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To the Members of South Central Connecticut Regional Water Authority

We have audited the accompanying balance sheets and statements of fiduciary net assets of South Central Connecticut Regional Water Authority (the Authority) as of May 31, 2011 and 2010, 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 audits 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, 2011 and 2010, 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 schedules 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 31, 2011

Management's Discussion and Analysis Year Ended May 31, 2011

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:

■ Balance sheets

These statements provide information about the Authority's investments in resources (assets), its obligations to creditors (liabilities) and its net assets.

■ Statements of revenues, expenses and changes in fund net assets

These statements demonstrate 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.

■ Statements of cash flows

These statements provide 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 the financial statements, 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

May 31,

Summary:

Revenues, expenses and changes in fund net assets	FY 2011	FY 2010	FY 2009
	(In thousands of dollars)		
Operating revenues:			
Water revenues	\$ 85,369	\$ 76,619	\$ 75,225
Other	5,933	6,796	6,121
Total operating revenues	91,302	83,415	81,346
Operating expenses:			
Operating and maintenance	38,680	38,457	39,423
Expenses associated with "Other" revenue	3,450	3,449	4,013
Depreciation	16,712	16,427	16,385
Payments in lieu of taxes (PILOT)	6,128	5,716	5,652
Total operating expenses	64,970	64,049	65,473
Operating income	26,332	19,366	15,873
Nonoperating income and expenses:			
Interest expense—net	(24,081)	(22,948)	(21,454)
Gain (loss) on disposal of assets	(281)	1,025	(213)
Realized and unrealized gains (losses) on investments	371	552	(239)
Amortization of bond discount, premium, issuance costs and deferred refunding losses	(2,610)	(2,691)	(2,693)
Total nonoperating revenues and expenses	(26,601)	(24,062)	(24,599)
Loss before contributions	(269)	(4,696)	(8,726)
Capital contributions	2,388	2,881	4,381
Change in net assets	\$ 2,119	\$ (1,815)	\$ (4,345)

The following items 1-5 highlight differences in revenues, expenses and changes in net assets for the three fiscal years ended May 31st of 2011, 2010 and 2009, respectively, as presented on the previous page. The following explanations first address differences between FY 2010 and FY 2011 and, second, between FY 2009 and FY 2010.

1. Operating revenues

The increase in operating revenues from FY 2010 to FY 2011 is primarily attributable the Authority's increased rates and charges, effective April 6, 2010. The increase in operating revenues from FY 2009 to FY 2010 is primarily attributable the Authority's increased rates and charges, effective April 8, 2009. Cool temperatures and above average precipitation during the summer months of 2009 substantially offset the effect of the rate increase.

2. Operating expenses

Operating and maintenance expense from FY 2010 to FY 2011 are higher by \$223,000. FY 2011 reflects salary and wage increases of \$514,000, higher insurance reserves of \$1 million and higher consulting costs of \$1.5 million. The aforementioned costs are largely offset by \$1 million of lower healthcare costs, lower payroll costs due to a full year of the prior year downsizing of \$1 million and lower electric and chemical costs amounting to \$635,000. 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. Portions of the aforementioned savings were offset by higher costs related to salary and wage increases of \$592,000 and healthcare cost increases of \$1.3 million.

Depreciation expense increased from FY 2010 to FY 2011 and FY 2009 to FY 2010 because of additions to utility plant.

Payments-in-Lieu-of-Taxes (PILOT) to municipalities in the water district increased from FY 2010 to FY 2011 and FY 2009 to FY 2010 as a net result of pipe additions and land acquisitions, less pipe retirements and land sales.

3. Non-operating income and expenses

Net interest expense increased from FY 2010 to FY 2011, primarily because the Authority paid a full year of interest expense on the debt it issued in April 2010. 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. Realized and unrealized gains on investment decreased by \$181,000 from May 31, 2010 to May 31, 2011 due to deterioration in market conditions. Realized and unrealized gains on investment increased by \$791,000 from May 31, 2009 to May 31, 2010 due to an improvement in market conditions.

4. Disposal of assets

In FY 2011, the Authority retired certain assets characterized as "plant," which produced a net loss on 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.

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 2011, FY 2010 and FY 2009.

Summary: Balance sheets	May 31,		
	2011	2010	2009
	(In thousands of dollars)		
Assets:			
Capital assets	\$ 565,362	\$ 559,081	\$ 549,333
Goodwill	14,424	14,424	14,424
Other assets:			
Current	37,163	31,136	28,883
Restricted assets	76,377	94,552	75,432
Other long-term assets	8,121	9,477	9,735
Total assets	\$ 701,447	\$ 708,670	\$ 677,807
Liabilities:			
Current liabilities	\$ 31,694	\$ 29,865	\$ 31,251
Other long-term liabilities	3,100	3,100	2,000
Revenue bonds payable	528,078	539,249	506,286
Total liabilities	562,872	572,214	539,537
Net assets:			
Invested in capital assets—net of related debt	53,999	61,586	70,589
Restricted	51,885	45,460	40,187
Unrestricted	32,691	29,410	27,494
Total net assets	138,575	136,456	138,270
Total liabilities and net assets	\$ 701,447	\$ 708,670	\$ 677,807

The following items 1-11 explain the differences between FY 2010 and FY 2011, as well as between FY 2009 and FY 2010 on the summarized balance sheets presented above.

1. Capital assets:

The increase in capital assets from FY 2010 to FY 2011 and 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. (See Note 4, *Capital Assets*, for details.)

	From 5/31/10 to 5/31/11	From 5/31/09 to 5/31/10
Increase in cash and cash equivalents and short-term investments	\$ 1,139,374	\$ 1,171,258
Increase in accounts receivable, net	4,808,063	557,657
Increase (decrease) in accrued water revenue	(173,645)	1,106,168
Increase in interest receivable	21,147	33,208
Decrease in materials and supplies	(37,412)	(435,140)
Increase (decrease) in prepayments and other current assets	270,079	(180,989)
Net increase in current assets	\$ 6,027,606	\$ 2,252,162

Increase in current assets from May 31, 2010 to May 31, 2011

The increase in cash and cash equivalents reflects higher cash receipts resulting from the rate increase effective April 2010.

The increase in accounts receivable is attributable to higher billed amounts resulting from the rate increase effective April 2010 as well a temporary suspension of collection efforts on past due receivables during the implementation of a new customer information system in September 2010.

The decrease in accrued water revenue is due to decreased customer consumption.

The increase in prepayments and other assets from FY 2010 to FY 2011 reflects higher balances in prepaid accounts and a larger balance in miscellaneous receivables as of May 31, 2011.

Increase in current assets from May 31, 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.

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 \$6.0 million in current assets between May 31, 2010 and 2011, and the increase of \$2.3 million between May 31, 2009 and 2010:

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 decrease of \$18.2 million in restricted assets between May 31, 2010 and 2011, primarily reflects a lower balance in the Construction Fund (\$22 million) partially offset by higher balances in the Debt Reserve Fund, Debt Service Funds and Rate Stabilization Fund. The increase of \$19.1 million in restricted assets between May 31, 2009 and 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 the 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 May 31, 2010 and 2011, and between May 31, 2009 and 2010, 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 12, *Pollution Remediation Obligation*.)

The third component of this line item comprises assets of the Watershed Fund. There were increases of \$121,867 from FY 2010 to FY 2011 and increases of \$142,869 from FY 2009 to FY 2010.

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, 2011 and 2010, and by \$24,784 and \$321,140, respectively, as of May 31, 2009.

6. Current liabilities

The Authority's current liabilities increased by \$1.8 million between May 31, 2010 and 2011, primarily due to increased insurance reserves and higher current debt principal payments in FY 2011. The Authority's current liabilities decreased by \$1.4 million between May 31, 2009 and 2010, primarily because of decreased payables associated with capital expenses as well as other payables reflecting the Authority's cost reduction initiatives.

7. Long-term debt

Long-term debt decreased by \$11.2 million between May 31, 2010 and 2011, as a result of annual principal payments on August 1, 2010. The Authority increased its long-term debt by \$33 million between May 31, 2009 and 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. (See Note 7, *Revenue Bonds Payable*, for detail.)

8. Invested in capital assets, net of related debt

This line represents the Authority's total capital assets, less related long-term debt. The amount invested in capital assets, net of related debt, decreased by \$7.6 million between May 31, 2010 and 2011, and by \$9 million between May 31, 2009 and 2010, because the Authority increased its long-term debt more than its utility plant-in-service.

9. Net assets, restricted

Restricted net assets increased by \$6.4 million between May 31, 2010 and 2011, and by \$5.3 million between May 31, 2009 and 2010, 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 \$3.3 million between May 31, 2010 and 2011, because the Authority had higher balances of current assets and lower balances of current payables on the latter date. Unrestricted net assets increased \$1.9 million between May 31, 2009 and 2010, because the Authority had higher balances of current assets and lower balances of current payables on the latter date.

11. Total net assets

The Authority's total net assets showed a net increase from May 31, 2010 to 2011 (\$2.1 million), and a net decrease from May 31, 2009 to 2010 (\$1.8 million) due to the net effect of variances noted in items 8 through 10 above.

The Authority's Customer Base

The Authority's customer base is primarily residential and commercial. Of the Authority's approximately 118,700 customers, 108,000 are residential and 6,900 are commercial. The remainder are industrial, public authority and "miscellaneous." In fiscal years 2011 and 2010, as is typical, 84% of the Authority's total water revenue came from its residential and commercial customers.

The Operating Budget for FY 2011

Operating revenue in FY 2011 was less than the amount budgeted by approximately 1.3%, primarily as a result of lower customer consumption. Operating and maintenance expenses for FY 2011 were under budget by \$2.0 million, due to lower payroll and healthcare costs and lower electric generation costs.

Liquidity and Capital Resources in FY 2011

In FY 2011, the Authority received \$87 million in cash from operations, and \$0.6 million from earnings on investment, these amounts being sufficient to pay for operations and maintenance (\$39 million) and to fund transfers associated with debt service (\$39 million) and PILOT (\$6.1 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 July 2011, the national credit rating agencies, Standard & Poor's Rating Services and Moody's Investors Service, affirmed underlying ratings of A+ and Aa3, respectively, on the Authority's outstanding debt.

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, 2011 and 2010. 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.

Balance Sheets May 31, 2011 and 2010

	2011	2010
ASSETS		
UTILITY PLANT		
Depreciable property, plant and equipment in service	\$ 672,062,402	\$ 639,518,949
Accumulated depreciation	(201,444,638)	(186,234,831)
Depreciable utility plant in service	470,617,764	453,284,118
Land	26,790,197	26,790,197
Construction work in progress	4,624,903	16,263,593
Total utility plant, net	502,032,864	496,337,908
NONUTILITY LAND	63,328,620	62,743,761
GOODWILL	14,423,704	14,423,704
CURRENT ASSETS		
Cash and cash equivalents	6,846,881	5,707,507
Accounts receivable, less allowance for doubtful accounts of \$512,746 in 2011 and \$310,000 in 2010	13,065,112	8,257,049
Accrued water revenue	12,576,204	12,749,849
Accrued interest receivable	175,493	154,346
Materials and supplies	1,965,246	2,002,658
Prepaid expenses and other assets	2,534,478	2,264,399
Total current assets	37,163,414	31,135,808
RESTRICTED ASSETS	76,376,766	94,552,669
NET OPEB ASSET	266,949	266,949
WATERSHED FUND ASSETS	1,491,448	1,369,621
REGULATORY ASSETS	6,363,112	7,839,858
TOTAL ASSETS	\$ 701,446,877	\$ 708,670,278
LIABILITIES AND NET ASSETS		
LIABILITIES		
Revenue bonds payable net of deferred refunding losses, less current portion	\$ 528,077,879	\$ 539,248,835
Current liabilities		
Current maturities of bonds payable	12,359,000	11,594,000
Accounts payable	2,828,951	2,396,167
Customer deposits and advances	429,747	523,359
Other accrued liabilities	6,234,915	5,183,085
Total current liabilities	21,852,613	19,696,611
Payable from restricted assets:		
Accounts payable for construction	570,191	796,048
Accrued interest payable	8,766,791	8,708,234
Customer deposits and advances	504,191	664,625
Total liabilities payable from restricted assets	9,841,173	10,168,907
Pollution remediation obligation	3,100,000	3,100,000
Total liabilities	562,871,665	572,214,353
NET ASSETS		
Invested in capital assets, net of related debt	53,999,074	61,585,963
Restricted	51,884,828	45,460,336
Unrestricted	32,691,310	29,409,626
Total net assets	138,575,212	136,455,925
TOTAL LIABILITIES AND NET ASSETS	\$ 701,446,877	\$ 708,670,278

The accompanying notes are an integral part of these financial statements

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

for the Years Ended May 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Water revenues:		
Residential and commercial	\$ 68,626,564	\$ 61,991,444
Industrial	1,952,986	1,558,925
Fire protection	7,624,039	7,045,243
Public authority	2,956,138	2,776,439
Wholesale	583,042	617,143
Other	3,625,950	2,630,001
Other revenue	5,933,338	6,795,516
Total operating revenues	91,302,057	83,414,711
OPERATING EXPENSES		
Operating and maintenance expense	38,679,337	38,457,206
Depreciation	16,712,271	16,426,898
Payments in lieu of taxes	6,128,455	5,715,870
Other water expenses	1,481,519	1,476,828
Cost of other revenue	1,968,752	1,971,853
Total operating expenses	64,970,334	64,048,655
Operating income	26,331,723	19,366,056
NONOPERATING INCOME (EXPENSE)		
Interest income	2,091,280	1,522,440
Gain (loss) on disposal of assets	(280,715)	1,024,687
Realized and unrealized gains on investments	371,281	552,653
Interest expense	(26,172,622)	(24,470,437)
Amortization of bond discount, premium, issuance cost, and deferred losses	(2,609,787)	(2,691,178)
Total nonoperating income (expense)	(26,600,563)	(24,061,835)
Loss before capital contributions	(268,840)	(4,695,779)
CAPITAL CONTRIBUTIONS		
Change in net assets	2,388,127	2,881,076
	2,119,287	(1,814,703)
NET ASSETS—beginning of year	136,455,925	138,270,628
NET ASSETS—end of year	\$ 138,575,212	\$ 136,455,925

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows for the Years Ended May 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 76,868,627	\$ 74,727,958
Cash received from other services	9,648,784	9,597,779
Cash paid to employees	(15,341,846)	(15,771,532)
Cash paid to suppliers for operations	(24,505,690)	(23,146,642)
Cash paid to suppliers for other services	(2,334,510)	(2,197,509)
Payments in lieu of taxes	(6,587,608)	(6,292,479)
Net cash provided by operating activities	37,747,757	36,917,575
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,461,633	1,489,232
Sale of short-term investments	1,883,565	—
Purchase of restricted investments	(157,954,298)	(118,509,330)
Sale of restricted investments	176,385,812	96,962,003
Net cash provided by (used in) investing activities	22,776,712	(20,058,095)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for utility plant	(24,647,500)	(27,997,626)
Proceeds from disposition of assets	682,915	1,352,831
Proceeds from issuance of revenue bonds	—	43,567,936
Principal payments on revenue bonds	(11,594,000)	(11,335,000)
Interest paid	(26,214,637)	(24,157,439)
Capital contributions	2,388,127	2,881,076
Net cash used in capital and related financing activities	(59,385,095)	(15,688,222)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,139,374	1,171,258
CASH AND CASH EQUIVALENTS—beginning of year	5,707,507	4,536,249
CASH AND CASH EQUIVALENTS—end of year	\$ 6,846,881	\$ 5,707,507
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 26,331,723	\$ 19,366,056
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	16,712,271	16,426,898
Transfer from Rate Stabilization Fund	—	3,205,000
Transfer (to) from General Fund	(1,713,900)	35,126
Change in:		
Accounts receivable and accrued water revenue	(4,634,418)	(1,663,825)
Materials and supplies	37,412	435,140
Prepaid expenses and other assets	(270,079)	204,160
Net benefit plan assets	—	78,975
Watershed Fund assets	(106,254)	(147,636)
Accounts payable	432,784	(403,230)
Customer deposits and advances	(93,612)	(307,838)
Other accrued liabilities	1,051,830	(311,251)
Total adjustments	11,416,034	17,551,519
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 37,747,757	\$ 36,917,575

The accompanying notes are an integral part of these financial statements

Statements of Fiduciary Net Assets—Pension Trust Fund

May 31, 2011 and 2010

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 681,243	\$ 497,179
Investments:		
Equity securities	30,565,485	26,970,149
Accrued income	8,943	8,756
Total assets	31,255,671	27,476,084
NET ASSETS		
Held in trust for pension benefits	\$ 31,255,671	\$ 27,476,084

Statements of Changes in Fiduciary Net Assets—Pension Trust Fund

For the Years Ended May 31, 2011 and 2010

	2011	2010
ADDITIONS		
Contributions:		
Employer	\$ 1,983,130	\$ 1,716,716
Retirees	8,961	545
Total contributions	1,992,091	1,717,261
Investment earnings:		
Net increase in fair value of investments	4,441,146	4,031,676
Realized gain on sale of investments	824,696	163,219
Investment earnings and other income	266,077	307,869
Total investment earnings	5,531,919	4,502,764
Total additions	7,524,010	6,220,025
DEDUCTIONS		
Benefits	(3,525,339)	(3,997,331)
Expenses	(219,084)	(233,257)
Total deductions	(3,744,423)	(4,230,588)
CHANGE IN NET ASSETS	3,779,587	1,989,437
NET ASSETS—beginning of year	27,476,084	25,486,647
NET ASSETS—end of year	\$ 31,255,671	\$ 27,476,084

The accompanying notes are an integral part of these financial statements

Statements of Fiduciary Net Assets— Retired Employees Contributory Trust Fund

May 31, 2011 and 2010

	2011		2010
ASSETS			
Cash and cash equivalents	\$ 8,794	\$	228,263
Investments:			
Equity securities	709,251		620,342
Fixed income	275,148		256,135
Total assets	993,193		1,104,740
NET ASSETS			
Held in trust for retiree benefits	\$ 993,193	\$	1,104,740

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

For the Years Ended May 31, 2011 and 2010

	2011		2010
ADDITIONS			
Contributions:			
Employer	\$ 1,330,510	\$	1,276,308
Retirees	151,878		124,493
Total contributions	1,482,388		1,400,801
Investment earnings:			
Net increase in fair value of investments	128,026		112,380
Realized gain on sale of investments	58,699		—
Investment earnings and other income	20,180		19,301
Total investment earnings	206,905		131,681
Total additions	1,689,293		1,532,482
DEDUCTIONS			
Benefits	(1,788,776)		(1,212,833)
Expenses	(12,064)		(11,339)
Total deductions	(1,800,840)		(1,224,172)
CHANGE IN NET ASSETS	(111,547)		308,310
NET ASSETS—beginning of year	1,104,740		796,430
NET ASSETS—end of year	\$ 993,193	\$	1,104,740

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements as of and for the Years Ended May 31, 2011 and 2010

1. Organization

The South Central Connecticut Regional Water Authority and Component Units (the Authority) was created, effective July 25, 1977, pursuant to 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 (the 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 twenty-one-member Representative Policy Board (RPB), which consists of a member from each of the twenty 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 balance sheet 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. 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
Computer software	10-15
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, 2011 and 2010, 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.

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

Restricted Investments – Restricted investments, 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, 2011: \$4.7 million of anticipated environmental remediation costs in the town of Hamden and a \$1.7 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, 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. Adoption of this standard did not have a material impact on the Authority’s financial statements.

3. Deposits and Investments

Authority revenue is processed daily and deposited promptly in accordance with the Water System Revenue Bond Resolution: *General Bond Resolution* (the General Bond Resolution) of the Authority adopted July 31, 1980, as amended and supplemented by 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 has a policy to invest balances above the federal insurance depository limit of \$250,000 in government backed securities as allowed by the *General Bond Resolution*. Currently, the Authority is utilizing overnight repurchase agreements and a treasury obligation sweep account for this purpose.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$475,481 was exposed to custodial credit risk as of May 31, 2011 follows:

Uninsured and uncollateralized	\$ 402,933
Uninsured and collateral held by the pledging bank’s trust department, not in the Authority’s name	72,548
Total amount subject to custodial credit risk	\$ 475,481

The Authority participated in the FDIC Transaction Account Guarantee program for the year ended May 31, 2010. The program guaranteed insurance on all balances without limit in commercial checking accounts. Accordingly, none of the Authority's cash was exposed to custodial credit risk as of May 31, 2010.

Investments

As of May 31, 2011, 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	\$ 28,634,079	\$ 5,780,774	\$ 22,853,305
Other investments:				
Common stock	—	7,263,366	—	—
Mutual funds	—	24,286,517	—	—
Total investments	—	\$ 60,183,962	—	—

N/A – Not applicable

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

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 types 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

Cash Equivalents

As of May 31, 2011 and 2010, the Authority's cash equivalents amounted to \$57,418,526 and \$69,629,018, respectively, and consisted of the State Short-Term Investment Fund (STIF), with a credit rating of AAAM by Standard & Poor's, and repurchase agreements.

the counterparty (the institution that pledges collateral or repurchase agreement securities to the Authority or that sells investments to or buys investments 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. As of May 31, 2011, 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. Capital Assets

The following is a summary of utility plant:

2011	June 1, 2010	Additions	Transfers	Retirements	May 31, 2011
Capital assets not being depreciated:					
Land	\$ 26,790,197	\$ —	\$ —	\$ —	\$ 26,790,197
Construction work in progress	16,263,593	22,308,325	(33,754,415)	(192,600)	4,624,903
Total capital assets not being depreciated	43,053,790	22,308,325	(33,754,415)	(192,600)	31,415,100
Other capital assets:					
Source of supply	33,159,212	—	3,085,409	—	36,244,621
Pumping structures and equipment	27,219,014	—	3,885,467	—	31,104,481
Water treatment plant and equipment	168,615,080	—	2,593,772	—	171,208,852
Transmission and distribution	366,627,918	—	11,493,147	(867,715)	377,253,350
General plant	43,897,726	1,254,744	12,696,620	(1,597,992)	56,251,098
Total other capital assets	639,518,950	1,254,744	33,754,415	(2,465,707)	672,062,402
Less accumulated depreciation:					
Source of supply	8,055,468	691,878	—	—	8,747,346
Pumping structures and equipment	12,938,452	1,077,932	—	—	14,016,384
Water treatment plant and equipment	55,314,092	5,125,959	—	—	60,440,051
Transmission and distribution	77,359,796	6,784,616	—	(459,721)	83,684,691
General plant	32,567,024	3,510,700	—	(1,521,558)	34,556,166
Total accumulated depreciation	186,234,832	17,191,085	—	(1,981,279)	201,444,638
Total other capital assets—net	453,284,118	(15,936,341)	33,754,415	(484,428)	470,617,764
Utility plant—net	\$ 496,337,908	\$ 6,371,984	—	\$ (677,028)	\$ 502,032,864
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	(745,868)	43,897,725
Total other capital assets	621,361,074	837,905	19,142,348	(1,822,378)	639,518,949
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	—	(710,004)	32,567,023
Total accumulated depreciation	170,891,090	16,917,795	—	(1,574,054)	186,234,831
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

The following is a summary of nonutility land:

	2011		2010	
Beginning balance	\$	62,743,761	\$	61,302,383
Additions		584,859		2,004,494
Retirements		—		(563,116)
Ending balance	\$	63,328,620	\$	62,743,761

The following is a reconciliation of depreciation expense:

	2011		2010	
Total depreciation expense	\$	17,191,085	\$	16,917,795
Less depreciation capitalized into construction projects		478,814		490,897
Depreciation expense charged to operations	\$	16,712,271	\$	16,426,898

During fiscal years 2011 and 2010, the Authority retired assets with accumulated depreciation totaling approximately \$2.0 million and \$2.1 million, respectively.

5. Restricted Assets

Pursuant to the *General Bond Resolution*, 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 ratemaking 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, 2011 and 2010, are as follows:

	May 31, 2011		May 31, 2010	
Construction	\$	20,967,091	\$	43,030,673
Debt Reserve		9,648,226		9,391,067
Debt Service		22,966,000		22,007,337
Payments-in-Lieu-of-Taxes (PILOT)		2,406,052		2,083,872
Operating Reserve		7,345,134		7,297,779
Capital Contingency		5,888,396		5,744,052
Rate Stabilization		5,021,900		3,021,900
Other Purposes		2,133,967		1,975,989
Restricted Assets	\$	76,376,766	\$	94,552,669

The level of funds required by the *General Bond Resolution* was met on May 31, 2011 and 2010.

6. Watershed Fund

In January 1999, 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 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.

Upon the establishment of the Watershed Fund, the Authority made an initial donation of \$1,234,000 to it. The most recent contribution to the Fund by the Authority was in 2000 for \$452,000.

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, 2011 and 2010, was as follows:

2011	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 556,416,000	\$ —	\$ (11,594,000)	\$ 544,822,000	\$ 12,359,000
Bond issuance costs	(9,770,298)	—	578,390	(9,191,908)	—
Bond premium	11,457,597	—	(920,227)	10,537,370	—
Bond discount	(614,837)	—	40,775	(574,062)	—
Surety bond costs	(417,218)	—	17,912	(399,306)	—
Loss on bond refunding	(6,228,409)	—	1,471,194	(4,757,215)	—
Total bonds payable	\$ 550,842,835	\$ —	\$ (10,405,956)	\$ 540,436,879	\$ 12,359,000

2010

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	1,012,790	(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

Revenue bonds outstanding comprise the following:

20101	Issuance Date	Original Maturity Date	Original Principal	Interest Rate	May 31, 2011
Fifteenth	1999	2029	40,767,500	4.00%–5.125%	\$ 197,000
Seventeenth (refunding bonds)	2002	2016	43,605,000	3.00%–5.250%	21,140,000
Eighteenth (refunding and new money bonds)	2003	2033	236,535,000	2.00%–5.250%	198,675,000
Nineteenth	2004	2033	44,300,000	2.00%–4.625%	28,945,000
Twentieth	2005	2035	23,405,000	3.00%–5.000%	21,630,000
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%	27,530,000
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%	28,890,000
Twenty-fourth	2009	2039	29,015,000	3.00%–5.000%	33,680,000
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
					\$ 544,822,000

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
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

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

In 2003, the Authority recognized a deferred loss of \$10,539,398 for its Eighteenth Series Bonds; in 2002, it recognized a deferred loss of \$1,866,216 for its Seventeenth Series Bonds; and, in 2007, it recognized a deferred loss of \$3,623,037 for its Twentieth Series A Bonds. Amortizing these losses over the life of the refunded debt is discussed in Note 2.

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). General Obligation Bonds, Issue of 2010 were issued as Taxable BABs - Direct Payment on April 6, 2010 for \$31,385,000. 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 General Obligation Bonds, Issue of 2010 on or about each interest payment date. Such subsidy payment will be revenue to the Authority under the General Bond Resolution. No holders of the General Obligation Bonds, Issue of 2010 will be entitled to a tax credit. The receipt of the subsidy by the Authority is not a condition of payment of any portion of the principal and interest on the General Obligation Bonds, Issue of 2010. However, if the subsidy payments are reduced or eliminated, the General Obligation Bonds, Issue of 2010 are subject to extraordinary optional redemption. Aggregate maturities of the Authority's water system revenue bonds are as follows:

Year Ending May 31	Principal	Interest
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	13,570,000	23,705,598
2017-2021	77,365,000	108,805,178
2022-2026	97,055,000	88,860,887
2027-2031	122,645,000	62,357,993
2032-2036	120,560,000	29,510,154
2037-2041	63,170,000	6,018,462
Total	\$ 544,822,000	\$ 419,834,522

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), 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, 2011 and 2010, 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. In June 2011, the Authority authorized \$3.7 million of cash and cash equivalents to be transferred to the General Fund and, subsequently, \$2 million to be transferred from the General Fund to the Rate Stabilization Fund.

8. Defeasance of Long-Term 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 are not 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 balance sheets. Principal payments on the defeased debt began on August 1, 2009. As of May 31, 2011, principal of the defeased bonds has been reduced by \$54,895,000, leaving a balance of \$10,350,000.

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.

9. 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 for the plan.

At January 1, 2011, 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	130	112
Vested terminated members entitled to but not yet receiving benefits	101	39
Current active members	127	138
Total members	358	289

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 current period were as follows:

	2011	
(Dollar Amounts in Thousands)	Salaried Plan	Bargaining Unit Plan
Annual required contribution	\$ 1,171	\$ 812
Contributions made	(1,171)	(812)
Increase (decrease) in net pension obligation	—	—
Net pension obligation—beginning of period	—	—
Net pension obligation—end of period	\$ —	\$ —

	2010	
(Dollar Amounts in Thousands)	Salaried Plan	Bargaining Unit Plan
Annual required contribution	\$ 999	\$ 742
Contributions made	(999)	(717)
Increase (decrease) in net pension obligation	—	25
Net pension benefit—beginning of period	—	(25)
Net pension obligation—end of period	\$ —	\$ —

The annual required contributions for the current period (FY 2011) were determined as part of the January 1, 2010 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) 8.50% 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
2009	\$ 786	100.0%	\$ —	\$ 600	104.2%	\$ —
2010	999	100.0	—	742	96.6	—
2011	1,171	100.0	—	812	100.0	—

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, 2011, the most recent actuarial valuation date, the plan was 68.0% funded. The actuarial accrued liability for benefits was \$30,113,000, and the actuarial value of assets was \$20,481,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,632,000. The covered

payroll was \$9,815,000 and the ratio of UAAL to the covered payroll was 98.1%.

Bargaining Unit Plan – As of January 1, 2011, the most recent actuarial valuation date, the plan was 70.0% funded. The actuarial accrued liability for benefits was \$18,392,000, and the actuarial value of assets was \$12,800,000, resulting in a UAAL of \$5,592,000. 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 required supplementary information following the notes

to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial liability for benefits.

10. 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. After a one-year suspension, effective August 1, 2011, 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, 2011 and 2010, were as follows:

	2011	2010
Employer contributions	\$ 121,740	\$ 280,730
Employee contributions	1,192,143	1,272,067

11. Other Post Employment Benefits— Retiree Health Care

Plan Description

The Authority's other postemployment benefits (OPEB) include health benefits to 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 funded on a pay-as-you-go basis. 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 for the plan.

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

At January 1, 2011, plan membership consisted of the following:

	Retiree Health Plan
Retired members	164
Spouses of retired members	82
Active plan members	233
Total participants	479

Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting – Financial statements for the 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 \$1,330,500 during the year ended May 31, 2011.

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)	2011	2010
Annual required contribution (ARC)	\$ 1,330	\$ 1,330
Interest on net OPEB obligation	—	—
Adjustment to annual required contribution	—	—
Annual OPEB cost	1,330	1,330
Contributions made	1,330	1,276
Increase in net OPEB obligation	—	54
Net OPEB asset, beginning of year	(267)	(321)
Net OPEB asset, end of year	\$ (267)	\$ (267)

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 each of the last three fiscal years are presented below.

Fiscal Year Ended	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Asset
05/31/11	\$ 1,330	100%	\$ 267
05/31/10	1,330	96%	267
05/31/09	1,114	129%	321

The actuarial cost method for OPEB 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. As of January 1, 2011, the UAAL was \$13,878,000.

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 8.50%. The UAAL is being amortized over 30 years from January 1, 2008 using an interest rate of 8.5% and level annual funding. The remaining amortization period at January 1, 2011 was 27 years.

12. 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 considered by DEP for approval.

The Authority's remediation work is not expected to commence until after DEP approval has been granted and work underway on the other properties within the Consent Order area has progressed satisfactorily. The DEP has estimated that the work on other properties will be completed between the years of 2013 and 2015. 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, 2011 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 multi-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 in remediation costs based on current information, bringing the pollution remediation obligation balance to \$3.1 million as of May 31, 2011. As the remediation costs are to be recovered through future rate increases, the \$4.7 million in incurred costs and future estimated remediation costs have been recognized as a regulatory asset.

13. 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.

14. Commitments and Contingencies

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 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 affect materially 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, 2011 and 2010, were as follows:

2011	June 1, 2010	Claims and Expenses Paid	Additional Reserves	May 31, 2011
Medical and dental claims	\$ 197,033	\$ (4,120,880)	\$ 4,221,229	\$ 297,382
Insurance reserve for “captive” (October 1, 2000–present)	1,661,840	(1,028,671)	1,980,993	2,614,162
Insurance reserve (pre October 1, 2000)	154,268	(122,998)	153,730	185,000
Total liability	\$ 2,013,141	\$ (5,272,549)	\$ 6,355,952	\$ 3,096,544

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

15. Subsequent Event

On July 21, 2011, the Authority issued Water System Revenue Bonds, 26th Series, in the amount of \$39,455,000. The bonds bear interest of 2-5% and mature on August 1, 2041.

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)						
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%
2011	20,481	30,113	(9,632)	68.0%	9,815	98.1%
Bargaining Unit Pension Plan (2)						
2006	13,265	15,594	(2,329)	85.1%	(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%	—	—
2011	12,800	18,392	(5,592)	69.6%	—	—
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%
2011	N/A	N/A	13,878	N/A	17,800	78.0%

(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 Pension Plan		Retiree Health Care	
	Annual Required Contribution	Annual Percentage Contributed	Annual Required Contribution	Annual Percentage Contributed	Annual Required Contribution	Annual Percentage Contributed
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	129.0%
2010	999	100.0%	742	96.6%	1,330	96.0%
2011	1,171	100.0%	812	100.0%	1,330	100.0%