Regional Water Authority

Performance With Purpose

2016 Annual Report

Our Purpose

To deliver water for life.

Our Mission

To provide customers with high-quality water and services at a reasonable cost while promoting the preservation of watershed lands and aquifers.

Our Vision

An innovative water utility that sustains life, strengthens our communities and protects resources for future generations.

Our Values

STARS: Service, Teamwork, Accountability, Respect, Safety

Service: We provide prompt, courteous service to both our customers and our coworkers. We continually strive to make the customer experience better for all.

Teamwork: We build on each other's strengths. Through efficiency and innovation, we work together, operating as a team, in a spirit of mutual trust and openness, to achieve success.

Accountability: We are responsible for our actions. We are honest and ethical. Integrity is at the heart of everything we do.

Respect: We treat with respect everyone with whom we come in contact while doing our jobs. We promote diversity and embrace individuality.

Safety: We are a safe workforce. Safety is owned by each and every employee. We all benefit when safety is part of our daily lives.

The South Central Connecticut Regional Water Authority's (RWA's) performance in fiscal year 2016 is rooted in our higher purpose to deliver water for life.

It's a noble purpose and part of our heritage. Eli Whitney II, the man who organized the New Haven Water Company, which began operations in 1862, had a similar purpose: to make life better for people.

We realize that may sound a bit lofty for a water utility, but more than 150 years later, Whitney's vision lives on in every aspect of today's Regional Water Authority, which succeeded the New Haven Water Company in 1980. In fact, everything we do goes back to our higher purpose. It is what drives us to push ourselves even harder to work consciously, innovate for the greater good and continuously improve for our stakeholders.

In doing so, the business decisions we make and the actions we take are making our customers' lives better, positioning our company for sustainable long-term growth and contributing to solving broader challenges that impact each and every one of us.

With our Strategic Plan as our roadmap and our STARS Values as our compass, we reflect on how the progress made during the year was driven by our higher purpose and our people.

Improving Financial Stability

The RWA ended the 2016 fiscal year in a strong position. Through our prudent financial management, improved liquidity levels and disciplined operational practices, Standard & Poor's (S&P) Rating Services raised its rating on our existing debt to 'AA-/Stable' from 'A+.' In addition, S&P assigned its 'AA-' rating on our 32nd series A&B water system revenue and refunding bonds. Moody's Investors Service affirmed its 'Aa3' rating for the RWA in association with the bond issuance.

Besides our sound financial policies and operational effectiveness, the rating upgrades also reflect our

ongoing commitment to fund our capital program in a way that is responsible to customers. The RWA primarily uses bonds to finance capital improvements. Beginning in 2011, we took steps to generate these capital funds internally. During the 2016 fiscal year, we self-funded about one third, or approximately $8.3 million, of our capital improvement program, mitigating future debt service costs.

Innovating to Better Serve Customers

The RWA launched a multi-year Advanced Metering Infrastructure (AMI) program in 2015 that will deploy the water industry's latest metering technology over the next three years. This technology will allow us to read water meters remotely and securely transmit the information back to our offices electronically. We will also be able to issue monthly water bills, which will make it easier for our customers to manage and pay.

The advanced meter technology will allow us to provide operational efficiencies that equate to cost savings, and it will offer opportunities for customers to save water in their homes and businesses by being able to continually monitor their water usage. In addition, this technology will enable us to identify customer leaks more quickly.

Technology also plays a role in renewing our infrastructure—the buried network of water pipes that we never see and that many customers largely take for granted. As part of our continued investment in infrastructure, each year we prepare a projection of prioritized improvements, additions and renovations to our water system for projects that are necessary to provide for present and future water supply requirements, to ensure the protection of the existing water supply and to meet the water quality standards of the Safe Drinking Water Act.

One of the most visible signs of the infrastructure is water main breaks. Our water main break rate is approximately four breaks per 100 miles of installed main per year. The nationwide water utility average is 20 breaks per 100 miles of installed main. We attribute our low break rate to our proactive water main renewal practices, including the replacement of water mains that experience three breaks within 1,000 linear

feet, our continuing pipe rehabilitation program and our strict installation practices.

Additionally, every year, the RWA "listens" for leaks on about a quarter of our water mains—over 400 miles—by attaching two sensors to the pipe. The noise made by water leaking from a pipe is picked up by the sensors and transmitted to a device that can calculate the exact distance to a leak. This high-tech effort helps us detect small leaks, preventing them from becoming big breaks in major mains.

Protecting Public Health

In 2016, the water crisis in Flint, Michigan, put a spotlight on the importance of drinking water safety. Though Flint's drinking water challenges are not found in our service area, we used this incident to remind our customers and other stakeholders about the crucial nature of our work. We provided information about lead and drinking water to several stakeholder groups, created a reference card for our field employees to share with the public and convened a meeting of public health officials to provide information about lead and water, and how we comply with Connecticut's laws and standards.

We are proud of the responsibility we hold in providing safe drinking water to our community, ranging from replacing all known lead service lines that we owned in 1991 to using proper anti-corrosive agents in the treatment process. These are only some of the many actions we take to improve and maintain drinking water quality.

Our nationally and state-certified laboratory stands at the front line of our efforts to provide customers with safe drinking water. Our state-of-the-art lab conducts more than 100,000 analyses each year. During 2016, we completed a major expansion of our laboratory, adding advanced analytical equipment, bolstering our lab automation program and increasing the space of the lab to process new orders.

Our commitment to water quality extends well beyond the laboratory—it includes the conservation of watershed and aquifer lands. The RWA has long recognized the link between human activity on land and the water quality of streams, rivers and reservoirs. Since the

mid-1990s, we have invested over $44 million to protect nearly 5,300 acres of watershed land in the region so we can maintain a high level of water quality for our customers.

In 2016, we further demonstrated our commitment to serve as stewards of RWA lands when we signed the Connecticut Source Water Collaborative Charter. The Collaborative is a multi-stakeholder group that seeks to develop and support strategies to preserve, protect and maximize the conservation of sources used for drinking water and the land that protects and recharges those sources.

Through our work with the Source Water Collaborative, we will strengthen our water supply mission and enhance awareness that stewardship of water and land is a responsibility shared by all residents of the state of Connecticut.

Educating Future Leaders

Our commitment to making lives better is evidenced by our support for our communities and our responsibility to educate people about how water is one of our most precious—and endangered—natural resources. That's why, for the past 25 years, the RWA has offered hands-on environmental education programs to show young people how their actions impact the ecosystem.

Our Whitney Water Center, located a few feet from where our region's water system began in 1862, serves as the base for water science and environmental programs for over 10,000 students in our district each year. In 2016, as part of our 25th anniversary of water science education, we provided five $500 mini-grants to educators in our region to help support science teaching.

Our education programs also build partnerships between schools and the business community. In 2016, we adopted Common Ground High School in New Haven. Common Ground is the nation's longest-running environmental charter school where learning is

grounded in the local community and the environment. During the past several years, the RWA has worked with Common Ground students and staff through our annual environmental careers summer camp and by providing support for several other initiatives. Through our new partnership with the school, we will continue to build on these opportunities, offering both financial and experiential support.

And, to meet the region's workforce needs, the RWA collaborated with Gateway Community College and Southern Connecticut State University to pioneer a first-of-its-kind public utility management degree and certification program. This landmark initiative provides opportunities for students to pursue careers in the water, electric and natural gas utility industry.

Nurturing a Great Workplace

Every one of our more than 260 employees plays a part in helping us achieve our higher purpose. They understand that, as a water utility, we provide an essential, life-sustaining product and that there can be no compromise on its quality or the service we provide. Their commitment to our business is reflected in our customer satisfaction and industry-leading results. We remain committed to nurturing a great, safe place to work for our employees in line with our mission, vision and values.

Today, we are deploying a renewed approach to employee engagement with a focus on developing a high-performance work environment. In 2016, we formed cross-functional employee teams to enact improvements, as well as to create an opportunity to review the way we approach engagement. Through these measures, we will identify how we can increase the link between high levels of employee engagement and improved business results.

In addition, we continue to foster a companywide training program to ensure that our people have the development opportunities to pursue rewarding careers at our company. By cross-training our employees, we are building a more diverse and engaging culture inside the RWA that allows us to retain the next generation of talent we need to drive our company forward.

Delivering on Our Purpose

As we continue on our journey of becoming an innovative water utility that sustains life, strengthens the communities we serve and protects resources for future generations, all of us here at the RWA remain sharply focused on maximizing the value we create for our customers, communities and the region.

With a strong foundation of talented people, investments in infrastructure and innovation, and a conscious business strategy, we're defining new opportunities that will help us fulfill our higher purpose to deliver water for life and ensure the region is well-positioned to maintain its abundant water supply and leverage it as a source of growth, opportunity and vitality for all stakeholders. We are proud to have such an important purpose.

In closing, we would like to recognize Gail F. Lieberman for her service to the five-member Regional Water Authority. Ms. Lieberman will retire from the Authority in December after five years of dedicated board service. She has provided exemplary leadership and counsel as Secretary & Treasurer, guiding the Authority with a steady hand.

Larry L. Bingaman
President & Chief Executive Officer

Anthony DiSalvo
Chairperson
Regional Water Authority

Thomas P. Clifford III
Chairperson
Representative Policy Board

South Central Connecticut Regional Water Authority

Financial Statements as of and for the years ended May 31, 2016 and 2015, and Independent Auditors' Report

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Independent Auditors' Report

To the Members of South Central Connecticut Regional Water Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the South Central Connecticut Regional Water Authority as of and for the years ended May 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise South Central Connecticut Regional Water Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of South Central Connecticut Regional Water Authority as of May 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 19 to the financial statements, during the fiscal year ended May 31, 2016, South Central Connecticut Regional Water Authority adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Due to the adoption of this guidance, South Central Connecticut Regional Water Authority restated its 2015 financial statements, resulting in a restatement of May 31, 2014 net position to recognize the net pension liability required in implementing GASB No. 68. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12, the pension schedules and retiree health care schedules on pages 50 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2016 on our consideration of the South Central Connecticut Regional Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the South Central Connecticut Regional Water Authority's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
August 30, 2016

Management's Discussion and Analysis

Year Ended May 31, 2016

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:

- **Statements of net position.** These statements provide information about the Authority's investments in resources (assets) and its obligations to creditors (liabilities), with the difference between them reported as net position.
- **Statements of revenues, expenses and changes in net position.** These statements demonstrate changes in net position 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.
- **Statements of fiduciary net position.** These statements provide information about net position available for benefits under the Authority's employee benefit plans and changes in net position available for benefits. In accordance with governmental accounting guidelines (GASB Statement No. 68), the Authority's pension plans are included in the financial statements.
- **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 was established by the Authority for the purpose of protecting land on the watershed through the acquisition of open space and promotion of environmental education. Financial information regarding the Watershed Fund, previously a blended component of the audited financial statements, can be found in the notes to the audited financial statements.

Financial Highlights

Summary: Revenues, expenses and changes in fund net position (In thousands of dollars)

May 31,	2016	2015	2014
Operating revenues:			
Water revenues	$ 108,887	$ 102,885	$ 100,876
Other	6,555	6,277	6,232
Total operating revenues	115,442	109,162	107,108
Operating expenses:			
Operating and maintenance	55,935	48,361	46,487
Expenses associated with other revenue	3,816	4,413	4,030
Depreciation	19,523	18,640	18,319
Payments in lieu of taxes (PILOT)	7,565	7,188	7,687
Total operating expenses	86,839	78,602	76,523
Operating income	28,603	30,560	30,585
Nonoperating income and expenses:			
Interest expense — net	(24,575)	(23,701)	(24,439)
Loss on disposal of assets	(716)	(585)	(354)
Realized and unrealized gains (losses) on investments	2	(106)	(378)
Amortization of bond discount, premium, issuance costs and deferred refunding losses	2,211	2,163	1,808
Total nonoperating expenses	(23,078)	(22,229)	(23,363)
Gain before contributions	5,524	8,331	7,222
Capital contributions	2,580	2,474	2,151
Special item — PILOT settlement	—	1,654	—
Change in net position	$ 8,104	$ 12,459	$ 9,373

Operating revenues

The change in the operating revenues from FY 2015 to FY 2016 is primarily attributable to the full year impact of the increased rates and charges, effective December 17, 2014, and the higher consumption in the seasonal months. The increase in operating revenues from FY 2014 to FY 2015 is primarily attributable to the partial year impact of increased rates and charges effective December 17, 2014. In addition to the increase in rates, in FY 2015, wholesale revenues were also favorably impacted by the temporary increase in consumption by the City of Meriden.

Operating expenses

Operating and maintenance expenses from FY 2015 to FY 2016 increased by approximately $7.6 million primarily due to an increase in personnel-related expenses, including salary, wages, and benefit costs as well as increased costs associated with maintenance and repairs and strategic initiatives. The increase in benefit costs is primarily related to the pension plans and the implementation of GASB 68. These increases in operating and maintenance expenses are partially offset by lower costs associated with insurance and outside services as well as operating efficiencies. Operating and maintenance expense from FY 2014 to FY 2015 increased by approximately $1.9 million primarily due to an increase in personnel-related expenses, including salary, wages, and benefit costs as well as pump power. These increases are partially offset by lower costs associated with maintenance and repair and a lower increase in the allowance for doubtful accounts as well as operating efficiencies.

Depreciation expense increased from FY 2015 to FY 2016 and FY 2014 to FY 2015 due to additions to utility plant.

Payments-in-Lieu-of-Taxes (PILOT) to municipalities increased from FY 2015 to FY 2016 primarily as a result of pipe additions and mill rates. PILOT decreased from FY 2014 to FY 2015 due to a PILOT settlement.

Nonoperating income and expenses

Net interest expense increased from FY 2015 to FY 2016 primarily due to the Authority's interest expense associated with the full year impact of the December 2014 issuance of the Thirtieth Series A Revenue Bonds to finance the capital program. This increase was partially offset by the Authority issuing the Thirtieth Series B Revenue Bonds in December 2014. This issue refunded the Nineteenth Series and the Twentieth Series maturities after August 2015. Additionally, the June 2015 refunding of Twenty-first Series maturities from August 2017 through August 2028 favorably affected interest expense. Net interest expense decreased from FY 2014 to FY 2015 primarily due to the Authority's refinancing activity. The Authority issued the Twenty-ninth Series Revenue Bonds, refunding of Eighteenth Series B-1, in May 2014, and issued the Thirtieth Series B in December 2014 as described above. This refinancing activity was partially offset by the Authority issuing the Thirtieth Series A Revenue Bonds.

Realized and unrealized investment losses/gains changed by approximately $.1 million from May 31, 2015 to May 31, 2016. In the previous fiscal year, May 31, 2014 to May 31, 2015, the market value changed by approximately $.03 million.

Disposal of assets

In FY 2016, 2015 and 2014 the Authority retired certain assets characterized as "plant," which produced a net loss on disposal of assets.

Amortization

The amortization of bond discount, premium, issuance costs and deferred refunding losses were higher in FY 2016 than in FY 2015 primarily due to the amortizations associated with the Thirty-first Series, the full year impact associated with the Thirtieth Series B refunding, and the issuance costs and premium associated with the Thirtieth Series A. The Thirtieth

Series was issued in December 2014. The amortization of bond discount, premium, issuance costs and deferred refunding charges was higher in FY 2015 than in FY 2014 primarily due to the amortization of the deferred refunding charges and premium associated with the Thirtieth Series B refunding, the issuance costs and premium associated with the Thirtieth Series A, and the Twenty-ninth Series refunding that occurred in May 2014.

Special item

The Special Item, as of May 31, 2015, is the result of a PILOT settlement with a town to which the Authority pays PILOT. The Special Item of approximately $1.7 million reflected in the Financial Highlights excludes settlement amounts related to fiscal 2015 operations. Settlement amounts related to fiscal 2015 operations resulted in a decrease in PILOT expense from FY 2014 to FY 2015. There were no Special Items recorded associated with FY 2016.

Summary: Net position (In thousands of dollars)

May 31,	2016	2015	2014
Assets:			
Capital assets	$ 608,885	$ 599,742	$ 591,354
Goodwill	14,424	14,424	14,424
Other assets			
Current	54,479	52,585	49,721
Restricted assets	97,150	112,715	91,990
Other long-term assets	12,369	12,884	13,238
Total assets	$ 787,307	$ 792,350	$ 760,727
Deferred Outflow of Resources:			
Deferred charge on refunding	7,524	7,452	7,606
Deferred pension related charges	3,776	4,863	—
Total deferred outflows of resources	11,300	12,315	7,606
Total assets and deferred outflows of resources	$ 798,607	$ 804,665	$ 768,333
Liabilities:			
Current liabilities	$ 28,114	$ 25,664	$ 24,663
Payable from restricted assets	11,759	11,403	9,431
Other long-term liabilities	2,693	2,811	3,100
Long-term debt	575,904	593,896	577,947
Net pension liability	29,342	28,171	23,042
Total liabilities	647,812	661,945	638,183
Deferred Inflows of Resources:			
Deferred pension related inflows	82	111	—
Net position:			
Net invested in capital assets	37,892	29,092	30,315
Restricted	85,391	85,066	73,215
Unrestricted	27,430	28,451	26,620
Total net position	150,713	142,609	130,150
Total liabilities, deferred inflows of resources and net position	$ 798,607	$ 804,665	$ 768,333

Capital assets

The increase in capital assets from FY 2015 to FY 2016 and from FY 2014 to FY 2015 is attributable to additions to plant, such as pumping structures and equipment, improvements to existing water treatment plants, upgrades to the distribution and transmission system, including new pipe, and general plant, including information technology related capital investment. (See Note 4, *Capital Assets*, for details.)

Goodwill

Goodwill results from the Authority's acquisition of Birmingham Utilities on January 16, 2008. 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, 2016 and May 31, 2015, no impairment of goodwill has occurred.

Current assets

The following itemizes the change in current assets between May 31, 2015 and 2016, and between May 31, 2014 and 2015, respectively:

May 31,	2016	2015
Increase in cash and cash equivalents and investments	$ 3,040,159	$ 1,383,271
(Decrease)/increase in accounts receivable, net	(1,802,305)	422,568
Increase in accrued water revenue	826,059	923,866
(Decrease)/increase in interest receivable	(199,656)	128,055
Decrease in materials and supplies	(108,712)	(100,210)
Increase in prepayments and other current assets	138,111	107,491
Net increase in current assets	$ 1,893,656	$ 2,865,041

Increase in current net position from May 31, 2015 to May 31, 2016

The increase in cash and cash equivalents is primarily due to approximately $2.5 million associated with the FY 2016 year-end disposition increasing the General Fund's cash and cash equivalents as well as approximately $.7 million of unspent proceeds from unrestricted subordinate financing.

The change in net accounts receivable is primarily due to lower accounts receivable under sixty days, due to billings in the final months of FY 2016, as well as strong cash collections on aged receivables.

The increase in accrued water revenue is primarily due to the timing of billings and the full-year impact of the December 2014 rate increase.

The decrease in interest receivables is primarily due to the accrued interest associated with the Authority's debt reserve, capital contingency, and PILOT reserve funds based on the timing and yield differences between called securities and replacement securities.

The decrease in materials and supplies is primarily due to continued inventory management.

The increase in prepayments and other current assets is primarily due to an increase in insurance and other prepaids as well as deferred land expenses.

Increase in current net position from May 31, 2014 to May 31, 2015

The increase in cash and cash equivalents reflects higher cash receipts resulting from the effect of the rate increase effective December 2014 as well as the continued focused collections effort. This increase is net of the year-end disposition.

The change in net accounts receivable is primarily due to higher rates partially offset by an increase in the reserve allowance.

The increase in accrued water revenue is primarily due to the rate increase effective December 2014.

The increase in interest receivables is due to the accrued interest associated with the Authority's reserve funds.

The decrease in materials and supplies is primarily due to inventory management.

The increase in prepayments and other current assets is primarily due to an increase in insurance related prepayments.

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 approximately $15.6 million in restricted assets between May 31, 2015 and May 31, 2016 is primarily due to the decrease in the Construction Fund (approximately $15.2 million). The decrease in this fund is due to the use of the remaining bond proceeds from the Thirtieth Series A Revenue Bonds and the use of approximately $8.3 million of internally generated funds, held within the Construction Fund, to finance the capital improvement program partially off-set by the transfer of approximately $9.5 million into the Construction Fund as part of the year-end disposition. In addition, between May 2015 and May 2016 there are decreases in restricted accounts receivable and the debt service fund. These decreases were partially offset by an increase in the Operating Reserve Fund by approximately $.5 million as required under the *General Bond Resolution*.

Other long-term assets

As of May 31, 2016, the category other long-term assets includes regulatory assets.

As of May 31, 2016, regulatory assets, net of amortization, include $7.8 million of bond issuance costs, $4.2 million deferred charges of estimated environmental remediation costs of a site on Newhall Road in Hamden, Connecticut (See Note 14, *Pollution Remediation Obligation*), $.3 million associated with a system-wide leak study completed to meet the requirements under a Connecticut Department of Energy & Environmental Protection (DEEP) permit, and $.1 million deferred repair costs at a site in New Haven, Connecticut.

Regulatory assets as of May 31, 2015 include bond issuance costs of approximately $8.2 million, approximately $4.4 million environmental remediation costs at the site on Newhall Road in Hamden, Connecticut, and approximately $.3 million associated with the system-wide leak study. Amounts are net of amortization.

As of May 31, 2016, there is no other post-employment (OPEB) asset. As of May 31, 2015, the OPEB asset balance was $13 thousand due to a change in the actuarial calculation of the implicit rate subsidy.

Current liabilities

The Authority's current liabilities increased by approximately $2.5 million between May 31, 2015 and May 31, 2016, primarily due to an increase in accounts payable due to vendors, current maturities of Revenue Bonds payable, a short-term Note Payable, and other accrued liabilities, primarily related to accrued payroll and deferred revenue. The Authority's current liabilities increased by approximately $1.0 million between May 31, 2014 and May 31, 2015, primarily due to an increase in accounts payable due to vendors, current maturities of bonds payable, customer deposits and advances, and other accrued liabilities, primarily related to self-insurance, medical, and accrued payroll.

Payables from Restricted Assets

Between May 31, 2015 and May 31, 2016, payables from restricted assets increased by approximately $.4 million. This increase is primarily due to the increase in accounts payable for construction. Between May 31, 2014 and May 31, 2015, payables from restricted assets increased by approximately $2.0 million, primarily due to the increase in customer advances—main extensions and accounts payable for construction.

Other long-term liabilities

Other long-term liabilities decreased by approximately $.1 million due to costs incurred associated with the environmental remediation for the Newhall Road site in Hamden, Connecticut, reducing the liability as of May 31, 2016. The total cost estimate for the remediation was unchanged between May 31, 2016 and May 31, 2015.

As of May 31, 2016, the OPEB liability balance was $9 thousand due to a change in the actuarial calculation of the implicit rate subsidy.

Long-term debt

Long-term debt decreased by approximately $18.0 million between May 31, 2015 and May 31, 2016 due to the August 2015 principal payments and the refunding associated with the Thirty-first Series Revenue Bonds. Long-term debt increased $16.0 million between May 31, 2014 and May 31, 2015 due to the issuance of the Thirtieth Series A Revenue Bonds partially offset by the August 2014 principal payments and the refunding associated with the Thirtieth Series B Revenue Bonds. (See Note 7, *Revenue Bonds Payable*, for detail.)

Net Pension Liability

Between May 31, 2015 and May 31, 2016, the net pension liability increased by $1.2 million primarily due to lowering the discount rate from 7.25% to 7%, changes in expected versus actual experience, and projected versus actual market performance of plan investments as well as benefits earned by plan participants in the current period. The Authority contributing approximately $2.1 million in excess of the actuarial required contribution favorably affected the net pension liability. Between May 31, 2014 and May 31, 2015, the net pension liability increased by approximately $5.1 million primarily due to lowering the discount rate from 7.5% to 7.25% and changes in the mortality tables, changes in expected versus actual experience, and projected versus actual market performance on plan investments as well as benefits earned by plan participants.

Invested in capital, net of related debt

Between May 31, 2015 and May 31, 2016, the amount invested in capital, net of related debt, increased by $8.8 million primarily due to the net impact of the increase in utility and non-utility plant and the decrease in long-term debt. The amount invested in capital, net of related debt, decreased $1.2 million between May 31, 2014 and May 31, 2015 due to the net impact of the increase in utility and non-utility plant, the increase in long-term debt, and the reduction in deferred charges associated with refunding.

Net position, restricted

Restricted net position increased by approximately $.3 million from May 31, 2015 to May 31, 2016, primarily due to the reduction in unspent bond proceeds being greater than the increase in restricted payables and the decrease in restricted assets. Restricted net position increased $11.9 million between May 31, 2014 and May 31, 2015, primarily due to the net impact of the increase in restricted assets, the increase in restricted payables, and the reduction in unspent bond proceeds.

Unrestricted net position

Unrestricted net position decreased $1.0 million due to the increase in current assets by less than the increase in unrestricted liabilities. Unrestricted net position increased by $1.8 million between May 31, 2014 and May 31, 2015, due to the increase in current assets exceeding the unrestricted liabilities.

Prior Period Adjustment

The following restatements were recorded to the beginning of net position as a result of the implementation of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27:

Net position at May 31, 2014, as previously reported	$	153,192,386
Adjustments:		
Recorded net pension liability per GASB No. 68		(23,041,506)
Net position at June 1, 2014	$	130,150,880

The Authority’s Customer Base

The Authority’s customer base is primarily residential and commercial. Of the Authority’s approximately 118,800 customers, 115,000 are residential and commercial water customers. The customer base also includes industrial, public authority, wholesale and fire service. Between May 31, 2015 and May 31, 2016, there has been minimal change in the Authority’s customer base.

Liquidity and Capital Resources

Utilizing the Maintenance Test calculations as prescribed in the General Bond Resolution, in FY 2016 the Authority received approximately $113 million in cash from operations and $.4 million from earnings on investment, these amounts being more than sufficient to pay for operations and maintenance, PILOT, and to fund transfers associated with debt service. As part of the 2016 year-end disposition of the Revenue Fund, the Authority had approximately $11.9 million available after funding required reserves. The Authority increased the General Fund—Corporate Development by approximately $2.4 million and the Construction Fund by approximately $9.5 million, including the funding of depreciation. In addition, in FY2016 the Authority contributed to the pension plans approximately $2.1 million in excess of the actuarial requirement and funded approximately one third of the capital improvement program with internally generated funds.

In FY 2015, the Authority issued the Thirtieth Series A and B Revenue Bonds and in June 2015, the Authority issued the Thirty-first Series Revenue Bonds, refunding certain maturities of the Twenty-first Series. Additionally, in June of 2016 (FY 2017), the Authority issued the Thirty-second Series A and B Revenue Bonds.

Credit Rating

In June 2016, Standard & Poor's Rating Services upgraded the Authority's credit rating to AA- and Moody's Investor Service affirmed the Aa3 rating on outstanding debt. In May 2015 and November 2014, 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, 2016 and 2015. 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 and Chief Financial Officer or the Controller, South Central Connecticut Regional Water Authority, 90 Sargent Drive, New Haven, Connecticut 06511.

Statements of Net Position

May 31,	2016	2015 (Restated)
Assets:		
Utility plant		
Depreciable property, plant and equipment in service	$ 783,757,244	$ 760,883,583
Accumulated depreciation	(283,770,620)	(266,443,069)
Depreciable utility plant in service	499,986,624	494,440,514
Land	27,993,947	27,993,947
Construction work in progress	16,410,056	12,813,613
Total utility plant, net	544,390,627	535,248,074
Nonutility land	64,494,066	64,494,066
Goodwill	14,423,704	14,423,704
Current assets:		
Cash and cash equivalents	21,450,041	18,131,120
Investments	309,606	588,368
Accounts receivable, less allowance for doubtful accounts of $3,330,166 in 2016 and $3,244,791 in 2015	11,694,405	13,496,710
Accrued water revenue	16,784,022	15,957,963
Accrued interest receivable	36,209	235,865
Materials and supplies	1,442,158	1,550,870
Prepaid expenses and other assets	2,762,915	2,624,804
Total current assets	54,479,356	52,585,700
Restricted assets	97,150,634	112,714,878
Net OPEB asset	—	12,851
Regulatory assets	12,369,067	12,871,404
Total assets	787,307,454	792,350,677
Deferred Outflows of Resources:		
Deferred charge on refunding	7,523,805	7,451,662
Deferred outflows related to pensions	3,775,812	4,863,372
Total deferred outflows of resources	11,299,617	12,315,034
Liabilities:		
Noncurrent liabilities:		
Revenue bonds payable, less current portion	543,805,000	559,650,000
Net premiums and discounts from revenue bonds payable	32,089,977	34,245,528
Net pension liability	29,341,759	28,170,694
Net OPEB obligation	8,558	—
Total noncurrent liabilities	605,245,294	622,066,222
Current liabilities:		
Current maturities of bonds payable	15,445,000	14,875,000
Accounts payable	3,019,369	2,921,295
Bond anticipation notes payable	1,600,000	—
Customer deposits and advances	865,070	856,967
Other accrued liabilities	7,184,343	7,010,974
Total current liabilities	28,113,782	25,664,236
Payable from restricted assets:		
Accounts payable for construction	1,645,022	719,535
Accrued interest payable	8,939,860	9,223,422
Customer deposits and advances	1,174,408	1,460,236
Total liabilities payable from restricted assets	11,759,290	11,403,193
Pollution remediation obligation	2,693,423	2,811,441
Total liabilities	647,811,789	661,945,092
Deferred Inflows of Resources:		
Deferred inflows related to pensions	81,797	110,990
Net Position:		
Net investment in capital assets	37,892,225	29,092,216
Restricted	85,391,344	85,066,447
Unrestricted	27,429,916	28,450,966
Total Net Position	$ 150,713,485	$ 142,609,629

The accompanying notes are an integral part of these financial statements

Statements of Revenues, Expenses, and Changes in Net Position

May 31,	2016	2015 (Restated)
Operating revenues:		
Water revenues:		
Residential and commercial	$ 88,891,767	$ 84,104,248
Industrial	1,996,694	1,694,420
Fire protection	10,180,086	9,656,060
Public authority	3,094,293	2,903,551
Wholesale	924,999	1,046,990
Other water revenues	3,798,732	3,480,280
Other revenue	6,554,671	6,276,706
Total operating revenues	115,441,242	109,162,255
Operating expenses:		
Operating and maintenance expense	55,934,911	48,361,351
Depreciation	19,523,126	18,639,374
Payments in lieu of taxes	7,564,713	7,188,246
Other water expenses	1,756,258	1,739,768
Cost of other revenue	2,059,917	2,673,578
Total operating expenses	86,838,925	78,602,317
Operating income	28,602,317	30,559,938
Nonoperating income (expense):		
Interest income	2,212,321	2,597,899
Loss on disposal of assets	(716,109)	(585,292)
Realized and unrealized gains (losses) on investments	1,806	(106,117)
Interest expense	(26,787,595)	(26,299,374)
Amortization of bond discount, premium, issuance cost and deferred losses	2,210,756	2,163,364
Total nonoperating expense	(23,078,821)	(22,229,520)
Change in net position before capital contributions and special items	5,523,496	8,330,418
Capital Contributions	2,580,360	2,473,718
Special Item — PILOT settlement	—	1,654,613
Change in Net Position	8,103,856	12,458,749
Net Position — Beginning of Year, as Restated	142,609,629	130,150,880
Net Position — End of Year	$ 150,713,485	$ 142,609,629

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

May 31,	2016	2015 (Restated)
Cash Flows from Operating Activities:		
Cash received from water sales	$ 105,330,272	$ 97,800,369
Cash received from other services	10,353,403	9,756,986
Cash paid to employees	(19,937,862)	(18,136,630)
Cash paid to suppliers for operations	(34,143,243)	(30,542,609)
Cash paid to suppliers for other services	(2,059,917)	(2,658,073)
Payments in lieu of taxes	(7,261,527)	(7,188,246)
Special item—residual cash received from PILOT settlement	—	753,779
Net cash provided by operating activities	52,281,126	49,785,576
Cash Flows from Investing Activities:		
Interest received	2,411,977	2,469,844
Sale of unrestricted investments	334,960	343,989
Purchase of restricted investments	(195,838,473)	(306,828,806)
Sale of restricted investments	211,101,325	286,736,967
Net cash provided by (used in) investing activities	18,009,789	(17,278,006)
Cash Flows from Capital and Related Financing Activities:		
Payments for utility plant	(28,517,484)	(27,636,148)
Proceeds from disposition of assets	245,182	218,890
Proceeds from issuance of bond anticipation notes	1,600,000	—
Proceeds from issuance of revenue bonds	11,801,101	51,092,985
Principal payments on revenue bonds	(27,029,080)	(32,641,046)
Interest paid	(27,366,245)	(25,223,876)
Capital contributions, net of restricted deposit	2,294,532	3,408,885
Net cash used in capital and related financing activities	(66,971,994)	(30,780,310)
Net Increase in Cash and Cash Equivalents	3,318,921	1,727,260
Cash and Cash Equivalents—Beginning of Year	18,131,120	16,403,860
Cash and Cash Equivalents—End of Year	$ 21,450,041	$ 18,131,120
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income	$ 28,602,317	$ 30,559,938
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	19,523,126	18,639,374
Bad debt expense	723,197	404,305
Other	121,663	30,290
PILOT settlement	303,186	—
Pension expense	2,229,432	376,806
Special item—PILOT settlement	—	753,779
Change in:		
Accounts receivable and accrued water revenue	234,330	(1,688,246)
Materials and supplies	108,712	100,210
Prepaid expenses and other assets	(119,392)	(169,984)
OPEB asset	21,409	(51,610)
Regulatory assets	199,288	199,261
Deferred outflows of resources	(1,087,560)	(4,863,372)
Accounts payable	98,074	378,097
Pension liability	1,171,065	4,752,382
Deferred inflows of resources	(29,193)	110,990
Customer deposits and advances	8,103	83,346
Other accrued liabilities	173,369	170,010
Total adjustments	23,678,809	19,225,638
Net Cash Provided by Operating Activities	$52,281,126	$ 49,785,576

The accompanying notes are an integral part of these financial statements

Statements of Fiduciary Net Position—Pension Trust Fund

May 31,		2016		2015
Assets:				
Cash and cash equivalents	$	1,836,856	$	668,681
Investments:				
Equity securities		28,681,958		27,648,020
Fixed income		9,851,264		10,938,853
Hedge Fund		774,484		—
Total assets		41,144,562		39,255,554
Net Position:				
Held in Trust for Pension Benefits	$	41,144,562	$	39,255,554

Statements of Changes in Fiduciary Net Position—Pension Trust Fund

May 31,		2016		2015
Additions:				
Contributions:				
Employer	$	6,598,000	$	4,398,400
Retirees		14,693		15,624
Total contributions		6,612,693		4,414,024
Investment earnings:				
Net change in fair value of investments		(877,525)		18,935
Realized gain (loss) on sale of investments		(901,089)		770,015
Investment earnings and other income		1,292,801		297,757
Net investment earnings (loss)		(485,813)		1,086,707
Total additions		6,126,880		5,500,731
Deductions:				
Benefits		3,919,846		3,200,141
Expenses		231,685		54,424
Other		86,341		—
Total deductions		4,237,872		3,254,565
Change in Net Position		1,889,008		2,246,166
Net Position—Beginning of Year		39,255,554		37,009,388
Net Position—End of Year	$	41,144,562	$	39,255,554

The accompanying notes are an integral part of these financial statements

Statements of Fiduciary Net Position — Retired Employees Contributory Trust Fund

May 31,	2016	2015
Assets:		
Cash and cash equivalents	$ 31,394	$ 53,517
Investments:		
Equity securities	2,662,451	1,948,290
Fixed income	1,269,906	744,222
Total assets	3,963,751	2,746,029
Liabilities:		
Accounts payable	136,101	—
Net Position:		
Held in Trust for Retiree Benefits	$ 3,827,650	$ 2,746,029

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

May 31,	2016	2015
Additions:		
Contributions:		
Employer	$ 2,290,882	$ 2,398,800
Retirees	172,490	175,009
Total contributions	2,463,372	2,573,809
Investment earnings:		
Net change in fair value of investments	(42,572)	(241,378)
Realized gain (loss) on sale of investments	(57,189)	331,687
Investment earnings and other income	101,225	30,745
Net investment earnings	1,464	121,054
Total additions	2,464,836	2,694,863
Deductions:		
Benefits	1,361,326	2,089,346
Expenses	21,889	22,593
Total deductions	1,383,215	2,111,939
Change in Net Position	1,081,621	582,924
Net Position — Beginning of Year	2,746,029	2,163,105
Net Position — End of Year	$ 3,827,650	$ 2,746,029

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

As Of and For the Years Ended May 31, 2016 and 2015

1. Organization

The South Central Connecticut Regional Water Authority (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 the State 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. The Watershed Fund is a separate legal entity from the Authority. It has been excluded from the Authority's financial statements due to the insignificance of its balances as compared with those of the Authority. Information regarding the Watershed Fund can be found in 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 position, 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.

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 position as regulatory assets and liabilities 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.

As of May 31, 2016, regulatory assets include \$7.8 million of bond issuance costs, \$4.2 million deferred charges, net of amortization, of estimated environmental remediation costs in the town of Hamden, and \$.4 million associated with a required system-wide leak study and deferred repair costs.

Utility Plant

Capital assets in 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 over 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	5-15
General structures	10-32
Furniture and fixtures	12
Autos and trucks	5
Other	3-10

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, 2016 and 2015, 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.

Investments

Investments are reported at fair value.

Materials and Supplies

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority reports a deferred charge on refunding and deferred outflows related to pension in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority reports a deferred inflow of resources related to pensions. A deferred inflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

Restricted Assets

Pursuant to the Water System Revenue Bond Resolution, General Bond Resolution (the *General Bond Resolution*), the Authority maintains certain restricted assets, consisting principally of investments in U.S. Government and State of Connecticut obligations, which are carried at fair value. See Note 5, *Restricted Assets*.

Bonds Premiums and Discounts

The net balances for bond premiums and discounts are reported separately from revenue bonds payable. These balances are amortized using the interest method, meaning amortization is based on interest payments over the terms of the series.

Net Pension Liability

The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

Customer Deposits and Advances

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. 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

Enterprise 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 fund's principal ongoing operations. The principal operating revenues of the 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.

Accrued Water Revenue

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 statement of net position date. Interest is accrued on unpaid customer accounts after 30 days from the billing date.

Other Revenue

Other revenue includes revenue from the PipeSafe water and PipeSafe sewer protection plans, laboratory testing services, fleet repairs, rental income 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.

Reclassifications

Certain items relating to the prior year have been reclassified to conform to the current year's financial statement presentation.

3. Deposits and Investments

The Authority's *General Bond Resolution* Section 404A requires Authority revenue to be processed daily and deposited promptly.

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 the risk 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*, $1,215,503 of the Authority's bank balance of $1,744,742 was exposed to custodial credit risk as of May 31, 2016 as follows:

May 31,	2016
Uninsured and uncollateralized	$ 935,927
Uninsured and collateral held by the pledging bank's trust department, not in the Authority's name	279,576
Total amount subject to custodial risk	$ 1,215,503

Cash Equivalents

As of May 31, 2016 and 2015, the Authority's cash equivalents amounted to $85,187,238 and $95,180,877, respectively, and consisted of the State Short-Term Investment Fund (STIF), with a credit rating of AAAm by Standard & Poor's, United States Treasuries, cash portions of fiduciary funds held at custodial institutions and repurchase agreements.

Investments

As of May 31, 2016, the Authority had the following investments:

Investment Type	Credit Rating	Fair Market Value	Investment Maturities (Years) Less Than 1	1–10	More Than 10
Interest-bearing investments:					
U.S. Government obligations	N/A	$ 24,412,970	$ 9,819,892	$ 14,413,509	$ 179,569
Other investments:					
Mutual funds		29,050,039			
Exchange traded funds (ETFs)		13,415,542			
Hedge funds		774,484			
Total investments		$ 67,653,035			

As of May 31, 2015, the Authority had the following investments:

Investment Type	Credit Rating	Fair Market Value	Investment Maturities (Years) Less Than 1	1–10	More Than 10
Interest-bearing investments:					
U.S. Government obligations	N/A	$ 30,053,180	$ 14,697,918	$ 15,046,679	$ 308,583
Other investments:					
Mutual funds		29,364,040			
Exchange traded funds (ETFs)		11,915,345			
Total investments		$ 71,332,565			

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 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, 2016, 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:

2016	June 1, 2015	Additions	Adjustment and Transfers	Retirements	May 31, 2016
Capital assets not being depreciated:					
Land	$ 27,993,947	$ —	$ —	$ —	$ 27,993,947
Construction work in progress	12,813,613	28,136,939	(24,430,510)	(109,986)	16,410,056
Total capital assets not being depreciated	40,807,560	28,136,939	(24,430,510)	(109,986)	44,404,003
Other capital assets:					
Source of supply	41,774,102	—	19,115	(286,024)	41,507,193
Pumping structures and equipment	37,721,752	6,058	269,056	—	37,996,866
Water treatment plant and equipment	182,755,073	—	4,335,863	(192,757)	186,898,179
Transmission and distribution	428,989,196	—	15,080,090	(1,330,016)	442,739,270
General plant	69,643,460	1,594,682	4,726,386	(1,348,792)	74,615,736
Total other capital assets	760,883,583	1,600,740	24,430,510	(3,157,589)	783,757,244
Less accumulated depreciation:					
Source of supply	11,605,355	715,989	—	(74,719)	12,246,625
Pumping structures and equipment	18,631,387	1,356,434	—	—	19,987,821
Water treatment plant and equipment	81,775,659	5,848,510	—	(157,110)	87,467,059
Transmission and distribution	109,849,901	7,372,355	—	(626,610)	116,595,646
General plant	44,580,767	4,229,838	—	(1,337,136)	47,473,469
Total accumulated depreciation	266,443,069	19,523,126	—	(2,195,575)	283,770,620
Total other capital assets—net	494,440,514	(17,922,386)	24,430,510	(962,014)	499,986,624
Utility plant—net	$ 535,248,074	$ 10,214,553	$ —	$ (1,072,000)	$ 544,390,627

2015	June 1, 2014	Additions	Adjustment and Transfers	Retirements	May 31, 2015
Capital assets not being depreciated:					
Land	$ 27,017,751	$ —	$ 1,006,794	$ (30,598)	$ 27,993,947
Construction work in progress	8,264,924	26,107,468	(20,574,770)	(984,009)	12,813,613
Total capital assets not being depreciated	35,282,675	26,107,468	(19,567,976)	(1,014,607)	40,807,560
Other capital assets:					
Source of supply	41,637,267	—	144,835	(8,000)	41,774,102
Pumping structures and equipment	37,178,160	—	571,816	(28,224)	37,721,752
Water treatment plant and equipment	178,903,849	—	4,065,890	(214,666)	182,755,073
Transmission and distribution	418,682,169	—	11,391,358	(1,084,331)	428,989,196
General plant	66,998,486	2,027,270	3,394,077	(2,776,373)	69,643,460
Total other capital assets	743,399,931	2,027,270	19,567,976	(4,111,594)	760,883,583
Less accumulated depreciation:					
Source of supply	10,884,974	720,909	—	(528)	11,605,355
Pumping structures and equipment	17,291,205	1,347,736	—	(7,554)	18,631,387
Water treatment plant and equipment	76,260,783	5,587,450	—	(72,574)	81,775,659
Transmission and distribution	103,206,930	7,194,209	—	(551,238)	109,849,901
General plant	43,512,726	3,789,430	—	(2,721,389)	44,580,767
Total accumulated depreciation	251,156,618	18,639,734	—	(3,353,283)	266,443,069
Total other capital assets—net	492,243,313	(16,612,464)	19,567,976	(758,311)	494,440,514
Utility plant—net	$ 527,525,988	$ 9,495,004	$ —	$ (1,772,918)	$ 535,248,074

During fiscal years 2016 and 2015, the Authority retired assets with accumulated depreciation totaling approximately $2.2 million and $3.4 million, respectively.

5. Restricted Assets

Pursuant to 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 payments in lieu of taxes (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. The Rate Stabilization Fund includes a Variable Rate Bond Sub-account and a Surplus Sub-account. 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. Therefore, as of May 31, 2016 and 2015, no deposits were required.

After the initial funding of the Rate Stabilization Fund Surplus Sub-account as specified in a written certification by the Authority and transferred from the General Fund, the Authority shall transfer monies to the Revenue Fund to the extent required to make up deficiencies in any of the funds established under Section 402 of the *General Bond Resolution*. The Authority may at any time transfer any monies in the Rate Stabilization Fund Surplus Sub-account to the Revenue Fund, but only if each of the other funds is funded at or above their respective requirements.

The balances in the various funds as of May 31, 2016 and 2015, are as follows:

	2016	2015
Construction	$ 24,768,362	$ 39,950,134
Debt Reserve	15,902,968	15,905,926
Debt Service	26,173,050	25,952,936
Payments-in-Lieu-of-Taxes (PILOT)	4,128,337	4,452,762
Operating Reserve	9,212,973	8,728,253
Capital Contingency	6,015,676	6,006,975
Rate Stabilization	9,998,929	10,000,801
Other Purposes	950,339	1,717,091
Restricted assets	$ 97,150,634	$ 112,714,878

The level of funds required by the *General Bond Resolution* was met on May 31, 2016 and 2015.

6. Watershed Fund

As discussed in Note 1, the Watershed Fund is 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 Authority is the sole member of the Watershed Fund. 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 Authority made an initial donation of $1,234,000 to establish the Watershed Fund. The most recent contribution to the Fund by the Authority was in 2000 for $452,000. The Watershed Fund had total net position (unrestricted and temporarily restricted) of $1,582,444 and $1,701,943 as of May 31, 2016 and 2015, respectively. The Authority donated goods and services to the Watershed Fund totaling $22,978 and $21,123 for the years ended May 31, 2016 and 2015, respectively.

As discussed in Note 1, the Watershed Fund has been excluded from the Authority's financial statements due to the insignificance of its balances as compared with those of the Authority.

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, 2016 and 2015, was as follows:

2016	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	$ 574,525,000	$ 11,090,000	$ (26,365,000)	$ 559,250,000	$ 15,445,000
Bond premium	34,514,302	1,180,393	(3,454,150)	32,240,545	—
Bond discount	(268,774)	—	118,206	(150,568)	—
Total bonds payable	$ 608,770,528	$ 12,270,393	$ (29,700,944)	$ 591,339,977	$ 15,445,000

2015	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	$ 560,455,000	$ 46,060,000	$ (31,990,000)	$ 574,525,000	$ 14,875,000
Bond premium	32,313,312	5,790,204	(3,589,214)	34,514,302	—
Bond discount	(354,580)	—	85,806	(268,774)	—
Total bonds payable	$ 592,413,732	$ 51,850,204	$ (35,493,408)	$ 608,770,528	$ 14,875,000

Revenue bonds outstanding comprise the following:

2016	Issuance Date	Original Maturity Date	Original Principal	Interest Rate	Balance May 31, 2016
Eighteenth (refunding and new money bonds)	2003	2033	$ 236,535,000	2.000-5.250%	$ 30,000,000
Twentieth A (refunding bonds)	2007	2030	63,330,000	4.000-5.250%	55,900,000
Twenty-first	2007	2037	27,825,000	4.000-4.250%	13,790,000
Twenty-second	2008	2038	77,965,000	3.000-5.000%	74,645,000
Twenty-third	2008	2038	29,015,000	3.000-5.000%	26,825,000
Twenty-fourth	2009	2039	33,730,000	2.000-5.250%	32,055,000
Twenty-fifth	2010	2023	11,455,000	3.000-5.000%	8,565,000
2010 Series A	2010	2040	31,385,000	6.243-6.393%	31,385,000
Twenty-sixth	2011	2041	39,455,000	2.000-5.000%	37,635,000
Twenty-seventh (refunding bonds)	2012	2033	69,125,000	2.000-5.000%	63,525,000
Twenty-eighth A	2013	2043	31,690,000	1.000-5.000%	29,520,000
Twenty-eighth B (refunding bonds)	2013	2029	62,305,000	2.000-5.000%	53,740,000
Twenty-ninth (refunding bonds)	2014	2029	44,880,000	3.000-5.000%	44,880,000
Thirtieth A	2014	2044	30,270,000	2.000-5.000%	29,905,000
Thirtieth B (refunding bonds)	2014	2035	15,790,000	2.000-5.000%	15,790,000
Thirty-first (refunding bonds)	2015	2028	11,090,000	2.000-5.000%	11,090,000
					$ 559,250,000

2015	Issuance Date	Original Maturity Date	Original Principal	Interest Rate	Balance May 31, 2015
Eighteenth (refunding and new money bonds)	2003	2033	$ 236,535,000	2.000-5.250%	$ 30,000,000
Twentieth	2005	2035	23,405,000	3.000-5.000%	570,000
Twentieth A (refunding bonds)	2007	2030	63,330,000	4.000-5.250%	58,000,000
Twenty-first	2007	2037	27,825,000	4.000-4.250%	25,995,000
Twenty-second	2008	2038	77,965,000	3.000-5.000%	75,760,000
Twenty-third	2008	2038	29,015,000	3.000-5.000%	27,470,000
Twenty-fourth	2009	2039	33,730,000	2.000-5.250%	32,740,000
Twenty-fifth	2010	2023	11,455,000	3.000-5.000%	9,455,000
2010 Series A	2010	2040	31,385,000	6.243-6.393%	31,385,000
Twenty-sixth	2011	2041	39,455,000	2.000-5.000%	38,355,000
Twenty-seventh (refunding bonds)	2012	2033	69,125,000	2.000-5.000%	64,535,000
Twenty-eighth Series A	2013	2043	31,690,000	1.000-5.000%	30,140,000
Twenty-eighth Series B (refunding bonds)	2013	2029	62,305,000	2.000-5.000%	59,180,000
Twenty-ninth Series (refunding bonds)	2014	2029	44,880,000	3.000-5.000%	44,880,000
Thirtieth A	2014	2044	30,270,000	2.000-5.000%	30,270,000
Thirtieth B (refunding bonds)	2014	2035	15,790,000	2.000-5.000%	15,790,000
					$ 574,525,000

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 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, at inception, the Authority received 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. The 35% equates to $348,411 per payment, occurring twice a year. Such subsidy payment represents 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. Due to provisions within the Budget Control Act of 2011 and the implementation of sequestration, the amount of the subsidy has been reduced on payments made to issuers on or after March 1, 2013, resulting in a decrease to the Authority's August 1, 2013 payment and the twice-annual payments through the current period. Reductions to the subsidy have ranged from a high of 8.7% to the 6.8% reduction that was effective for the Authority's February 2016 payment. The percent is subject to further change. The interest subsidy totaled $647,141 for the fiscal year ended May 31, 2016.

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

Fiscal Year Ending May 31	Principal	Interest
2017	$ 15,445,000	$ 26,538,087
2018	16,105,000	25,967,327
2019	16,760,000	25,291,156
2020	17,545,000	24,504,121
2021	18,355,000	23,670,762
2022-2026	103,555,000	104,887,566
2027-2031	131,020,000	77,204,724
2032-2036	137,940,000	41,568,876
2037-2041	87,955,000	12,883,087
2042-2045	14,570,000	1,169,250
Total	$ 559,250,000	$ 363,684,956

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

Rate Covenants

The Authority shall have reasonable rates for each class of service and is required to establish rates and charges at levels sufficient to cover annual operating and maintenance expenses, PILOT, all debt service requirements, and any amounts necessary to meet reserve requirements established by the *General Bond Resolution*. In addition, collected revenues, less operating and maintenance expenses incurred, PILOT, and depreciation expense must equal 114% of annual debt service for fiscal years 2016 and 2015. Depreciation expense and other terms are as defined in the *General Bond Resolution*. Also, collected revenues, less operating and maintenance expenses incurred and depreciation expense, 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, 2016 and 2015, 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 2016, the Authority authorized $11.9 million of cash and cash equivalents to be transferred to the General Fund and, subsequently, $9.5 million to be transferred from the General Fund to the Construction Fund. The Authority also transferred $.3 million from the Revenue Fund to the Operating Reserve Fund.

8. Bond Anticipation Notes Payable

Bond anticipation notes totaling $1,600,000, were issued on December 18, 2015 to temporarily finance construction costs. The notes mature on December 15, 2016 and bore an interest rate of 1.22%, and are subordinate to the Water System Revenue Bonds.

9. Defeasance of Long-Term Debt

On May 7, 2013, the Authority issued $62,305,000 in Water System Revenue Bonds, Twenty-eighth Series B Bonds, in order to refund $69,660,000 of the Authority's Eighteenth Series A, Nineteenth Series, and Twentieth Series B Water System Revenue Bonds (the Refunded Bonds). The Authority deposited net proceeds of the refunding portion of the Twenty-eighth Series 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 affected 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 position. Principal payments on the defeased debt began on August 1, 2013. As of May 31, 2015, the remaining principal of the defeased bonds was $8,560,000 and as of May 31, 2016, the remaining principal has been paid.

On December 17, 2014, the Authority issued $15,790,000 in Water System Revenue Bonds, Thirtieth Series B Bonds, in order to refund $17,485,000 of the Authority's Nineteenth Series A and Twentieth Series Water System Revenue Bonds (the Refunded Bonds). The Authority deposited net proceeds of the refunding portion of the Thirtieth Series B 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 affected 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 position. Principal payments on the defeased debt began on January 19, 2015. As of May 31, 2015, the remaining principal of the defeased debt was $10,455,000. As of May 31, 2016, the remaining principal of the defeased debt has been paid.

On June 30, 2015, the Authority issued $11,090,000 in Water System Revenue Bonds, Thirty-first Series Bonds in order to refund $11,490,000 of the Authority's, Twenty-first Series Water System Revenue Bonds (the Refunded Bonds). The Authority deposited net proceeds of the refunding portion of the Thirty-first Series 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 affected 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 position. As of May 31, 2016, the remaining principal of the defeased debt was $11,490,000. The entire principal amount was paid on August 1, 2016.

10. Leases

Capital Leases

The Authority has entered into a lease agreement as lessee for financing the acquisition of fleet management equipment. The lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The gross amount of the asset acquired under the capital lease is shown below.

	2016
Equipment	$ 245,922
Less accumulated depreciation	(209,034)
	$ 36,888

Future minimum lease payments and the net present value of the minimum lease payments as of May 31, 2016 were as follows:

Year Ending May 31	
2017	$ 41,547
Less amount for interest	(819)
Capital lease obligation	$ 40,728

The capital lease obligation is included in the accompanying statements of net position in other accrued liabilities.

Operating Leases

The Authority has entered into operating leases involving certain equipment and IT infrastructure support. At May 31, 2016, there is no minimum annual future rental commitment under operating leases that have initial or remaining noncancelable lease terms in excess of one year. Rent expense for the years ended May 31, 2016 and 2015, was $43,540 and $37,220, respectively.

The Authority has entered into an agreement for a full service solution for the SAP system with a 90-month term that allows for termination with a termination fee. Based on the contract terms, if the agreement were cancelled as of May 31, 2016 the termination fee would be four months of the monthly service fee resulting in a termination fee of approximately $114,000.

11. 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 and disability 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 plans.

The pension plans are 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 plans.

Management of the plan rests with the Pension, Benefit and Compensation Committee of the five-member Authority. The Pension, Benefit and Compensation Committee consist of all five members of the five-member Authority. The Vice President, Employee Services, Vice President and Chief Financial Officer and the Controller are authorized and empowered to act as management's Pension Review Committee for the Authority's Salaried Employees' Retirement Plan and Retirement Plan (Union), with instructions to defer final action on nonroutine or discretionary matters until they have consulted with the Pension Benefits and Compensation Committee.

At January 1, 2016, which is the date of the latest actuarial valuation, membership consisted of the following:

	Salaried Plan	Bargaining Unit Plan
Retirees, disabled and beneficiaries currently receiving benefits	146	104
Vested terminated members entitled to but not yet receiving benefits	81	38
Current active members	105	120
Total members	332	262

Both plans have been closed to new entrants. The salaried plan was closed to new entrants as of January 1, 2011 and the bargaining unit plan was closed to new entrants as of April 15, 2010.

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 contributes, at a minimum, at the actuarially determined rate. For the year ended May 31, 2016, the Authority contributed approximately $2.1 million in excess of the actuarial required contribution.

The individual plan net position at May 31, 2016 and 2015, and changes in net position for the years then ended are as follows:

2016

Fiduciary Net Position	Salaried Plan	Bargaining Unit Plan	Total Pension Trust Fund
Assets:			
Cash and cash equivalents	$ 1,155,456	$ 681,400	$ 1,836,856
Investments:			
Equity securities	16,586,368	12,095,590	28,681,958
Fixed income	5,718,602	4,132,662	9,851,264
Hedge Fund	449,700	324,784	774,484
Total assets	23,910,126	17,234,436	41,144,562
Net Position:			
Held in Trust for Pension Benefits	$ 23,910,126	$ 17,234,436	$ 41,144,562

	Salaried Plan	Bargaining Unit Plan	Total Pension Trust Fund
Additions:			
Contributions:			
Employer	$ 4,385,524	$ 2,212,476	$ 6,598,000
Retirees	14,693	—	14,693
Total contributions	4,400,217	2,212,476	6,612,693
Investment earnings:			
Net change in fair value of investments	(507,744)	(369,781)	(877,525)
Realized loss on sale of investments	(521,748)	(379,341)	(901,089)
Investment earnings and other income	742,413	550,388	1,292,801
Net investment earnings	(287,079)	(198,734)	(485,813)
Total additions	4,113,138	2,013,742	6,126,880
Deductions:			
Benefits	2,707,621	1,212,225	3,919,846
Expenses	133,601	98,084	231,685
Other	61,573	24,768	86,341
Total deductions	2,902,795	1,335,077	4,237,872
Change in Net Position	1,210,343	678,665	1,889,008
Net Position — Beginning of Year	22,699,783	16,555,771	39,255,554
Net Position — End of Year	$ 23,910,126	$ 17,234,436	$ 41,144,562

2015

Fiduciary Net Position		Salaried Plan		Bargaining Unit Plan		Total Pension Trust Fund
Assets:						
Cash and cash equivalents	$	394,756	$	273,925	$	668,681
Investments:						
Equity securities		16,076,110		11,571,910		27,648,020
Fixed income		6,228,918		4,709,935		10,938,853
Total assets		22,699,784		16,555,770		39,255,554
Net Position:						
Held in Trust for Pension Benefits	$	22,699,784	$	16,555,770	$	39,255,554

		Salaried Plan		Bargaining Unit Plan		Total Pension Trust Fund
Additions:						
Contributions:						
Employer	$	2,689,635	$	1,708,765	$	4,398,400
Retirees		15,624		—		15,624
Total contributions		2,705,259		1,708,765		4,414,024
Investment earnings:						
Net change in fair value of investments		10,733		8,202		18,935
Realized gain on sale of investments		528,377		241,638		770,015
Investment earnings and other income		172,928		124,829		297,757
Net investment earnings		712,038		374,669		1,086,707
Total additions		3,417,297		2,083,434		5,500,731
Deductions:						
Benefits		2,096,472		1,103,669		3,200,141
Expenses		30,552		23,872		54,424
Total deductions		2,127,024		1,127,541		3,254,565
Change in Net Position		1,290,273		955,893		2,246,166
Net Position — Beginning of Year		21,409,511		15,599,877		37,009,388
Net Position — End of Year	$	22,699,784	$	16,555,770	$	39,255,554

Investments

Investment Policy: The five-member Authority determines the asset allocation target ranges and the investment advisor has discretion to invest within the authorized ranges and to select the specific investments within an asset category. As of May 31, 2016, the target allocations were fifty-five percent for equities, twenty-seven percent for fixed income, and eighteen percent for alternative investments. As of May 31, 2015, the authorized ranges were fifty-five to sixty-five percent for equities, twenty-five to thirty-five percent for fixed income, and eight to twelve percent for alternative investments.

2016

Asset Class	Target Allocation
Fixed Income	27%
U.S. Equity	38
Global	4
International Equity	13
Alternative/Hedge/Swing	18
Total	100%

2015

Asset Class	Target Allocation
Fixed Income	30%
U.S. Equity	45
Global	5
International Equity	10
Alternative/Hedge/Swing	10
Total	100%

The asset allocation targets for the year ended May 31, 2016, were approved by the five-member Authority at the February 18, 2016 meeting.

Rate of Return: For the year ended May 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (1.22)% for the salaried plan and (1.17)% for the bargaining unit plan. For the year ended May 31, 2015, the annual money-weighted rate of return on the pension plan investments, net of pension plan investment expense, was 3.28% for the salaried plan and 2.36% for the bargaining unit plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Authority

The components of the net pension liability of the Authority at May 31, 2016 were as follows:

2016	Salaried Plan	Bargaining Unit Plan
Total pension liability	$ 43,842,318	$ 26,644,003
Plan fiduciary net position	23,910,126	17,234,436
Net pension liability	$ 19,932,192	$ 9,409,567
Plan fiduciary net position as a percentage of the total pension liability	54.54%	64.68%

The components of the net pension liability of the Authority at May 31, 2015 were as follows:

2015	Salaried Plan	Bargaining Unit Plan
Total pension liability	$ 41,850,982	$ 25,575,266
Plan fiduciary net position	22,699,784	16,555,770
Net pension liability	$ 19,151,198	$ 9,019,496
Plan fiduciary net position as a percentage of the total pension liability	54.24%	64.73%

Actuarial Assumptions: The total pension liability as of May 31, 2016 was determined by an actuarial valuation as of January 1, 2016 rolled forward to May 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

2016	Salaried Plan	Bargaining Unit Plan
Inflation	3%	3%
Salary increase	4%, average including inflation	N/A
Investment rate of return	6.99%, net of pension plan investment expense, including inflation	6.95%, net of pension plan investment expense, including inflation

The total pension liability as of May 31, 2015 was determined by an actuarial valuation as of January 1, 2015 rolled forward to May 31, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

2015	Salaried Plan	Bargaining Unit Plan
Inflation	3%	3%
Salary increase	4%, average including inflation	N/A
Investment rate of return	7.25%, net of pension plan investment expense, including inflation	7.25%, net of pension plan investment expense, including inflation

Mortality rates, for the year ended May 31, 2016, for the Salaried Plan were based on the RP 2014 White Collar and RP 2014 White Collar Mortality for Healthy Annuitant and Disabled Retiree (Male/Female) with MP-2015 projection scale. Mortality rates for the Bargaining Unit Plan were based on the RP 2014 Blue Collar Mortality for Healthy Annuitant and Disabled Retiree (Male/Female) with MP-2015 projection scale.

Mortality rates, for the year ended May 31, 2015, were based on the RP 2014 White Collar and RP 2014 Blue Collar Mortality for Non-Annuitant and Annuitant Table for Males or Females, as appropriate.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of May 31, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	3%
U.S. Equity	10
Global	10
International Equity	10
Alternative/Hedge/Swing	7

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of May 31, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	4%
U.S. Equity	10
Global	10
International Equity	10
Alternative/Hedge/Swing	7

Discount Rate: The discount rate used to measure the total pension liability as of May 31, 2016 for the salaried plan was 6.99% and for the bargaining unit plan 6.95%. The discount rate used to measure the total pension liability as of May 31, 2015 for the salaried plan and for the bargaining unit plan was 7.25%. The projection of cash flows used to determine the discount rate was made at the actuarially determined contribution. For the year ended May 31, 2016, the Authority contributed above the actuarial required contribution. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

2016

	Increase (Decrease)		
Salaried Plan	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 1, 2015	$ 41,850,982	$ 22,699,784	$ 19,151,198
Changes for the year:			
Service cost	681,501	—	681,501
Interest on total pension liability	2,930,309	—	2,930,309
Differences between expected and actual experience	592,405	—	592,405
Changes in assumptions	494,742	—	494,742
Employer contributions	—	4,385,524	(4,385,524)
Member contributions	—	14,693	(14,693)
Net investment loss	—	(287,079)	287,079
Benefit payments, including refund to employee contributions	(2,707,621)	(2,707,621)	—
Administrative expenses	—	(133,601)	133,601
Other	—	(61,574)	61,574
Net changes	1,991,336	1,210,342	780,994
Balances as of May 31, 2016	$ 43,842,318	$ 23,910,126	$ 19,932,192

Bargaining Unit Plan	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 1, 2015	$ 25,575,266	$ 16,555,770	$ 9,019,496
Changes for the year:			
Service cost	166,226	—	166,226
Interest on total pension liability	1,802,098	—	1,802,098
Differences between expected and actual experience	(110,990)	—	(110,990)
Changes in assumptions	303,196	—	303,196
Employer contributions	120,432	—	120,432
Member contributions	—	2,212,476	(2,212,476)
Net investment loss	—	(198,733)	198,733
Benefit payments, including refund to employee contributions	(1,212,225)	(1,212,225)	—
Administrative expenses	—	(98,084)	98,084
Other	—	(24,768)	24,768
Net changes	1,068,737	678,666	390,071
Balances as of May 31, 2016	$ 26,644,003	$ 17,234,436	$ 9,409,567

2015

Salaried Plan	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 1, 2014	$ 36,242,146	$ 21,409,510	$ 14,832,636
Changes for the year:			
Service cost	675,452	—	675,452
Interest on total pension liability	2,611,307	—	2,611,307
Differences between expected and actual experience	714,740	—	714,740
Changes in assumptions	3,703,809	—	3,703,809
Employer contributions	—	2,689,635	(2,689,635)
Member contributions	—	15,624	(15,624)
Net investment income	—	712,039	(712,039)
Benefit payments, including refund to employee contributions	(2,096,472)	(2,096,472)	—
Administrative expenses	—	(30,552)	30,552
Net changes	5,608,836	1,290,274	4,318,562
Balances as of May 31, 2015	$ 41,850,982	$ 22,699,784	$ 19,151,198

Bargaining Unit Plan	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 1, 2014	$ 23,808,747	$ 15,599,877	$ 8,208,870
Changes for the year:			
Service cost	171,017	—	171,017
Interest on total pension liability	1,718,773	—	1,718,773
Differences between expected and actual experience	(311,677)	—	(311,677)
Changes in assumptions	1,292,075	—	1,292,075
Employer contributions	—	—	—
Member contributions	—	1,708,765	(1,708,765)
Net investment income	—	374,669	(374,669)
Benefit payments, including refund to employee contributions	(1,103,669)	(1,103,669)	—
Administrative expenses	—	(23,872)	23,872
Other changes	—	—	—
Net changes	1,766,519	955,893	810,626
Balances as of May 31, 2015	$ 25,575,266	$ 16,555,770	$ 9,019,496

The Authority reevaluated the discount rate assumption and lowered the salaried plan rate from 7.25% to 6.99% and the bargaining plan rate from 7.25% to 6.95% for the January 1, 2016 valuation.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the Authority, for the year ended May 31, 2016, calculated using the discount rate of 6.99% for the salaried plan and 6.95% for the bargaining unit plan, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (5.99%)	Current Discount Rate (6.99%)	1% Increase (7.99%)
Salaried Plan	$ 24,240,881	$ 19,932,192	$ 16,218,289

	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
Bargaining Unit Plan	$ 12,545,488	$ 9,409,567	$ 6,769,623

The following presents the net pension liability of the Authority, for the year ended May 31, 2015, calculated using the discount rate of 7.25%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Salaried Plan	$ 23,411,671	$ 19,151,198	$ 15,597,141
Bargaining Unit Plan	$ 12,151,396	$ 9,019,496	$ 6,485,195

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended May 31, 2016 and May 31, 2015, the Authority recognized pension expense of ($8,827,432) and ($4,775,206), respectively. At May 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

2016

Deferred Outflows of Resources	Salaried Plan	Bargaining Unit Plan	Total
Differences between expected and actual experience	$ 421,732	$ —	$ 421,732
Changes of assumptions	352,206	223,450	575,656
Net difference between projected and actual earning on pension plan investments	1,621,734	1,156,690	2,778,424
Total	$ 2,395,672	$ 1,380,140	$ 3,775,812

Deferred Inflows of Resources	Salaried Plan	Bargaining Unit Plan	Total
Differences between expected and actual experience	$ —	$ 81,797	$ 81,797
Changes of assumptions	—	—	—
Net difference between projected and actual earning on pension plan investments	—	—	—
Total	$ —	$ 81,797	$ 81,797

2015

Deferred Outflows of Resources	Salaried Plan	Bargaining Unit Plan	Total
Differences between expected and actual experience	$ 592,405	$ —	$ 592,405
Changes of assumptions	494,742	303,196	797,938
Net difference between projected and actual earning on pension plan investments	2,027,167	1,445,862	3,473,029
Total	$ 3,114,314	$ 1,749,058	$ 4,863,372

Deferred Inflows of Resources	Salaried Plan	Bargaining Unit Plan	Total
Differences between expected and actual experience	$ —	$ 110,990	$ 110,990
Changes of assumptions	—	—	—
Net difference between projected and actual earning on pension plan investments	—	—	—
Total	$ —	$ 110,990	$ 110,990

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended May 31,	2016
2017	$ 1,058,367
2018	1,058,367
2019	882,672
2020	694,609
2021	–
Thereafter	–
	$ 3,694,015

12. Voluntary Investment Plan

The Authority maintains a voluntary investment plan (a defined contribution 401(k) plan) covering eligible salaried employees. Salaried employees hired after January 1, 2011 receive an Authority contribution of 4.5% of their pay after six months of service. Salaried employees are not required to contribute in order to receive a match. Authority contributions vest immediately. Effective January 1, 1997, eligible bargaining unit employees were allowed to participate in the voluntary investment plan. Bargaining unit employees hired after April 15, 2010 receive an Authority contribution of 3.5% of pay with 100% vesting. Bargaining unit employees hired after April 15, 2014 receive an Authority contribution of 3.5% of their pay after six months of employment under the following vesting schedule: 50% after three years of service, 75% after four years of service, and 100% after five years of service. Contributions to the plan for the years ended May 31, 2016 and 2015, were as follows:

	2016	2015
Employer contributions	$ 671,477	$ 613,283
Employee contributions	1,488,337	1,357,095

13. Other Post-Employment Benefits — Retiree Health Care

Plan Description

The Authority's other post-employment benefits (OPEB) include health benefits to retirees and qualifying dependents as well as a death benefit of $11,000 per retiree through March 2015, increasing to $12,000 in April 2015, and $13,000 in April 2017. 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. Eligibility is stated in the funding policy section below.

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 by contributing the actuarial recommended cash contribution.

At January 1, 2016, plan membership consisted of the following:

2016	Retiree Health Plan
Retired members	160
Spouses of retired members	69
Active plan members(1)	267
Total participants	496

(1) Includes those eligible for only death benefits

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.

The Authority's cash contribution to the trust was $2,290,882 for the fiscal year ended May 31, 2016. The Authority's contribution was based on the actuarially calculated recommended cash contribution.

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, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. 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). The ARC is determined using the 30-year closed amortization beginning June 1, 2008. As of the January 1, 2016 valuation, the amortization period for 2016 is 22 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:

	2016	2015
Annual required contribution (ARC)	$ 2,506,691	$ 2,604,191
Interest on net OPEB obligation	(932)	2,907
Adjustment to annual required contribution	1,165	(3,529)
Annual OPEB cost	2,506,924	2,603,569
Contributions made	2,290,882	2,398,800
Allocations for Implicit Rate Subsidy	194,633	256,379
Change in net OPEB obligation	21,409	(51,610)
Net OPEB obligation (asset), beginning of year	(12,851)	38,759
Net OPEB obligation (asset), end of year	$ 8,558	$ (12,851)

Three-Year Trend Information

The Authority's annual OPEB cost (AOC), 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:

Year Ended	Annual OPEB Cost	Percentage of AOC Contributed	Net OPEB (Asset) Obligation
5/31/16	$ 2,506,924	99.1%	$ 8,558
5/31/15	2,603,569	102.0%	(12,851)
5/31/14	2,731,407	88.9%	38,759

The AOC represents the annual required contribution adjusted for interest and other actuarial adjustments.

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 health care 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.

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, 2016 actuarial valuation, the frozen entry age normal actuarial funding method was used with a health care cost trend of 8.5% graded down by the Getzen Model to an ultimate rate of 3.84% annually and a discount rate of 7%.

Funded Status

As of January 1, 2016, the most recent actuarial valuation date, the plan was 11.4% funded. The actuarial accrued liability for benefits was $28,031,383, and the actuarial value of assets was $3,186,726, resulting in a UAAL of $24,844,657. The covered payroll is not relevant to this plan.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial liability for benefits.

14. Pollution Remediation Obligation — Newhall Street Property, Hamden

In July 2001, the Connecticut Department of Energy & Environmental Protection (DEEP) 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 DEEP conducted investigations of the areas subject to the order and negotiated a Consent Order dated April 16, 2003. Under the Consent Order the Authority is required to investigate and remediate areas identified as the former Hamden Middle School and associated athletic field, a portion of the former Newhall Community Center, and two residential properties (Consent Order Area).

VOC and PCB Focused Remediation:
The Authority submitted Focused Remedial Plans (FRPs) to address isolated “hotspots” of polychlorinated biphenyls (PCBs) and volatile organic compounds (VOCs) on the site in 2007 and 2009, respectively. In July 2013, the Authority submitted a report to DEEP stating that compliance with DEEP remediation standards for the VOC hotspot on the HMS site could be demonstrated through a combination of statistical methods and land use restrictions, and that active remediation of the VOC hotspot, as

outlined in the 2009 VOC FRP plan, is not necessary. DEEP, in a September 2013 letter, concurred with this conclusion. Therefore, no remediation of the VOC hotspot will be required. Also in July 2013, the Authority submitted a revised PCB FRP to DEEP, which was approved in September 2013. PCB remediation was completed in fiscal year 2014. A final report summarizing the remediation was submitted to the DEEP in June 2014.

Alternative Cleanup Criteria Submittal:
In June 2014, the Authority submitted a formal request to DEEP for consideration of alternative site-wide cleanup criteria to clarify and simplify site remediation requirements. DEEP approved this request in letters dated June 27, 2014 and July 28, 2014, and by virtue of accepting the Remediation Action Plan (RAP) for the former Newhall Community Center, approved in January 2015, as described below.

Hamden Economic Development Corporation:
In December 2013, the Hamden Economic Development Corporation (HEDC) took title to a portion of the property assigned to the Authority in the Consent Order known as the former Newhall Community Center from the Town of Hamden. HEDC is developing the site for a small business incubator and will be renovating the building and creating paved parking. In August 2014, the RWA submitted a RAP to remediate this portion of the Consent Order Area in accordance with DEEP's Remediation Standards Regulations. DEEP approved the RAP in January 2015. Physical remediation of the HEDC property was subsequently completed in May 2015. A status report summarizing the remediation action was filed with DEEP in June 2015. Following completion of pending site redevelopment by HEDC, the Authority will record an Environmental Land Use Restriction (ELUR) on the town land records and file a final remediation action report with DEEP.

Status of Site-wide Remediation
The remaining portion of the Consent Order Area to be remediated by the Authority is currently the subject of a proposed residential development by an outside developer. The developer has obtained local approvals and will be applying for state funding. The Authority will be working cooperatively with the developer to coordinate remediation with site design and construction in accordance with a site-wide RAP, which was submitted to DEEP in May 2016. The Authority plans to go forward, contingent on DEEP's approval of this RAP, with the first phase of the site-wide remediation, for completion in fiscal 2017.

The Authority has incurred $2.2 million in remediation costs through May 31, 2016 and believes that the estimated present value of future outlays for which the Authority is responsible under the Consent Order is included 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 million in remediation costs based on then-current information, bringing the pollution remediation obligation balance to $3.1 million as of May 31, 2011. As of May 31, 2013, based on then-current information, the Authority increased the provision by $.25 million, bringing the balance to $3.3 million. Based on the September 2013 letter from DEEP regarding the VOC hotspot, the Authority lowered the provision by $.25 million resulting in a balance of $3.1 million as of May 31, 2014. The costs incurred of $.2 million associated with the PCB FRP were recognized as an expense in fiscal 2014. In fiscal 2015, $.3 million of the $3.1 million obligation was incurred, reducing the provision to $2.8 million. In fiscal 2016, an additional $.1 million of the obligation was incurred reducing the provision to $2.7 million. As the remediation costs are to be recovered through future rates, $4.2 million in incurred costs and future estimated remediation costs, net of amortization through May 31, 2016, have been recognized as a regulatory asset.

15. 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.

16. 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.

Capital Commitments

As of May 31, 2016, the Authority has capital expenditures of approximately $.2 million associated with ongoing projects under binding contracts. In addition, as of May 31, 2016, the Authority has approximately $15 million projected remaining capital expenditures associated with a multi-year capital project, under a cancellable binding agreement.

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.

Letter of Credit

The Authority has available to them a $2,923,272 letter of credit for the benefit of a financial institution.

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, 2016 and 2015, were as follows:

2016	June 1, 2015	Claims and Expenses Paid	Additional Reserves	May 31, 2016
Medical and dental claims	$ 347,708	$ (5,247,087)	$ 5,248,329	$ 348,950
Insurance reserve for "captive" (October 1, 2000-present)	3,071,061	(554,782)	249,048	2,765,327
Insurance reserve (pre October 1, 2000)	130,000	(158,055)	158,055	130,000
Total liability	$ 3,548,769	$ (5,959,924)	$ 5,655,432	$ 3,244,277

2015	June 1, 2014	Claims and Expenses Paid	Additional Reserves	May 31, 2015
Medical and dental claims	$ 270,000	$ (5,909,586)	$ 5,987,294	$ 347,708
Insurance reserve for "captive" (October 1, 2000-present)	2,956,887	(619,785)	733,959	3,071,061
Insurance reserve (pre October 1, 2000)	130,000	(61,348)	61,348	130,000
Total liability	$ 3,356,887	$ (6,590,719)	$ 6,782,601	$ 3,548,769

17. Special Item

At May 31, 2015, the Authority had a $1,654,613 Special Item as a result of a PILOT settlement with a town to which the Authority pays PILOT. A portion of the cash proceeds from the settlement as of May 31, 2015 will be used against future payments. This $753,779 is represented on the statement of cash flows and is also reflected within the PILOT Fund under Restricted Assets (Note 5). The Special Item excludes settlement amounts related to fiscal 2015 operations. For the year ended May 31, 2016, there were no special items recorded.

18. Future Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 72 Fair Value Measurement and Application

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this Statement are effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 74—Financial Reporting by OPEB Plans (disclosure)

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement requires the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The total OPEB liability generally is required to be determined through an actuarial valuation. However, if an OPEB plan has fewer than 100 plan members (active and inactive), use of a specified alternative measurement method in place of an actuarial valuation is permitted. Actuarial valuations, or calculations using the specified alternative measurement method, of the total OPEB liability are required to be performed at least every two years, with more frequent valuations or calculations encouraged. If a valuation or calculation is not performed as of the OPEB plan's fiscal year-end, the total OPEB liability is required to be based on updated procedures to roll forward amounts from an earlier actuarial valuation or alternative measurement method calculation (performed as of a date no more than 24 months prior to the OPEB plan's fiscal year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total OPEB liability are required to be made in conformity with the guidance in Actuarial Standards of Practice issued by the Actuarial Standards Board.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016.

GASB Statement No. 75—OPEB Accounting for Employers and Non-Employer Contributing Entities

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers and quasi-government organizations. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2017.

19. Prior Period Adjustment and Restatement

The following restatements were recorded to the beginning of net position of the governmental activities as a result of implementation of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27:

Net position at May 31, 2014, as previously reported	$	153,192,386
Adjustments:		
Record net pension liability per GASB No. 68		(23,041,506)
Net Position at June 1, 2014, as Restated	$	130,150,880

20. Subsequent Event

On June 29, 2016, the Authority issued $17,270,000 (par value) in new Water System Revenue Bonds, Thirty-second Series A Bonds with interest rates ranging from 2% to 4%. The total proceeds of the Thirty-second Series A Bonds were $18,636,957 (including a premium). The issuance of new debt coincided with a rate increase effective June 29, 2016.

On June 29, 2016 the Authority also issued $147,115,000 (par value) of Water System Revenue Bonds, Thirty-second Series B to refund the outstanding principal amounts of $164,195,000 of certain maturities of the Authority's Twentieth A, Twenty-first, Twenty-second, Twenty-third and Twenty-fourth Series Water System Revenue Bonds (the Refunded Bonds). The total proceeds of $179,573,868 (including a premium of $29,368,645 and debt service contributions of $3,090,223) will reduce total debt service payments by $33,517,505 (undiscounted). Issuance costs, estimated, including underwriter's fees, totaled $1,145,907.

RSI-1 Schedule of Changes in Net Pension Liability and Related Ratios—Last Two Fiscal Years

Salaried Plan	2015	2016
Total pension liability:		
Service Cost	$ 675,452	$ 681,501
Interest	2,611,307	2,930,309
Differences between expected and actual experience	714,740	592,405
Changes of assumptions	3,703,809	494,742
Benefit payments, including refunds of member contributions	(2,096,472)	(2,707,621)
Net change in total pension liability	5,608,836	1,991,336
Total pension liability—beginning	36,242,146	41,850,982
Total pension liability—ending	41,850,982	43,842,318
Plan fiduciary net position:		
Contributions—employer	2,689,635	4,385,524
Contributions—member	15,624	14,693
Net investment income (loss)	712,038	(287,080)
Benefit payments, including refunds of member contributions	(2,096,472)	(2,707,621)
Administrative expense	(30,552)	(133,601)
Other	—	(61,573)
Net change in plan fiduciary net position	1,290,273	1,210,342
Plan fiduciary net position—beginning	21,409,511	22,699,784
Plan fiduciary net position—ending	22,699,784	23,910,126
Net Pension Liability—Ending	$ 19,151,198	$ 19,932,192
Plan fiduciary net position as a percentage of the total pension liability	54.24%	54.54%
Covered-employee payroll	$ 8,692,467	$ 8,590,395
Net pension liability as a percentage of covered-employee payroll	220.32%	232.03%

Bargaining Unit Plan	2015	2016
Total pension liability:		
Service cost	$ 171,017	$ 166,226
Interest	1,718,773	1,802,098
Differences between expected and actual experience	(311,677)	(110,990)
Changes of assumptions	1,292,075	303,196
Changes in benefits	—	120,432
Benefit payments, including refunds of member contributions	(1,103,669)	(1,212,225)
Net change in total pension liability	1,766,519	1,068,737
Total pension liability—beginning	23,808,747	25,575,266
Total pension liability—ending	25,575,266	26,644,003
Plan fiduciary net position:		
Contributions—employer	1,708,765	2,212,476
Net investment income (loss)	374,669	(198,733)
Benefit payments, including refunds of member contributions	(1,103,669)	(1,212,225)
Administrative expense	(23,872)	(98,084)
Other	—	(24,768)
Net change in plan fiduciary net position	955,893	678,666
Plan fiduciary net position—beginning	15,599,877	16,555,770
Plan fiduciary net position—ending	16,555,770	17,234,436
Net Pension Liability—Ending	$ 9,019,496	$ 9,409,567
Plan fiduciary net position as a percentage of the total pension liability	64.73%	64.68%
Covered-employee payroll	$ N/A	$ N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A

RSI-2 Schedule of Employer Contributions—Last Six Fiscal Years

Salaried Plan	2011	2012	2013	2014	2015	2016
Actuarially determined contribution	$ 1,170,786	$ 1,350,489	$ 1,758,700	$ 2,329,754	$ 2,689,635	$ 2,749,435
Contributions in relation to the actuarially determined contribution	1,170,786	1,350,489	1,758,700	2,329,754	2,689,635	4,385,524
Contribution Deficiency (Excess)	$ —	$ —	$ —	$ —	$ —	$(1,636,089)
Covered-employee payroll	$ 9,699,911	$ 9,543,816	$ 9,653,830	$ 9,254,742	$ 8,694,151	$ 8,590,395
Contributions as a percentage of covered-employee payroll	12.07%	14.15%	18.22%	25.17%	30.94%	51.05%

Notes to Schedule

Valuation date: January 1, 2016

Measurement date: May 31, 2016. Calculated as the normal cost as of January 1st prior to the beginning of the fiscal year in which contributions are reported, increased with a half year of interest.

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Aggregate actuarial cost method

Amortization method: The aggregate actuarial cost method does not amortize gains and losses and therefore there is no amortization period as the method itself allocates costs over the future service of employees.

Asset valuation method: An actuarial smoothing method based on market value of assets plus 75% of expected returns.

Inflation: 3.0%

Salary increases: 4%, average, including inflation

Investment rate of return: 7.00%, net of pension plan investment expense, including inflation.

Retirement age: In the 2016 actuarial valuation, expected retirement ages of general plan members was age 55 with 3 continuous years of service. Actual retirement ages have been monitored for several years and past rates still appear to be appropriate.

Mortality: In the 2016 actuarial valuation, assumed life expectancies were updated from the RP-2014 White and RP-2014 White Collar Employee and Healthy Annuitant (Male/Female) with MP-2014 generational mortality improvement to RP-2014 White Collar Employee, Healthy Annuitant and Disabled Retiree (Male/Female) with MP-2015 generational mortality improvement (Projected from 2006).

Bargaining Unit Plan	2011	2012	2013	2014	2015	2016
Actuarially determined contribution	$ 812,344	$ 926,931	$ 1,114,700	$ 1,454,957	$ 1,708,765	$ 1,707,164
Contributions in relation to the actuarially determined contribution	812,344	926,931	1,114,700	1,454,957	1,708,765	2,212,476
Contribution Deficiency (Excess)	$ —	$ —	$ —	$ —	$ —	$ (505,312)
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule

Valuation date: January 1, 2016

Measurement date: May 31, 2016. Calculated as the normal cost as of January 1st prior to the beginning of the fiscal year in which contributions are reported, increased with a half year of interest.

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Aggregate actuarial cost method

Amortization method: The aggregate actuarial cost method does not amortize gains and losses and therefore there is no amortization period as the method itself allocates costs over the future service of employees.

Asset valuation method: An actuarial smoothing method based on market value of assets plus 75% of expected returns.

Inflation: 3.0%

Salary increases: N/A

Investment rate of return: 7.0%, net of pension plan investment expense, including inflation.

Retirement age: In the 2016 actuarial valuation, expected retirement ages of general plan members was age 55 with 3 continuous years of service. Actual retirement ages have been monitored for several years and past rates still appear to be appropriate.

Mortality: In the 2016 actuarial valuation, assumed life expectancies were updated from the RP-2014 Blue Collar Employee and Healthy Annuitant (Male/Female) with MP-2014 generational mortality improvement to RP-2014 Blue Collar Employee, Healthy Annuitant and Disabled Retiree (Male/Female) with MP-2015 generational mortality improvement (Projected from 2006).

RSI-3 Schedule of Investment Returns—Last Two Fiscal Years

Salaried Plan	2015	2016
Annual money-weighted rate of return, net of investment expense	3.28%	(1.22)%

Bargaining Unit Plan	2015	2016
Annual money-weighted rate of return, net of investment expense	2.36%	(1.17)%

RSI-4 Schedule of Funding Progress for Retiree Health Care

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
Retiree Health Care						
2011	N/A	N/A	$ (13,877,760)	N/A	$ 17,800,000	78.0%
2012	N/A	N/A	(16,172,400)	N/A	18,100,000	89.3%
2013	$ 1,032,349	$ 27,977,940	(26,945,591)	3.7%	N/A	N/A
2014	1,433,279	27,296,080	(25,862,801)	5.3%	N/A	N/A
2015	2,294,000	27,432,000	(25,138,000)	8.4%	N/A	N/A
2016	3,186,726	28,031,383	(24,844,657)	11.4%	N/A	N/A

The actuarial cost method used for the retiree health care calculation 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.

RSI-4 Schedule of Employee Contributions to Retiree Health Care

	Retiree Health Care	
Year Ended May 31	Annual Required Contribution	Annual Percentage Contributed
2011	$ 1,330,510	100%
2012	1,427,435	100%
2013	1,717,500	100%
2014	2,727,659	89%
2015	2,604,191	102%
2016	2,506,691	99%

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Edward O. Norris III
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Auditors:
Blum, Shapiro & Company, P.C.
West Hartford, CT

Office of Consumer Affairs:
Jeffrey M. Donofrio, Esq.
North Haven, CT

About the Regional Water Authority

The South Central Connecticut Regional Water Authority is a nonprofit public corporation and political subdivision of the State of Connecticut. We provide an average of 45 million gallons of water a day to a population of almost 430,000 consumers in 15 South Central Connecticut municipalities.

In 1980, the Authority acquired the New Haven Water Company, an investor-owned water utility which was founded in 1849. The Authority's offices are located at 90 Sargent Drive in New Haven, just off Exit 46 of Interstate 95 (Long Wharf exit).

Regional Water Authority Recreation Areas

Regional Water Authority Statistics— May 31, 2016

	Estimated Population Served	RBP Votes	Miles of Main	Customers[A]	Hydrants	Landholdings (Acres)[C]	Conservation Easements	Miles of Recreation Trails	Miles of Fishing Areas
Ansonia	17,848	3	71.2	5,378	451	96.41	—	—	—
Beacon Falls	—	—	—	—	—	21.50	—	—	—
Bethany	8	5	1.4	5	1	3,945.80	22.49	8.4	2.0
Branford	27,544	6	140.5	8,532	743	1,174.50	34.87	4.0	2.5
Cheshire	23,333	4	152.0	6,704	1,128	149.16	272.70	—	—
Derby	10,742	2	41.3	3,229	276	1.90	—	—	—
Durham[B]	—	—	—	—	—	249.32	11.07	—	—
East Haven	27,714	6	112.5	8,474	554	859.47	—	3.7	0.5
Guilford	—	4	—	—	—	3,297.13	—	6.5	—
Haddam[B]	—	—	—	—	—	103.65	—	—	—
Hamden	54,434	10	216.0	15,061	1,005	1,257.54	288.19	—	5.1
Killingworth	—	2	—	—	—	1,377.12	64.63	3.2	0.1
Madison	—	6	—	—	—	4,738.42	24.26	13.5	0.6
Milford	52,370	10	240.6	18,155	1,417	4.23	—	—	—
New Haven	123,113	13	262.8	22,630	2,067	24.30	—	0.3	—
North Branford	4,940	8	43.2	1,504	233	6,069.37	81.55	5.6	0.8
North Haven	20,772	5	149.6	7,759	741	53.74	—	—	1.5
Orange	10,472	3	102.3	3,885	548	588.97	—	1.9	0.8
Prospect	—	1	0.3	—	2	822.41	—	—	—
Seymour	795	1	7.1	331	23	709.79	—	2.0	—
West Haven	51,903	8	152.0	13,457	865	274.73	—	2.9	1.5
Wolcott[B]	—	—	2.5	—	24	1.15	—	—	—
Woodbridge	1,367	3	18.2	466	83	1,903.05	200.00	5.6	1.7
Governor's Representative	—	1	—	—	—	—	—	—	—
Totals	427,355	101	1,713.5	115,570	10,161	27,723.66	999.76	57.6	17.1

[A] Metered customers within district

[B] Not within district

[C] Acres in 2016 were calculated using GIS data

Regional Water Authority
Tapping the Possibilities™

South Central Connecticut Regional Water Authority
90 Sargent Drive, New Haven, CT 06511-5966