

**GREATER NEW HAVEN WATER  
POLLUTION CONTROL AUTHORITY**

**FINANCIAL REPORT  
June 30, 2011**

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**Financial Section**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Greater New Haven Water Pollution Control Authority  
New Haven, Connecticut

We have audited the accompanying financial statements of the Greater New Haven Water Pollution Control Authority, as of and for the years ended June 30, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of Greater New Haven Water Pollution Control Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Greater New Haven Water Pollution Control Authority's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Greater New Haven Water Pollution Control Authority as of June 30, 2011 and 2010, and the statements of revenues, expenses and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2011 on our consideration of Greater New Haven Water Pollution Control Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*McGladrey & Pullen, LLP*

New Haven, Connecticut  
December 12, 2011

**Greater New Haven  
Water Pollution Control Authority  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011**

**INTRODUCTION**

The Greater New Haven Water Pollution Control Authority (the "GNHWPCA") was organized in 2005 as a political subdivision of the State established and created for the performance of an essential public and governmental function. It was created as a regional water pollution control authority under Connecticut Public Act 95-329, subsequently enacted as Title 22a, Sections 500 to 519 of the Connecticut General Statutes, as amended (the "Act"). The GNHWPCA was created pursuant to the Act by concurrent ordinances of the four Constituent Municipalities (the City of New Haven, and the Towns of Hamden, East Haven and Woodbridge). Under the Act, the GNHWPCA is empowered to purchase, own and operate a public sewer system; to levy assessments and sewer use fees; to place liens on real estate to secure such assessments; and to issue revenue bonds. The GNHWPCA is also eligible for grants and loans under the State of Connecticut Clean Water Fund program ("CWF"). Under the by-laws of the GNHWPCA, a governing Board of Directors comprised of representatives of the Constituent Municipalities was established.

On August 29, 2005, the GNHWPCA entered into an Asset Purchase Agreement ("regionalization") with the Constituent Municipalities and thereby acquired ownership of the wastewater system assets of the Constituent Municipalities which included CWF obligations.

In order to finance the acquisition of the wastewater system assets, the GNHWPCA issued \$91,290,000 of revenue bonds (the "2005 Series A Bonds") subject to an Indenture of Trust (the "Indenture"). The Indenture constitutes a contract between the GNHWPCA, the Trustee and the holders of the 2005 Series A Bonds. The Indenture secures the 2005 Series A Bonds and the CWF loans assumed from the Constituent Municipalities.

The wastewater system assets acquired by the GNHWPCA included: the East Shore Wastewater Treatment Plant, located in New Haven; 30 pump stations; a collection system of approximately 560 miles of sanitary and combined sewers; and machinery and equipment. The system provides wastewater treatment services to approximately 50,000 customers.

The Greater New Haven Water Pollution Control Authority operates on a fiscal year that starts on July 1 and ends on June 30.

As noted in the Independent Auditor's Report from McGladrey & Pullen LLP, Management's Discussion and Analysis (MD&A) provides supplemental information to the audit and should be read in conjunction with such audit. 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 GNHWPCA 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**

Our financial statements are prepared using proprietary fund (enterprise fund) accounting that employs essentially the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting are used.

Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows. These statements are followed by notes to the financial statements.

The GNHWPCA's audited financial statements include the following:

- **Statements of net assets**

These statements provide information about the GNHWPCA's investments in resources (assets) and its obligations to creditors (liabilities), with the difference between them reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the GNHWPCA is improving or deteriorating.

- **Statements of revenues, expenses, and changes in net assets**

These statements demonstrate changes in net assets from one period to another by accounting for operating and non-operating revenues and expenditures and measuring the financial results of operations combined with any capital contributions to determine the net change in assets for the period. This change combined with the beginning of the period net assets balance reconciles to the net assets at the end of the period. The information may be useful to determine how the GNHWPCA has funded its costs.

- **Statements of cash flows**

These statements report cash and cash equivalent activity for the year resulting from operating activities, non-capital financing activities, capital and related financial activities and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalents balance at the end of the year.

- **Notes to financial statements**

Notes to the financial statements contain information essential to understanding the financial statements, such as the GNHWPCA accounting methods and policies.

## **THE GNHWPCA BUSINESS**

The GNHWPCA was created pursuant to Sections 22a-500 to 22a-519, inclusive, of the Connecticut General Statutes to (a) operate the Treatment Plant and to (b) use, equip, re-equip, repair, maintain, supervise, manage, operate and perform any act pertinent to collection, transportation, treatment and disposal of sewage with respect to the Constituent Municipalities. Currently, the daily flow at the Treatment Plant is approximately 29 million gallons per day.

## FINANCIAL HIGHLIGHTS

### Condensed Statements of Revenues, Expenses and Changes in Net Assets

<i>(Dollars in Thousands)</i>	Years ended June 30,			Dollar Variance		Percentage Variance	
	2011	2010	2009	11 vs. 10	10 vs. '09	11 vs 10	10 vs. '09
Operating revenues	\$ 33,890	\$ 29,465	\$ 28,091	\$ 4,425	\$ 1,374	15.0%	4.9%
Operating expenses	19,445	19,721	19,465	(276)	256	-1.4%	1.3%
Depreciation and amortization	4,377	3,991	3,519	386	472	9.7%	13.4%
<b>Total operating expenses, including depreciation</b>	<b>23,822</b>	<b>23,712</b>	<b>22,984</b>	<b>110</b>	<b>728</b>	<b>0.5%</b>	<b>3.2%</b>
<b>Operating income</b>	<b>10,068</b>	<b>5,753</b>	<b>5,107</b>	<b>4,315</b>	<b>646</b>	<b>75.0%</b>	<b>12.6%</b>
Nonoperating income (expense)	(4,848)	(4,747)	(4,387)	(101)	(360)	2.1%	8.2%
Capital grants	5,724	2,199	19,493	3,525	(17,294)	160.3%	-88.7%
<b>Change in net assets</b>	<b>\$ 10,944</b>	<b>\$ 3,205</b>	<b>\$ 20,213</b>	<b>\$ 7,739</b>	<b>\$ (17,008)</b>	<b>241.5%</b>	<b>-84.1%</b>

The following items highlight the condensed statements of revenues, expenses and changes in net assets, shown above.

- **Operating Revenues**

Operating revenues of \$33.9 million for fiscal year 2011 represent an increase of \$4.4 million or 15.0% compared to \$29.5 million in operating revenues for fiscal year 2010. The increase in operating revenue is primarily attributable to a rate increase of \$0.23 per CCF from fiscal year 2010 to fiscal year 2011, as well as an increase in outside sludge disposal fees, a reduction in the provision for bad debt, and the release of the Rate Stabilization funds. The GNHWPCA approved a charge of \$2.84 per CCF to meet the requirements of its Revenue Bond Indenture of Trust and to fund capital improvements

Operating revenues of \$29.5 million for fiscal year 2010 represent an increase of \$1.4 million or 5% compared to \$28.1 million in operating revenues for fiscal year 2009. The increase in operating revenue is primarily attributable to a rate increase of \$0.16 per CCF from fiscal year 2009 to fiscal year 2010. The GNHWPCA approved a charge of \$2.61 per CCF to meet the requirements of its Revenue Bond Indenture of Trust and to fund capital improvements

- **Operating Expenses**

Operating expenses include all costs, including maintenance, necessary to deliver wastewater collection and treatment services. It also includes the administrative resources and billing and customer service costs employed to ensure efficient operations.

Operating expenses for fiscal year 2011 decreased \$0.3 million or 1.6% to \$19.4 million from \$19.7 million for fiscal year 2010. The decrease of operating expenses reflects increased contractual services and salaries and wages offset by a reduction in the Regional Water Authority billing and collecting service agreement.

Operating expenses for fiscal year 2010 increased \$0.3 million or 1.3% to \$19.8 million from \$19.5 million for fiscal year 2009. The increase of operating expenses reflects increased contractual services and salaries and wages.

- **Non-operating Income and Expense**

Non-operating income and expense includes revenue from investment income, reflective of market rates of return, which is used in the general operation of the entity; and interest expense which consists primarily of interest incurred on revenue bonds issued and outstanding and loans assumed in connection with the State of Connecticut Clean Water Fund Program.

Non-operating expenses in fiscal year 2011 increased \$0.1 million or 2.1% to \$4.8 million from \$4.7 million for fiscal year 2010. The increase in non-operating income and expenses is directly attributable to a decrease in investment income due to market conditions and an increase in interest payments associated with outstanding debt.

Non-operating expenses in fiscal year 2010 increased \$0.3 million or 8.2% to \$4.7 million from \$4.4 million for fiscal year 2009. The increase in non-operating income and expenses is directly attributable to a decrease in investment income due to market conditions and an increase in interest payments associated with outstanding debt.

### Condensed Statements of Net Assets

<i>(Dollars in Thousands)</i>	June 30,			Dollar Variance		Percentage Variance	
	2011	2010	2009	11 vs. 10	10 vs. '09	11 vs. 10	10 vs. '09
<b>Assets</b>							
Current assets	\$ 26,770	\$ 23,984	\$ 20,358	\$ 2,786	\$ 3,626	11.6%	17.8%
Capital assets, net	144,251	135,858	131,571	8,393	4,287	6.2%	3.3%
Noncurrent assets							
Restricted assets	9,586	11,923	18,176	(2,337)	(6,253)	-19.6%	-34.4%
Other	8,917	9,830	10,690	(913)	(860)	-9.3%	-8.0%
<b>Total assets</b>	<b>189,524</b>	<b>181,595</b>	<b>180,795</b>	<b>7,929</b>	<b>800</b>	<b>4.4%</b>	<b>0.4%</b>
<b>Liabilities</b>							
Current liabilities	14,985	12,978	14,106	2,007	(1,128)	15.5%	-8.0%
Noncurrent liabilities	128,701	133,723	135,000	(5,022)	(1,277)	-3.8%	-0.9%
<b>Total liabilities</b>	<b>143,686</b>	<b>146,701</b>	<b>149,106</b>	<b>(3,015)</b>	<b>(2,405)</b>	<b>-2.1%</b>	<b>-1.6%</b>
<b>Net Assets</b>							
Invested in capital assets, net of related debt	37,145	29,953	29,814	7,192	139	24.0%	0.5%
Restricted	1,949	2,909	4,126	(960)	(1,217)	-33.0%	-29.5%
Unrestricted	6,744	2,032	(2,251)	4,712	4,283	231.9%	-190.3%
<b>Total net assets</b>	<b>\$ 45,838</b>	<b>\$ 34,894</b>	<b>\$ 31,689</b>	<b>\$ 10,944</b>	<b>\$ 3,205</b>	<b>31.4%</b>	<b>10.1%</b>

The following items highlight the condensed statements of net assets shown above.

- **Current Assets**

The increase of \$2.8 million in current assets between fiscal year-end 2010 and fiscal year-end 2011 results principally from an increase in cash and cash equivalents, and a decrease in accounts receivable.

- **Capital Assets**

The increase in capital assets is attributable to additions to equipment and sewer lines, such as acquisition and improvements of pumping equipment, water treatment facilities, the waste water collection system and information technology.

Capital Assets are assets acquired for the use in operations that will benefit more than a single fiscal year. Capital assets are stated at cost. Normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Assets being constructed over a period of time are classified as construction in progress. No depreciation is computed on these assets until they are complete and placed into service. Depreciation is computed on a straight line basis over the estimated useful lives of the respective assets.

- **Restricted Assets**

The term “restricted assets” refers primarily to certain funds established under various bond indentures, as well as funds acquired from the regionalization, whose use is restricted for the following purposes:

- Debt Service
- Debt Service Reserves
- Construction
- Environmental Impact Fund
- Maintenance Escrow
- Rate Stabilization Fund for New Haven Residents

The decrease of \$2.3 million in restricted assets between fiscal year-end 2010 and fiscal year-end 2011 is primarily due to the funding of capital projects funded by Revenue bonds (2008 A & 2008 B series) issued in fiscal year 2008, and the release of \$974,000 from the rate stabilization fund to the City of New Haven.

The GNHWPCA invests these restricted assets in investments as allowed by the Indentures, for example, depository accounts in direct obligations of the federal or state governments (or agencies) or in guaranteed investment contracts.

- **Other Non-Current Assets**

The fiscal year-end 2011 decrease from fiscal year-end 2010 in other assets is primarily related to the reduction of the long-term portion of the receivable – City of New Haven.

- **Current Liabilities**

The increase in current liabilities from fiscal year-end 2010 to fiscal year-end 2011 is primarily attributed to an increase in the current portion of long term debt due to the interim Clean Water Fund obligation that will convert to permanent financing in 2012.

- **Non-Current Liabilities**

Non-current liabilities decreased between fiscal year-end 2010 and fiscal year-end 2011, primarily due to the shift in long term debt from noncurrent to current.

- **Invested in Capital Assets, Net of Related Debt**

This line represents the GNHWPCA's total capital assets, net of depreciation, and net of the long-term debt incurred to acquire the capital assets from the Constituent Municipalities and to conduct improvements to the waste water system.

- **Restricted Net Assets**

Restricted net assets decreased between fiscal year-end 2010 and fiscal year-end 2011, primarily due to the release of the rate stabilization fund, and reduction in the Capital Construction Fund.

- **Unrestricted Net Assets**

Unrestricted net assets increased by \$4.7 million at fiscal year-end 2011 as a result of an increase in the change in net assets and capital contributions.

## **THE GNHWPCA'S CUSTOMER BASE**

The GNHWPCA serves a population of almost 200,000 users; the customer base is primarily residential and commercial. Of its approximately 50,000 customers, 40,000 are residential and approximately 10,000 are commercial, industrial and public authorities.

## **LIQUIDITY AND CAPITAL RESOURCES**

In fiscal year 2011, the Authority generated \$33 million in cash from operations and \$.45 million from investment & other earnings. These amounts were used to pay for operations and maintenance of \$19.5 million and to fund debt service of \$10.2 million.

The Authority funds its program of capital improvements largely through debt financing and capital contributions from the State of Connecticut's Clean Water Fund program and through the issuance of revenue bonds.

## **CREDIT RATING**

Standard & Poor's, Moody's and Fitch Investors Service affirmed ratings of A, A1 and A+, respectively, on the GNHWPCA's outstanding debt.

## **FINANCIAL STATEMENT PRESENTATION**

The GNHWPCA financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Greater New Haven Water Pollution Control Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Director of Finance & Administration, Greater New Haven Water Pollution Control Authority, 260 East Street, New Haven, Connecticut 06511.

## **Basic Financial Statements**

GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY

STATEMENTS OF NET ASSETS  
June 30, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 19,910,144	\$ 15,803,914
Accounts receivable, less allowance for doubtful accounts \$3,383,820 in 2011 and \$4,268,495 in 2010	6,000,988	7,314,719
Receivable - City of New Haven (Note 3)	833,150	830,146
Other current assets	25,898	35,189
<b>Total current assets</b>	<b>26,770,180</b>	<b>23,983,968</b>
Capital Assets (Note 4)	163,806,929	151,046,664
Less accumulated depreciation	19,556,179	15,188,595
	<b>144,250,750</b>	<b>135,858,069</b>
Non-Current Receivable - City of New Haven (Note 3)	7,167,299	7,967,451
Restricted Assets (Note 5)	9,585,982	11,922,736
Debt Issuance Costs, less accumulated amortization of \$535,296 in 2011 and \$422,457 in 2010	1,749,711	1,862,550
<b>Total assets</b>	<b>189,523,922</b>	<b>181,594,774</b>
<b>LIABILITIES</b>		
Current Liabilities		
Current portion of long-term debt (Note 6)	9,978,446	7,587,345
Accounts payable	3,011,459	3,556,082
Accrued interest	1,174,984	1,101,785
Accrued expenses	819,827	732,457
<b>Total current liabilities</b>	<b>14,984,716</b>	<b>12,977,669</b>
Long-Term Debt, less current portion (Note 6)	128,700,843	133,723,051
<b>Total liabilities</b>	<b>143,685,559</b>	<b>146,700,720</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	37,145,553	29,953,276
Restricted:		
Rate stabilization	-	974,324
Debt service	1,882,550	1,867,948
Escrow	66,500	66,500
Unrestricted	6,743,760	2,032,006
<b>Total net assets</b>	<b>\$ 45,838,363</b>	<b>\$ 34,894,054</b>

See Notes to Financial Statements.

GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES  
AND CHANGES IN NET ASSETS

Years Ended June 30, 2011 and 2010

	2011	2010
<b>Operating Revenues</b>		
Residential	\$ 19,453,696	\$ 17,925,318
Commercial and industrial	7,512,317	6,786,635
Municipal	1,175,950	1,127,336
Delinquent interest and lien fees	1,126,365	801,507
Outside sludge disposal	1,070,941	790,416
Other	2,686,277	3,078,577
Provision for bad debts	864,403	(1,044,614)
<b>Total operating revenues</b>	<b>33,889,949</b>	<b>29,465,175</b>
<b>Operating Expenses</b>		
Operation and maintenance (Notes 8, 9 and 10)	19,445,135	19,721,500
Depreciation	4,376,673	3,990,933
<b>Total operating expenses</b>	<b>23,821,808</b>	<b>23,712,433</b>
<b>Operating income</b>	<b>10,068,141</b>	<b>5,752,742</b>
<b>Nonoperating Income (Expense)</b>		
Other income	167,016	184,152
Interest income	280,074	293,192
Interest expense (Note 7)	(5,295,180)	(5,224,840)
<b>Total nonoperating income (expense)</b>	<b>(4,848,090)</b>	<b>(4,747,496)</b>
<b>Income before capital contributions</b>	<b>5,220,051</b>	<b>1,005,246</b>
Capital contributions	5,724,258	2,199,409
<b>Change in net assets</b>	<b>10,944,309</b>	<b>3,204,655</b>
<b>Net Assets, beginning</b>	<b>34,894,054</b>	<b>31,689,399</b>
<b>Net Assets, ending</b>	<b>\$ 45,838,363</b>	<b>\$ 34,894,054</b>

See Notes to Financial Statements.

GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010

	2011	2010
<b>Cash Flows From Operating Activities</b>		
Receipts from customers and users	\$ 36,000,828	\$ 28,135,577
Payments to suppliers	(16,143,048)	(15,119,630)
Payments to employees	(3,750,048)	(3,593,830)
<b>Net cash provided by operating activities</b>	<b>16,107,732</b>	<b>9,422,117</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from notes payable	2,301,975	1,305,479
Principal payments on debt	(4,675,380)	(4,446,856)
Bond issuance costs and discounts	112,839	114,196
Interest paid on debt	(5,479,683)	(5,498,087)
Proceeds received from capital contributions	2,061,687	1,243,634
Acquisition and construction of capital assets	(9,106,784)	(7,321,857)
<b>Net cash (used in) capital and related financing activities</b>	<b>(14,785,346)</b>	<b>(14,603,491)</b>
<b>Cash Flows From Non-Capital Activities</b>		
Other income	167,016	184,152
<b>Cash Flows From Investing Activities</b>		
Interest received	280,074	293,192
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,769,476</b>	<b>(4,704,030)</b>
<b>Cash and Cash Equivalents</b>		
Beginning	27,726,650	32,430,680
Ending	\$ 29,496,126	\$ 27,726,650
Reported on Statement of Net Assets as follows:		
Unrestricted cash and cash equivalents	\$ 19,910,144	\$ 15,803,914
Restricted cash and cash equivalents	\$ 9,585,982	\$ 11,922,736
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 10,068,141	\$ 5,752,742
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,376,673	3,990,933
Provision for bad debts	(864,403)	1,044,614
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	2,975,282	(2,374,212)
Decrease (increase) in other assets	9,291	(1,106)
Decrease in accounts payable	(544,622)	886,098
Increase in accrued expenses	87,370	123,048
<b>Net cash provided by operating activities</b>	<b>\$ 16,107,732</b>	<b>\$ 9,422,117</b>
<b>Noncash Investing, Capital and Financing Activities</b>		
Contributed capital assets from the State of Connecticut	\$ 3,662,571	\$ 955,775
Conversion of interim obligation to permanent	\$ -	\$ 3,545,063

See Notes to Financial Statements.

# GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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### Note 1. Reporting Entity and Summary of Significant Accounting Policies

#### Reporting entity

The Greater New Haven Water Pollution Control Authority (the "GNHWPCA") was organized in 2005 as a political subdivision of the State, established and created for the performance of an essential public and governmental function. It was created as a regional water pollution control authority under Connecticut Public Act 95-329, subsequently enacted as Title 22a, Sections 500 to 519 of the Connecticut General Statutes, as amended (the "Act"). The GNHWPCA was created pursuant to the Act by concurrent ordinances of the City of New Haven and the Towns of Hamden, East Haven and Woodbridge (the "Constituent Municipalities"). Under the Act, the GNHWPCA is empowered to purchase, own and operate a public sewer system; to levy assessments and sewer use fees; to place liens on real estate to secure such assessments; and to issue revenue bonds. The GNHWPCA is also eligible for grants and loans under the State of Connecticut Clean Water Fund ("CWF") program. Under the by-laws of the GNHWPCA, a governing Board of Directors comprised of representatives of the Constituent Municipalities was established.

Accounting principles require that the reporting entity include organizations for which the nature and significance of their relationship with the primary entity are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This criteria has been considered and as a result, there are no agencies or entities that should be, but are not, combined with the financial statements of the GNHWPCA.

In 2005, the GNHWPCA entered into an Asset Purchase Agreement with the Constituent Municipalities. Under the agreement, the Authority acquired ownership of their wastewater system assets and assumed certain obligations of the Constituent Municipalities.

Significant accounting policies are as follows:

#### Basis of accounting

The GNHWPCA utilizes the accrual basis of accounting, as required of proprietary funds under generally accepted accounting principles, under which revenues are recognized when earned and expenses are recognized when incurred.

#### Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and cash equivalents

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

# GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY

## NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011 and 2010

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### Accounts receivable

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

### Capital assets

Property, plant and equipment are stated at cost when purchased and fair value when contributed. Normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Assets being constructed over a period of time are classified as construction in progress. No depreciation is computed on these assets until they are complete and placed into service. Property, plant and equipment are depreciated utilizing the following estimated useful lives:

	<u>Years</u>
Land improvements	15-50
Buildings	40
Equipment	5-20
Sewer lines	10-50
Vehicles	5

GNHWPCA capitalizes interest during the period of construction.

### Debt issuance costs and bond premium

Costs incurred in connection with issuance of long-term debt, consisting primarily of legal fees, as well as bond premium, have been deferred and are being amortized over the life of the related debt.

### Net assets

Net assets are classified in the following categories:

*Invested in capital assets, net of related debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balance of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

*Restricted net assets* - This category represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* - This category represents the amount not restricted for any project or other purpose.

### Revenues

Revenues are based on the GNHWPCA authorized minimum charges and rates per hundred cubic feet applied to customer consumption of water. Revenues are recognized when utility services are provided.

## GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011 and 2010

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The GNHWPCA bills customers based on actual water consumption used during the period from April 1 through March 31 of the previous year, with an adjustment for seasonal use for residential customers who use less than 300 CCF's per year.

Interest is levied on accounts that are 30 days past due. The GNHWPCA has the authority to file liens on past due accounts.

#### Operating revenues and expenses

The GNHWPCA distinguishes operating revenues and expenses from non-operating. Operating revenues result from charges to customers for wastewater disposal and related services. Operating expenses include the cost of operations, maintenance, sales and service, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as non-operating or capital contributions.

#### Capital Contributions

Capital contributions are recognized when eligibility requirements are met. Capital contributions consist principally of grant funding received under the State of Connecticut's Clean Water Fund Program, contributions received from the City of New Haven under a cost sharing agreement for Clean Water Fund projects and contributions received from the State of Connecticut Department of Transportation for costs incurred to move infrastructure.

#### Compensated absences

Under the terms of two collective bargaining agreements, employees are awarded vacation on January 1 of each year based on years of service, and can accumulate up to 40 days of unused vacation. Employees are also allowed sick leave, which is earned monthly, and can accumulate up to 150 days. Upon termination of employment without eligibility for retirement, each employee is paid for unused vacation. Retiring employees are paid for 100 percent of their unused vacation and unused sick leave up to 90 days.

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

#### Proprietary fund accounting

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

## GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY

### NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2011 and 2010

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#### Note 2. Cash, Cash Equivalents and Investments

Deposits: The GNHWPCA does not have a formal custodial credit risk policy for deposits; therefore, the GNHWPCA follows the State of Connecticut statutes, which allow deposits that can include demand and savings accounts and certificates of deposits. The GNHWPCA's custodial credit risk policy for deposits follows the State of Connecticut requirement that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio.

Investments: The GNHWPCA does not have a formal credit risk policy for investments; however, the GNHWPCA adheres to State of Connecticut statutes which, in general, allows the GNHWPCA to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service.

Investments in Guaranteed Investment Contracts are recorded at cost, which approximate fair value.

Interest Rate Risk: The GNHWPCA does not have a policy for interest rate risk. This is the risk that changes in market interest rates will adversely affect the fair value of the investment. Generally, the longer the maturity of the investment, the greater the sensitivity of its fair value to changes in market interest rates. The guaranteed investment contract matures August 15, 2035.

Credit Risk: Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. The guaranteed investment contract is not rated.

Concentrations: The GNHWPCA's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over-concentration of assets in a specific issuer. The guaranteed investment contract is with one issuer.

#### Custodial Credit Risks

Deposits: The GNHWPCA is subject to custodial credit risk. This is the risk that, in the event of failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. At June 30, 2011 and 2010, \$22,836,428 and \$21,155,790 of the GNHWPCA's bank balance of \$23,886,428 and \$22,155,790 was uninsured and uncollateralized.

Investments: This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, an entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

**GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2011 and 2010**

A summary of balances as of June 30, 2011 and 2010 consist of the following:

	2011		
	Unrestricted	Restricted	Total
Deposits	\$ 19,910,144	\$ 3,689,482	\$ 23,599,626
Guaranteed Investment Contract	-	5,896,500	5,896,500
	<u>\$ 19,910,144</u>	<u>\$ 9,585,982</u>	<u>\$ 29,496,126</u>

	2010		
	Unrestricted	Restricted	Total
Deposits	\$ 15,803,914	\$ 6,026,236	\$ 21,830,150
Guaranteed Investment Contract	-	5,896,500	5,896,500
	<u>\$ 15,803,914</u>	<u>\$ 11,922,736</u>	<u>\$ 27,726,650</u>

**Note 3. Receivable – City of New Haven**

The Authority has a receivable from the City of New Haven with respect to a cost sharing agreement entered into in conjunction with the State of Connecticut's Clean Water Fund Program for sewer separation projects. Under the terms of the cost sharing agreement, the City of New Haven agreed to reimburse the GNHWPCA for 40% of the debt service costs associated with the funding received. Included in the balance at June 30, 2011, are certain outstanding obligations assumed pursuant to the Asset Purchase Agreement. The terms associated with this receivable mirror the underlying terms of the Clean Water Fund obligations of the GNHWPCA. The City of New Haven made principal payments of \$830,146 and \$853,247 during the years ended June 30, 2011 and 2010, respectively.

**GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2011 and 2010**

**Note 4. Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	2011				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Capital assets, not being depreciated:					
Land	\$ 2,578,488	\$ -	\$ -	\$ -	\$ 2,578,488
Construction in progress	5,716,833	6,968,466	(4,396)	(3,593,810)	9,087,093
Total capital assets, not being depreciated	8,295,321	6,968,466	(4,396)	(3,593,810)	11,665,581
Capital assets, being depreciated:					
Buildings and improvements	39,334,268	127,230	-	7,356	39,468,854
Machinery and equipment	16,525,377	711,454	-	951,866	18,188,697
Furniture and fixtures	899,078	87,936	-	1,160,618	2,147,632
Infrastructure	85,304,980	4,867,164	-	1,473,970	91,646,114
Vehicles	687,640	11,500	(9,089)	-	690,051
Total capital assets, being depreciated	142,751,343	5,805,284	(9,089)	3,593,810	152,141,348
Less accumulated depreciation for:					
Buildings and improvements	6,051,639	1,315,911	-	-	7,367,550
Machinery and equipment	2,187,167	882,762	-	-	3,069,929
Furniture and fixtures	429,863	289,321	-	-	719,184
Infrastructure	6,346,077	1,832,922	-	-	8,178,999
Vehicles	173,849	55,757	(9,089)	-	220,517
Total accumulated depreciation	15,188,595	4,376,673	(9,089)	-	19,556,179
Total capital assets, being depreciated, net	127,562,748	1,428,611	-	3,593,810	132,585,169
Total capital assets, net	\$ 135,858,069	\$ 8,397,077	\$ (4,396)	\$ -	\$ 144,250,750

**GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2011 and 2010**

Capital assets activity for the year ended June 30, 2010 was as follows:

	2010				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Capital assets, not being depreciated:					
Land	\$ 2,578,488	\$ -	\$ -	\$ -	\$ 2,578,488
Construction in progress	10,978,476	6,991,019	(101,074)	(12,151,588)	5,716,833
Total capital assets, not being depreciated	13,556,964	6,991,019	(101,074)	(12,151,588)	8,295,321
Capital assets, being depreciated:					
Buildings and improvements	38,272,458	14,067	-	1,047,743	39,334,268
Machinery and equipment	10,036,030	374,010	-	6,115,337	16,525,377
Furniture and fixtures	776,313	84,482	-	38,283	899,078
Infrastructure	79,515,124	839,631	-	4,950,225	85,304,980
Vehicles	612,146	75,494	-	-	687,640
Total capital assets, being depreciated	129,212,071	1,387,684	-	12,151,588	142,751,343
Less accumulated depreciation for:					
Buildings and improvements	4,740,222	1,311,417	-	-	6,051,639
Machinery and equipment	1,387,571	799,596	-	-	2,187,167
Furniture and fixtures	313,717	116,146	-	-	429,863
Infrastructure	4,639,977	1,706,100	-	-	6,346,077
Vehicles	116,176	57,673	-	-	173,849
Total accumulated depreciation	11,197,663	3,990,932	-	-	15,188,595
Total capital assets, being depreciated, net	118,014,408	(2,603,248)	-	12,151,588	127,562,748
Total capital assets, net	\$ 131,571,372	\$ 4,387,771	\$ (101,074)	\$ -	\$ 135,858,069

The State of Connecticut Department of Transportation contributed \$3,662,571 and \$955,775 in infrastructure required for various State sponsored construction at June 30, 2011 and 2010, respectively. Included in construction in progress is \$189,590 and \$339,374 of capitalized interest at June 30, 2011 and 2010, respectively.

**Note 5. Restricted Assets**

Pursuant to the 2005 Series A Bond Indenture and the Asset Purchase Agreement, and the 2008 Series A Bond Indenture, as well as certain legal settlements, certain funds are required to be maintained for purposes specified in the applicable agreement.

**GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2011 and 2010**

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At June 30, 2011 and 2010, GNHWPCA's restricted assets were being maintained for the following purposes:

	<u>2011</u>	<u>2010</u>
Debt service reserve fund	<b>\$ 7,636,932</b>	\$ 7,636,868
Debt service fund	<b>1,882,550</b>	1,867,948
Construction fund	-	1,377,096
Maintenance escrow	<b>66,500</b>	66,500
Rate stabilization for New Haven residents	-	974,324
	<b><u>\$ 9,585,982</u></b>	<b><u>\$ 11,922,736</u></b>

**Note 6. Long-Term Debt**

Long-Term debt consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
<b><u>2005 Series A Revenue Bonds</u></b>		
\$44,895,000 Serial Bonds, issued August 2005, interest payable semi-annually at 3.25% - 5.0%, due in annual principal amounts, beginning in 2007, of \$1,580,000 to \$3,485,000, through 2025.	<b>\$ 38,245,000</b>	\$ 39,990,000
\$20,310,000 Term Bonds, issued August 2005, interest payable semi-annually at 5.0%, due November 15, 2030.	<b>20,310,000</b>	20,310,000
\$26,085,000 Term Bonds, issued August 2005, interest payable semi-annually at 5.0%, due August 15, 2035.	<b>26,085,000</b>	26,085,000
<b><u>2008 Series A Revenue Bonds</u></b>		
\$7,185,000 Serial Bonds, issued March 2008, interest payable semi-annually at 4.0%-5.0%, due in annual principal amounts, beginning in 2010, of \$355,000 to \$635,000.	<b>6,830,000</b>	7,185,000
\$2,860,000 Term Bonds, issued March 2008, interest payable semi-annually at 4.75%, due November 15, 2028.	<b>2,860,000</b>	2,860,000
\$8,930,000 Term Bond, issued March 2008, interest payable semi-annually at 5.00%, due November 15, 2037.	<b>8,930,000</b>	8,930,000

**GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b><u>2008 Series B Revenue Bonds</u></b>		
\$2,500,000 Term Bonds, issued April 2008, interest payable quarterly at 3.3% - 5.73%, due in annual principal amounts, beginning December 2008, of \$166,667, through December 2022.	<b>2,000,000</b>	2,166,666
<b><u>Notes Payable and Other</u></b>		
State of Connecticut Clean Water Fund obligation, due in monthly principal amounts of \$32,000 to \$146,000, plus interest at 2%, through 2026(A).	<b>20,831,455</b>	23,074,133
State of Connecticut Clean Water Fund obligation, due in annual principal payment amounts of 169,000 to 233,000, plus interest at 2%, through 2029 (A)	<b>3,493,529</b>	3,659,565
State of Connecticut Clean Water Fund Interim obligation, bearing interest at 2% (A).	<b>5,213,941</b>	2,911,966
Total long-term debt	<b>134,798,925</b>	137,172,330
Unamortized bond:		
Premium	<b>4,040,354</b>	4,307,700
Discount	<b>(159,990)</b>	(169,634)
	<b>138,679,289</b>	141,310,396
Less current portion	<b>9,978,446</b>	7,587,345
	<b>\$ 128,700,843</b>	<b>\$ 133,723,051</b>

(A) Pursuant to the Asset Purchase Agreement, the GNHWPCA assumed outstanding obligations in connection with the State of Connecticut's Clean Water Fund Program for sewer separation projects. Additionally, the GNHWPCA entered into a cost sharing agreement with the City of New Haven with respect to Clean Water Fund Program obligations issued to the GNHWPCA.

The Series A 2005 Revenue Bonds are subject to mandatory sinking fund redemption requirements prior to maturity at a redemption price equal to the principal amount plus accrued interest to the date upon which the redemption takes place. For purposes of the \$20,310,000 and \$26,085,000 Term Bonds, the annual date of redemption begins on November 15, 2026 and August 31, 2031, respectively. Mandatory sinking fund redemption requirements range from \$3,665,000 to \$5,750,000.

The Series A 2008 Revenue Bonds are subject to mandatory sinking fund redemption requirements prior to maturity at a redemption price equal to the principal amount plus accrued interest to the date upon which this redemption takes place. For purposes of the \$2,860,000 and \$8,930,000 Term Bonds, the annual date of redemption begins on November 15, 2025 and November 15, 2029, respectively. Mandatory sinking fund redemption requirements range from \$665,000 to \$1,200,000.

Additionally, both the 2005 and 2008 bond indentures contain certain restrictive and financial covenants, including a rate covenant which requires the GNHWPCA to set rates to provide for 100% of operating expenses and a Debt Service Coverage ratio of 115%.

**GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2011 and 2010**

The annual debt service requirements on the above debt at June 30, 2011, are as follows:

	Principal	Interest	Total
2012	\$ 9,978,446	\$ 5,432,388	\$ 15,410,834
2013	4,459,720	5,292,286	9,752,006
2014	4,552,424	5,151,902	9,704,326
2015	4,624,020	5,007,335	9,631,355
2016	4,722,802	4,843,505	9,566,307
2017-2021	23,617,337	21,681,035	45,298,372
2022-2026	24,763,828	17,023,554	41,787,382
2027-2031	24,715,348	11,486,349	36,201,697
2032-2036	31,020,000	4,618,750	35,638,750
2037-2041	2,345,000	118,625	2,463,625
	<u>\$ 134,798,925</u>	<u>\$ 80,655,729</u>	<u>\$ 215,454,654</u>

Long-term liability activity for the year ended June 30, 2011 and 2010 was as follows:

	2011				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue obligation bonds	\$ 107,526,665	\$ -	\$ 2,266,665	\$ 105,260,000	\$ 2,341,667
Notes payable	26,733,699	-	2,408,715	24,324,984	2,422,839
Interim obligations	2,911,966	2,301,975	-	5,213,941	5,213,940
<b>Total long-term liabilities</b>	<u>\$ 137,172,330</u>	<u>\$ 2,301,975</u>	<u>\$ 4,675,380</u>	<u>\$ 134,798,925</u>	<u>\$ 9,978,446</u>

  

	2010				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue obligation bonds	\$ 109,383,333	\$ -	\$ 1,856,668	\$ 107,526,665	\$ 2,266,667
Notes payable	25,371,364	3,952,524	2,590,189	26,733,699	2,408,712
Interim obligations	5,559,011	898,018	3,545,063	2,911,966	2,911,966
<b>Total long-term liabilities</b>	<u>\$ 140,313,708</u>	<u>\$ 4,850,542</u>	<u>\$ 7,991,920</u>	<u>\$ 137,172,330</u>	<u>\$ 7,587,345</u>

## GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011 and 2010

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#### **Note 7. Interest Cost**

The total interest cost incurred during the years ended June 30, 2011 and 2010 was \$5,629,634 and \$5,626,554, of which \$334,454 and \$339,374 were capitalized as part of the cost of various capital projects and offset by amortization of debt issuance costs and bond premiums, respectively.

#### **Note 8. Risk Management**

The GNHWPCA maintains commercial insurance for various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claims have not exceeded coverage amounts in the last three fiscal years.

#### **Note 9. Retirement Plan**

The GNHWPCA employees participate in the Connecticut Municipal Employees' Retirement System (MERS). MERS is the administrator of a cost-sharing, multiple employer public employee retirement system (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide pension benefits for the employees of participating municipalities. MERS is considered to be a part of the State of Connecticut's financial reporting entity and is included in the State's financial reports as a pension trust fund. The Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the State of Connecticut Retirement and Benefit Services Division, Office of the State Controller, 55 Elm Street, Hartford, CT 06106.

Plan provisions are set by Statute of the State of Connecticut. MERS provides retirement benefits, as well as death and disability benefits. Annual cost of living increases between 3% and 5% are paid to disabled members and nondisabled retired members who have reached age 65. Effective January 1, 2002, all other retired members will receive a 2.5% annual adjustment until age 65, at which point they will receive the same cost of living adjustment as those currently age 65. For those retiring after December 31, 2001, annual cost of living increases will be between 2.5% and 6.0%. All benefits vest after 5 years of continuous service or 15 years of aggregate service. Vested members who retire after age 55 or after 25 years of service, irrespective of age, are entitled to an annual retirement benefit, payable monthly for life, in an amount for each year of service equal to:

- If not covered by Social Security: 2% of the average of earnings for the three highest paid years of service.
- If covered by Social Security: 1-1/2% of the three-year average of earnings not in excess of the year's breakpoint, plus 2% of the three-year average of earnings in excess of the year's breakpoint.

Covered employees are required by State Statute to contribute 2-1/4% of earnings upon which Social Security tax is paid, plus 5% earnings on which no Social Security tax is paid. Each participating municipality is required to contribute the amounts necessary to finance the remaining costs of the plan. Employees not covered by social security are required to contribute 5% of all earnings.

The GNHWPCA's required and actual contributions for the years ended June 30, 2011, 2010 and 2009 were \$298,471, \$242,292 and \$218,740, respectively.

## GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY

### NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011 and 2010

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#### **Note 10. Commitments and Contingencies**

The GNHWPCA is a defendant in various litigation, principally involving property damage and other miscellaneous claims. Based upon the advice of legal counsel, management believes that the ultimate resolution of these matters will not have a material adverse effect on the financial condition or the results of operations of the GNHWPCA.

In September 2011, the GNHWPCA settled a lawsuit in which it will receive cash awards of \$1,058,000.

The GNHWPCA has a long-term agreement, which commenced January 1999 and expires January 2014, with a private company under which the company has assumed the day-to-day management of its treatment plant, pump stations and sewer collection system while the GNHWPCA retained its billing and customer relations responsibilities. The GNHWPCA paid the company an operation and maintenance fee totaling \$5,043,884 and \$4,919,358 for the years ended June 30, 2011 and 2010, respectively. The operation and maintenance fee for each of the remaining years of the agreement will approximate \$4,000,000, adjusted for changes in the consumer price index. The GNHWPCA can terminate the above agreement without cause, but must pay the company \$1,000,000 if terminated in the fifth year, reduced pro rata for each year thereafter, plus the book value of unreimbursed capital costs and the costs to demobilize its management team. If the company terminates the agreement due to default by the GNHWPCA, it will be paid \$2,000,000 if terminated in the first year, reduced pro rata for each year thereafter.

The GNHWPCA has an agreement with an independent sewage treatment company, which commenced August 1995 and expires September 2014, for sludge disposal. The agreement is for upgrading and operating the GNHWPCA's incinerator facility as well as for current sludge disposal. The term of the agreement is for twenty years. The agreement calls for on-site incineration at a cost of approximately \$2.8 million per year. In the event the agreement is terminated early, the GNHWPCA must pay for the remaining unamortized balance of the capital costs incurred by the company to make the facility operational. This balance is calculated using straight-line amortization over the remaining term of the agreement with the total capital costs not to exceed \$3.3 million. In the event the agreement is terminated within five years of receiving the permit, the GNHWPCA must also reimburse the company for its lost profit over the remaining term. The GNHWPCA currently has no plans to terminate the agreement early.

At June 30, 2011, the GNHWPCA has approximately \$628,000 of unbilled, ongoing contracts for construction and improvements of its sewer systems. Funding for these projects is primarily being provided by the State of Connecticut's Clean Water Fund in the form of loans and grants and through excess revenue bond proceeds.

#### **Note 11. Pronouncements Issued, Not Yet Effective**

The GASB issued pronouncements prior to June 30, 2011 that have an effective date that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following Statements may have on the financial statements of GNHWPCA:

- **GASB Statement 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans**, was issued in December 2009. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). This Statement amends Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, to permit certain OPEB plans to use an alternative measurement method. Consistent

## GREATER NEW HAVEN WATER POLLUTION CONTROL AUTHORITY

### NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2011 and 2010

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with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, requirement that a defined benefit OPEB plan obtain an actuarial valuation. In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The provisions of this Statement will be effective for GNHWPCHA beginning with its year ending June 30, 2012.

- **GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements***, was issued in November 2010. The objective of this Statement is to provide accounting and financial reporting guidance by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The provisions of this Statement will be effective for GNHWPCHA beginning with its year ending June 30, 2013.
- **GASB Statement 61, *Financial Reporting Entity: Omnibus***, was issued in November 2010. This Statement amends Statement 14, The Financial Reporting Entity, as well as Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The primary purpose of this Statement is to improve financial reporting for governmental entities. The provisions of this Statement will be effective for GNHWPCHA beginning with its year ending June 30, 2013.
- **GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements***, was issued in December 2010. The objective of this Statement is to incorporate into the GASB's authoritative literature certain additional accounting and financial reporting guidance that was issued before November 30, 1989. The provisions of this Statement will be effective for GNHWPCHA beginning with its year ending June 30, 2013.
- **GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of this Statement will be effective for GNHWPCHA beginning with its year ending June 30, 2013. Earlier application is encouraged.
- **GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*** (an amendment of GASB Statement No. 53), issued July 2011, will be effective for the GNHWPCHA beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectability of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements of the GNHWPCHA beginning with its year ending June 30, 2012. Earlier application is encouraged.