatility on the market value of investments.

Three-Year Trend Information (Dollar amounts in thousands)

Fiscal Year Ended May 31	Salaried Employee Plan			Bargaining Unit Plan		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 715	100.0%	\$ —	\$ 588	100.0%	\$ —
2009	786	100.0	—	600	104.2	—
2010	999	100.0	—	742	96.6	—

Funding Progress

Because the aggregate cost method does not identify or separately amortize unfunded actuarial liabilities, the following information about the funded status and funding progress has been prepared using the entry age actuarial cost method as a surrogate for that purpose.

Salaried Plan – As of January 1, 2010, the most recent actuarial valuation date, the plan was 73.3% funded. The actuarial accrued liability for benefits was \$28,263,000, and the actuarial value of assets was \$20,720,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,543,000. The covered payroll was \$11,079,000 and the ratio of UAAL to the covered payroll was 68.1%.

Bargaining Unit Plan – As of January 1, 2010, the most recent actuarial valuation date, the plan was 72.9% funded. The actuarial accrued liability for benefits was \$17,417,000, and the actuarial value of assets was \$12,697,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,720,000. The covered payroll is not relevant to this plan, as pension payments are calculated based on a certain amount each month for each year of service to a maximum of 40 years, or actual retirement date.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

11. Voluntary Investment Plan

The Authority maintains a voluntary investment plan (a defined contribution 401(k) plan) covering eligible salaried employees. The Authority typically contributes an amount equal to 50% of an employee's contribution, not to exceed 3% of compensation. Authority contributions vest immediately. Effective January 1, 1997, eligible bargaining unit employees were allowed to participate in the voluntary investment plan. Effective April 13, 2008, the Authority is obligated to contribute an amount equal to 45% of a bargaining unit employee's contribution, not to exceed 2.7% of employee base wages. Contributions to the plan for the years ended May 31, 2010 and 2009, were as follows:

	2010		2009	
Employer contributions	\$	280,730	\$	392,700
Employee contributions		1,272,067		1,492,133

12. Other Post Employment Benefits—Retiree Health Care

Plan Description

The Authority's other post employment benefits (OPEB) include health benefits for retirees and qualifying dependents as well as a death benefit of \$10,000 per retiree. Medical coverage for retirees and spouses over 65 is provided by an indemnity plan. Medical and dental coverage for retirees and dependents under 65 is provided by the Authority's self-insurance plan. Death benefits are pay-as-you-go. Authority employees eligible for retiree benefits are as follows: 65 years old with 10 years of service or the sum of age and service (at least 10 years) is 80.

In September 2008, the Authority established the South Central Connecticut Regional Water Authority Retired Employees' Contributory Welfare Trust (the Trust). On October 9, 2008, the Authority transferred \$724,462 to the Trust as its initial funding. This initial contribution

comprises \$564,462 from the Birmingham Utilities Retiree Trust and \$160,000 as the Authority's initial funding of the Trust.

The retiree health plan is included in the Authority's financial reporting entity and accounted for as a trust fund. The Authority does not issue a stand-alone financial report.

The Authority opted to fund the Trust on a monthly basis by contributing anticipated monthly expenditures and withdrawing actual monthly expenditures.

At January 1, 2010, plan membership consisted of the following:

	Retiree Health Plan
Retired members	172
Spouses of retired members	90
Active plan members	246
Total participants	508

Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting – Financial statements for The Retired Employees' Contributory Welfare Trust are prepared using the accrual method of accounting. Employee contributions are recognized as revenues in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of Investments – Investments are reported at fair value as determined by quoted prices in active markets.

Funding Policy

Requirements for contributions by union plan members are negotiated with the union. Retiree contribution requirements vary depending on retirement date and hire date as described below:

Union employees and spouses:

- Until they are eligible for Medicare, retired employees under 65 are subject to the same contribution levels and increases in contributions as active employees.
- Employees who retired on or before April 15, 2006 receive full benefits from the Medicare Supplemental Plan F (or comparable coverage) and Medicare Part B reimbursement for pensioner and spouse if qualified.
- Employees who retire after April 15, 2006 receive benefits from the Medicare Supplemental Plan F (or comparable coverage) and Medicare Part B reimbursement for pensioner and for such of their dependents as qualified at levels in place as of December 31, 2005. Retirees and qualifying dependents are responsible for costs above \$158.14 per individual per month for the Medicare Supplemental Plan and \$78.00 per individual per month for Medicare Part B.
- Retired employees who were hired on or after January 1, 2006 are entitled to continue in the group health coverage by paying the entire monthly cost for the appropriate coverage based on their age.

Nonunion employees and spouses:

- Until they are eligible for Medicare, retired employees under 65 are subject to the same contribution levels and increases in contributions as active employees.
- Employees who retired on or before January 1,

2006 receive full benefits from the Medicare Supplemental Plan F (or comparable coverage) and Medicare Part B reimbursement for pensioner and spouse if qualified.

- Employees who retire after January 1, 2006 receive benefits from the Medicare Supplemental Plan F (or comparable coverage) and Medicare Part B reimbursement for pensioner and for such of their dependents as qualified at levels in place as of December 31, 2004. Retirees and qualifying dependents are responsible for costs above \$158.14 per individual per month for the Medicare Supplemental Plan and \$66.60 per individual per month for Medicare Part B.
- Retired employees who were hired on or after January 1, 2005 are entitled to continue in the group health coverage by paying the entire monthly cost for the appropriate coverage based on their age.

Employer contributions to the Trust were \$1,276,308 and \$1,435,225 during the fiscal years ended May 31, 2010 and 2009, respectively.

Annual OPEB Cost and Net OPEB Obligations

The Authority's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount contributed to the plan and changes in the Authority's net OPEB obligation.

(Dollar Amounts in Thousands)	2010	2009
Annual required contribution (ARC)	\$ 1,330	\$ 1,114
Interest on net OPEB obligation	—	—
Adjustment to annual required contribution	—	—
Annual OPEB cost	1,330	1,114
Contributions made	1,276	1,435
(Increase) decrease in net OPEB asset	54	(321)
Net OPEB Asset, beginning of year	(321)	—
Net OPEB Asset, End of Year	\$ (267)	\$ (321)

Three-Year Trend Information

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB asset for the fiscal years ended May 31, 2010 and 2009, are presented below. Data is only presented for fiscal years ended May 31, 2010 and 2009, as the first year of implementation of GASB Statement 45 was 2009.

(Dollar Amounts in Thousands)			
Fiscal Year Ended	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Asset
05/31/10	\$ 1,330	95.9%	\$ 267
05/31/09	\$ 1,114	128.8%	\$ 321

As of January 1, 2010, the most recent actuarial valuation date, the Trust was 8.4% funded. The actuarial accrued liability for benefits was approximately \$13,130,000 and the actuarial value of assets was \$1,100,000, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$12,030,000.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial Valuations

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and the healthcare costs trend. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actuarial results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents one-year information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections for benefits for financial reporting purposes are based on the substantive requirements and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the frozen entry age normal actuarial funding method was used with a health care cost trend of 8.75% and a discount rate of 8.5%. The UAAL is being amortized in 30 years from January 1, 2008 using an interest rate of 8.5% and level annual funding. The remaining amortization period at January 1, 2010 was 28 years.

13. Pollution Remediation Obligation – Newhall Street Property, Hamden

In July 2001, the Connecticut Department of Environmental Protection (DEP) issued Order No. SRD-128 to the Authority, the Olin Corporation, the Town of Hamden and the State of Connecticut Board of Education to investigate and remediate certain environmental conditions and to conduct a public participation program with respect to a number of properties, including the former Hamden Middle School property, in the Newhall Street area of Hamden. Subsequently, the parties and DEP conducted investigations of the areas subject to the order and negotiated a Consent Order, which was ultimately approved by the Commissioner of DEP in March 2009. However, the Authority has proposed an alternative focused remedial action plan, which is being coordinated with the Olin Corporation's submittal before it can be submitted to DEP for approval.

It is estimated that remediation work will commence within two months of DEP approval and will continue

into 2011. Site monitoring will be required for a minimum of three years after completion of site remediation.

The Authority has incurred \$1.7 million in remediation costs through May 31, 2010 and believes that the present value of future outlays for which the Authority is responsible under the Consent Order is between \$1.5 million and \$3.7 million, and has included provision for this anticipated cost as part of its five-year Capital Improvement Program. The Authority recognized a pollution remediation obligation of \$2 million as of December 31, 2002 based on information available at that time. For the year ended May 31, 2010, the Authority recognized an additional \$1.1 million in remediation costs based on current information, bringing the pollution remediation obligation balance to \$3.1 million as of May 31, 2010. As the remediation costs are to be recovered through future rate increases, the \$4.7 million in incurred costs and future estimated remediation costs has been recognized as a regulatory asset.

14. Hazwaste Central

As agent for the South Central Connecticut Regional Council of Governments, the Authority owns and operates, on behalf of Hazwaste Central, a regional collection center for household hazardous waste, located at its headquarters on Sargent Drive.

Since Hazwaste Central receives its revenue after incurring its operating costs, the Authority provides advance funding to the organization. The Authority is reimbursed for its advances when revenue is received by that organization.

15. Commitments and Contingencies

In the opinion of the Authority and its legal counsel, various legal matters in which the Authority is currently involved will not materially affect the Authority's financial position.

Litigation – A number of claims and suits are pending against the Authority for alleged damages to persons and properties and for other alleged liabilities arising out of its operations. The probable outcome of such matters cannot be determined at this time; however, in the opinion of management, any ultimate liability that may arise from these actions is not expected to materially affect the Authority's financial position.

Risk Management – The Authority is subject to certain business risks common to the utility industry. Most of these risks are mitigated by traditional insurance coverage obtained by the Authority. For risks associated with worker's compensation, automobile and general liability, the Authority elected, as of October 31, 2000, to participate in a program of member-owned "captive" insurance. It is management's belief that the Authority's exposure to losses arising from its participation in a program of "captive" insurance will not materially affect the financial results of the Authority's operations and cash flows.

Self-Insurance – The Authority administers a program of self-insurance for certain medical and dental claims and provides for losses by charging operating expense as liabilities are incurred. The Authority records a liability when it is probable that it has incurred an uninsured loss and it can reasonably estimate that loss. The Authority's liability for unpaid claims is based upon the estimated cost of settling the claims after a review of estimated recoveries. Changes in the amounts recorded for liabilities for the years ended May 31, 2010 and 2009, were as follows:

2010	June 1, 2009	Claims and Expenses Paid	Additional Reserves	May 31, 2010
Medical and dental claims	\$ 157,624	\$ (4,908,128)	\$ 4,947,537	\$ 197,033
Insurance reserve for "captive" (October 1, 2000–present)	1,816,407	(1,075,058)	920,491	1,661,840
Insurance reserve (Pre October 1, 2000)	170,000	(73,332)	57,600	154,268
Total liability	\$ 2,144,031	\$ (6,056,518)	\$ 5,925,628	\$ 2,013,141
2009	June 1, 2008	Claims and Expenses Paid	Additional Reserves	May 31, 2009
Medical and dental claims	\$ 155,100	\$ (3,678,772)	\$ 3,681,296	\$ 157,624
Insurance reserve for "captive" (October 1, 2000–present)	1,910,497	(981,649)	887,559	1,816,407
Insurance reserve (Pre October 1, 2000)	277,900	(111,859)	3,959	170,000
Total liability	\$ 2,343,497	\$ (4,772,280)	\$ 4,572,814	\$ 2,144,031

16. Prior Period Adjustments And Restatements

A reclassification was made to the prior year to conform to the presentation of the financial statements in

the current year. An amount was reclassified from prepaid expenses and other assets to regulatory assets.

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Funding Progress for Pension Plans and Retiree Health Care (Dollar Amounts In Thousands)

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (A-B)	Funding Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
Salaried Pension Plan (2)						
2005	\$ 20,980	\$ 23,402	\$ (2,422)	89.7%	\$ 9,647	25.1%
2006	21,207	24,851	(3,644)	85.3%	9,728	37.5%
2007	21,732	24,992	(3,260)	87.0%	9,712	33.6%
2008	22,278	25,814	(3,536)	86.3%	10,052	35.2%
2009	21,885	27,423	(5,538)	79.8%	11,154	49.7%
2010	20,720	28,263	(7,543)	73.3%	11,079	68.1%
Bargaining Unit Pension Plan (2)						
2005	13,132	15,145	(2,013)	86.7%	(1)	—
2006	13,265	15,594	(2,329)	85.1%	—	—
2007	13,461	16,401	(2,940)	82.1%	—	—
2008	13,693	16,598	(2,905)	82.5%	—	—
2009	12,833	16,879	(4,046)	76.0%	—	—
2010	12,697	17,417	(4,720)	72.9%	—	—
Retiree Health Care (3)						
2009	N/A	N/A	9,892	N/A	17,900	55.3%
2010	N/A	N/A	13,130	N/A	17,100	76.8%

(1) – The bargaining unit agreement specifies that pension payments are calculated based on a certain amount each month for each year of service to a maximum of forty years, or actual retirement date.

(2) – The actuarial cost method used for the calculations for the pension plans is the aggregate actuarial cost method. Because the method does not identify actuarial accrued liabilities, the entry age actuarial cost method has been used as a surrogate.

(3) – The actuarial cost method used for the retiree health care calculations is the frozen entry age actuarial cost method. Therefore, an actuarial accrued liability is not relevant. Also, the assets do not affect the unfunded actuarial accrued liability.

Schedule of Employer Contributions to Pension Plans and Retiree Health Care (Dollar Amounts In Thousands)

Year Ended May 31	Salaried Employee Plan		Bargaining Unit Plan		Retiree Health Care	
	Annual Required Contribution	Annual Percentage Contributed	Annual Required Contribution	Annual Percentage Contributed	Annual Required Contribution	Annual Percentage Contributed
2005	\$ 230	100.0%	\$ 230	100.0%	—	—
2006	550	100.0%	550	100.0%	—	—
2007	630	100.0%	550	100.0%	—	—
2008	715	100.0%	588	100.0%	—	—
2009	786	100.0%	600	104.2%	1,114	129%
2010	999	100.0%	742	96.6%	1,330	96%