

Housatonic Resources Recovery Authority

**Audited Financial Statements with Report
of Independent Certified Public Accountants**

Year Ended June 30, 2010

Housatonic Resources Recovery Authority

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June 30, 2010

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Report of Independent Certified Public Accountants

The Members of the Board
Housatonic Resources Recovery Authority
Brookfield, Connecticut

We have audited the accompanying basic financial statements of the governmental activities and major fund of the Housatonic Resources Recovery Authority (the "Authority") as of and for the year ended June 30, 2010, which comprises the Authority's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule as listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, 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.

Nanavaty, Nanavaty & Davenport, LLP

November 15, 2010

Management's Discussion and Analysis

Housatonic Resource Recovery Authority Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of the Housatonic Resource Recovery Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the Authority's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- As a result of the operations the Authority's net assets increased by \$302,492 in 2010 compared to an increase of \$60,607 in 2009.
- The total cost of the Authority's programs and administration was \$288,765 and \$351,692 for 2010 and 2009, respectively.
- During fiscal year 2010, the Authority's revenues from program and administrative fees increased from the prior year by \$76,902 to \$363,243 as a result of increased market prices for recycled commodities.
- During fiscal year 2010, the Authority recognized a special revenue item of \$95,841 related to recovery of disputed claims against RTI.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 10 and 11) provide information about the activities of the Authority as a whole and represent a longer-term view of the Authority's finances. Fund financial statements start on page 12. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide statements by providing line item expense information about the Authority's general fund.

The Statement of Net Assets and the Statement of Activities

Our analysis of the Authority as a whole begins on page 10. One of the most important questions asked about the Authority's finances is "Is the Authority better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities report the Authority's net assets and changes in them. You can think of the Authority's net assets as the difference between assets (what the Authority owns), and liabilities (what the Authority owes), as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the technology related to the disposal of municipal solid waste and recycled materials, as well as changes in tonnage in the local towns, the condition of the Authority's capital asset, as well as the continued support of the regional towns, to assess the overall financial health of the Authority.

**Housatonic Resource Recovery Authority
Management's Discussion and Analysis (Unaudited)**

USING THIS ANNUAL REPORT (continued)

Reporting the Authority's Fund Financial Statements

The Authority uses governmental funds to report its operations. The fund financial statements begin on page 12. The Authority's only governmental fund is the general fund.

Governmental funds: the basic services that the Authority provides are reported in the governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that is available for spending. The governmental fund statements provide a detailed short-term view of the Authority's general governmental operations and the basic services that it provides. The information presented in the governmental fund helps readers determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. The governmental activities presented in the Statement of Net Assets and the Statement of Activities is reconciled to the governmental funds in the Balance Sheet of the general fund.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 14-21 of this report.

Supplemental Information: In addition to the basic financial statements and accompanying notes, this report also presents a Budgetary Comparison Schedule for the General Fund that can be found on pages 22-23 of this report.

FINANCIAL ANALYSIS OF THE AUTHORITY

The following tables and exhibits present condensed information about the Authority's net assets, revenues and expenses for fiscal year 2010 compared to 2009:

	As of June 30,	
	2010	2009
Current assets	\$ 676,644	\$ 369,878
Current liabilities	41,680	37,406
Net Assets - unrestricted	<u>\$ 634,964</u>	<u>\$ 332,472</u>

Net assets of the governmental activities increased by \$302,492 in 2010 compared to \$60,607 in 2009. The increase in unrestricted net assets in 2010 was the result of increases in revenues from the recycling and municipal solid waste fees, a special revenue item in the amount of \$95,841, and expenses below budgeted expectations. Table 2 on the following page summarizes the change in net assets for the year.

**Housatonic Resource Recovery Authority
Management's Discussion and Analysis (Unaudited)**

FINANCIAL ANALYSIS OF THE AUTHORITY (continued)

Table 2

As of June 30,

2010 2009

Revenues

Program revenues:

Charges for services - user fees	\$ 385,108	\$ 286,341
Operating grants and reimbursements	105,070	122,410
	490,178	408,751

General revenues:

Investment earnings	5,238	3,548
Special item – recovery of disputed claims	95,841	-
Total revenues	591,257	412,299

Program expenses

Public works	288,765	351,692
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Increase in net assets

302,492 60,607

Net assets (unrestricted) – beginning

332,472 271,865

Net assets (unrestricted) – ending

\$ 634,964 \$ 332,472

Governmental Activities and General Fund

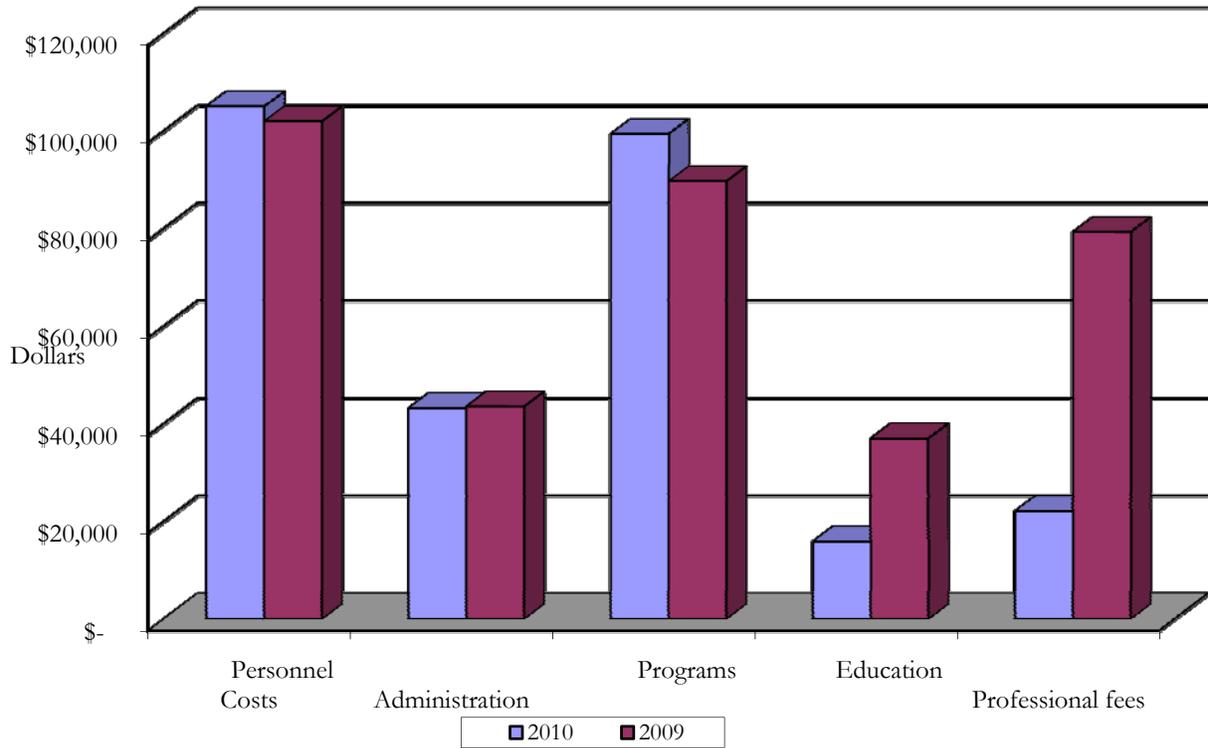
All of the Authority's operations are accounted for as Governmental Activities. Total revenues increased for the year ended June 30, 2010 from 2009 by 43% due to increases in revenues from recycling and municipal solid waste fees, and the special item – recovery of disputed claims with RTI of \$95,841. Total costs of governmental activities decreased for the year ended June 30, 2010 from 2009 as a result of decreases of approximately \$78,000 in education and professional services, offset by an increase in Household Hazardous Waste Day expenses of \$19,000. Staffing includes the Director's salary, health insurance, payroll taxes and pension contribution.

Total revenues and expenditures in the General Fund were equal to the total revenues in the Statement of Activities.

**Housatonic Resource Recovery Authority
Management's Discussion and Analysis (Unaudited)**

FINANCIAL ANALYSIS OF THE AUTHORITY (continued)

Comparison of Expenses



General Fund Budgetary Highlights

Table 3 summarizes the changes in the budget and shows a comparison with the actual results.

Table 3

	Original Budget	Final Budget	Actual	Variance
Revenues				
Program revenues:				
Charges for services - user fees	\$ 295,705	\$ 295,705	\$ 385,108	\$ 89,403
Operating grants and reimbursements	123,300	123,300	105,070	(18,230)
	419,005	419,005	490,178	71,173
General revenues:				
Investment earnings	5,500	5,500	5,238	(262)
Special item	-	-	95,841	95,841
Total revenues	424,505	424,505	591,257	166,752
Program expenses				
Public works	369,275	369,275	288,765	80,510
Increase in net assets	\$ 55,230	\$ 55,230	\$ 302,492	\$ 247,262

**Housatonic Resource Recovery Authority
Management's Discussion and Analysis (Unaudited)**

FINANCIAL ANALYSIS OF THE AUTHORITY (continued)

Over the course of the year ended June 30, 2010 the Authority made one amendment to the general fund budget. The amendment consisted of a line item transfer within the established budget. Overall, actual expenditures were below budget by approximately \$80,510 for the year ended June 30, 2010.

Financial Ratios

The following financial ratios should be used to assess the financial stability of the Authority's Governmental Activities over an extended period of time. These ratios can indicate trends that the Authority administrators and its citizens may need to consider as they establish future budgets and set program and administrative fees.

	2010	2009	2008	2007	2006
Working Capital	\$ 635,000	\$ 332,500	\$ 271,800	\$ 265,700	\$ 209,100
Current Ratio	16.2	10.0	17.9	10.9	19.2

“Working Capital” is the amount by which current assets exceed current liabilities at a point in time. The “Current Ratio” which compares current assets to current liabilities, is an indicator of the ability to pay current obligations at a point in time. A ratio greater than 1 is a positive indicator.

	2010	2009	2008	2007	2006
Days in Operating Cash	772	336	279	375	319

“Days in Operating Cash” represents the number of days normal operations could continue with no future revenue collection. The ratios of Working Capital and Days in Cash demonstrate a continuing ability to finance operations with cash.

CAPITAL ASSETS

At June 30, 2010, the Authority had \$1,200,000 invested in capital assets consisting of recycling processing equipment. There were no additions or improvements made during the year to the recycling facility equipment. All capital assets are fully depreciated.

**Housatonic Resource Recovery Authority
Management's Discussion and Analysis (Unaudited)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Authority established a fiscal year 2010-11 budget that included approximately \$284,000 in revenues, \$390,000 in expenses, and \$106,000 from fund balance. The use of fund balance was anticipated and planned for in the prior fiscal year. Even with the use of fund balance, in 2010-11 the Authority will continue to meet its goal to maintain at least one year's operating expenses in fund balance.

While the price for recycled commodities, especially fiber, rebounded during the past year from its record-breaking plunge in October 2008, the Recycling Technologies, Inc. (RTI) contract lags behind the actual price paid for recycled commodities by at least twelve months. As a consequence the Authority will use all its recycling revenue sharing for 2010-11 plus an additional \$1.86 per ton subsidy paid to RTI to keep the recycling tip fee at \$39 per ton for FY 2010-11.

The Authority is negotiating to use another vendor, other than RTI, to process recyclables delivered to RTI for the remaining two years of the RTI contract. If that negotiation is successful, HRRRA's recycling revenue sharing would not lag the actual market prices for recyclable commodities, and HRRRA's revenue sharing could increase significantly in 2010-11. However, since those negotiations were not completed prior to the start of the fiscal year, anticipated revenue was conservatively budgeted for 2010-11. Revenue is budgeted 33% less in 2010-11 primarily due to the previously described uncertainty about recycling revenue sharing during the fiscal year, and also because municipal solid waste tonnage (MSW) continues to be diverted from the Danbury transfer station at the rate of about 10% per year thereby reducing HRRRA's program fee revenue from MSW.

Expenditures are anticipated to increase over the prior fiscal year by approximately 35% due to the tip fee subsidy the Authority will pay to RTI, increased pass through costs for member municipalities such as municipal hauler registration fees and household hazardous waste collections, and the addition of a part time employee for 15 hours per week starting in the second quarter of FY 2010-11.

Overall revenues and use of some of the fund balance are expected to be adequate to finance the current year operation.

Federal indictments of some solid waste haulers in the region as well as the owner of the Danbury transfer station and recycling intermediate processing center (RTI) in June of 2006 resulted in guilty pleas in 2008 for the transfer station owner and virtually all defendants in the case. The transfer station and RTI are now under the ownership and operation of the federal government, which has been in the process of auctioning off those assets for the last two years. The Authority continues to support the City of Danbury's ongoing efforts to obtain ownership of the transfer station assets by the Danbury Solid Waste Authority. Regardless of to whom the transfer station assets are eventually sold, HRRRA anticipates no significant negative budgetary impact from the sale during 2010-11.

**Housatonic Resource Recovery Authority
Management's Discussion and Analysis (Unaudited)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (continued)

During 2008-09 the HRRRA and the U.S. government entered into an agreement approved by the federal court stipulating to a list of RTI equipment that is owned by HRRRA as well as HRRRA's right to continue to hold the RTI performance bond through the end of the RTI contract. Thus the sale of RTI, when it occurs, will not negatively affect HRRRA's fixed assets.

In 2008-09 HRRRA entered into discussions with RTI to try to reach agreement on what the Authority claimed was a breach of the HRRRA/RTI Regional Recycling Center Service Agreement dated March 13, 1991 as amended February 5, 1992 and October 21, 1994. In 2009-10 HRRRA discovered that some recyclables contractually committed to RTI were diverted to Advanced Recycling Corporation (ARC) over the life of the contract thus depriving HRRRA of the program administration fee for such tonnage as well as the revenue sharing from the sale of such commodities. In addition, RTI had not provided a Marketing Plan acceptable to the Authority, the residue rate from RTI was higher than allowed by contract, glass processed by RTI did not meet the minimum quality standard set in the contract, and there were numerous other monetary and non-monetary breaches of the agreement.

During the 2009-10 FY the RTI contract dispute was not resolved successfully and RTI remained in breach of the agreement. Using public information provided by RTI and ARC, the Authority determined that the dollar value of the diversion of RTI tonnage over the last six years was at least \$200,000. In order to protect HRRRA's financial interests, in January 2010 HRRRA withdrew all of the funds earlier deposited by RTI in a security account as a performance guarantee in accordance with the Agreement, plus interest, for a total of \$95,841 and applied those funds as partial payment of its monetary losses. These funds are reported as a special item in the HRRRA Statement of Activities and the Statement of Revenues, Expenses and Changes in Fund Balance at June 30, 2010.

RTI management changed in early 2010 and HRRRA and the new Interim CEO, appointed by the U. S. Marshals Service, entered into discussions about possible options to resolve the contract issues, to provide increased recycling service to the public, and offer single stream recycling collection opportunities to all haulers in the region. HRRRA issued an RFP for single stream processing services for recycling delivered to RTI. If RTI becomes a recycling transfer facility, not a processing facility, that would resolve most of the RTI defaults.

At the start of the 2010-11 FY, the Authority continues its due diligence investigation of four proposals received for single stream recycling processing. HRRRA intends to choose a processor, negotiate a change to the RTI agreement for its remaining two years, and start to offer the option for single stream recycling collection to the region's haulers by the end of calendar 2010. The Authority's intentions are the same whether RTI is sold or not. If RTI is unwilling to negotiate such a change that is in the best interest of the public, that will resolve the company's continuing default of its agreement with HRRRA, then the Authority can consider termination of the RTI agreement and all other options provided in the agreement for instances of continuing uncured breaches of the agreement.

**Housatonic Resource Recovery Authority
Management's Discussion and Analysis (Unaudited)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (continued)

However this issue is resolved, the Authority anticipates that the budgeted expenditures for 2010-11 will be sufficient to cover the cost of any required legal or other professional services during the fiscal year.

Revenues for 2010-11 are based on a contracted MSW program fee of \$.69 per ton and no Recycling administrative fee for the year. In 2009-10 those fees were \$.62 per ton and \$28.56 per ton respectively. MSW tonnage delivered to the HRRA system during the first two quarters of the 2009-10 year were not adequate to provide the contracted MSW program fee, so it was increased 12% on January 1, 2010. MSW tonnage in 2009-10 fell again for a total decrease of 16% in the last three years. In 2006 MSW tonnage was approximately 149% of the guaranteed minimum annual tonnage in the Waste Supply and Disposal Agreement (WSDA). At the end of 2009-10 MSW tonnage coming into the HRRA system had fallen to 130% of the minimum annual guarantee. Two member municipalities, the Town of Brookfield and Town of Kent, were below their individual minimum tonnage guarantees, although they were protected from the put or pay provision of the WSDA by overages in other towns in the region. The decreases in MSW tonnage into the HRRA system is the result of intentional diversion of tonnage to non-HRRA transfer stations by a few haulers in the region. In 2010-11, the Authority will work aggressively with member municipalities to develop, support and implement strategies for each municipality and the region as a whole to stay above the minimum guarantee.

Recycling tonnage for the HRRA member municipalities in 2009-10 was at its all time peak at 8,245 tons for the year. The tonnage from non-HRRA Connecticut and New York municipalities using the recycling processing center fell dramatically as the transfer station owner's collection companies lost significant market share in New York state during the year, and at year end sold their New York collection routes to a company that will not be delivering recyclables to RTI in the future. Even so this has a limited effect on recycling revenue, since the Authority receives only \$1 per ton for recycling tonnage from other Connecticut and New York municipalities.

In 2009-10, revenue from the sale of recycled commodities at the regional recycling center, which fell dramatically in October 2008, recovered and came in at 115% of the prior year. The forecast for commodity prices, especially fiber, in 2010-11 is for the market to continue to slowly improve.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Housatonic Resource Recovery Authority, its member towns and cities and the citizens of those municipalities, with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact Cheryl D. Reedy, Director for the Authority, Old Town Hall, 162 Whisconier Road, Brookfield, Connecticut 06804.

Basic Financial Statements

Housatonic Resources Recovery Authority

Statement of Net Assets---Governmental Activities

As of June 30, 2010

Assets

Cash and cash equivalents	\$ 400,488
Investments	204,635
Accounts receivable	71,521
Capital assets (See Note 3)	-
Total assets	<u>\$ 676,644</u>

Liabilities

Accounts payable	\$ 40,779
Deferred revenues	901
Total liabilities	<u>41,680</u>

Net Assets:

Unrestricted	<u>634,964</u>
Total net assets	<u>634,964</u>
Total liabilities and net assets	<u>\$ 676,644</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

Statement of Activities---Governmental Activities

For the Year Ended June 30, 2010

Program Activities	Expenses	Program Revenues		Governmental Activities
		Charges for Services - User Fees	Operating Grants and Reimbursements	
Public works	\$ -	\$ 363,243	\$ 11,300	\$ 374,543
Staffing	105,082	-	-	(105,082)
Household Hazardous Waste Day	99,405	-	93,770	(5,635)
Education	15,920	-	-	(15,920)
Professional services	22,153	-	-	(22,153)
Municipal hauler registration reimbursement	21,865	21,865	-	-
Office expenses	9,173	-	-	(9,173)
Insurance	6,207	-	-	(6,207)
Audit	5,400	-	-	(5,400)
Miscellaneous	2,927	-	-	(2,927)
Travel/mileage reimbursement	633	-	-	(633)
Total governmental activities	<u>288,765</u>	<u>385,108</u>	<u>105,070</u>	<u>201,413</u>
		General revenues:		
			Investment earnings	5,238
			Special item - recovery of disputed claims	95,841
			Total general revenues and special item	<u>101,079</u>
			Change in net assets	302,492
			Net Assets---beginning	332,472
			Net Assets---ending	<u>\$ 634,964</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

Balance Sheet---Governmental Funds

As of June 30, 2010

	General Fund
Assets	
Cash and cash equivalents	\$ 400,488
Investments	204,635
Accounts receivable	71,521
Total assets	<u>\$ 676,644</u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 40,779
Prepaid hauler registrations	901
Total liabilities	<u>41,680</u>
Fund Balances:	
Unreserved and undesignated	634,964
Total fund balances	<u>634,964</u>
Total liabilities and fund balances	<u>\$ 676,644</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

**Statement of Revenues, Expenditures, and
Changes in Fund Balance---Governmental Funds**

For the Year Ended June 30, 2010

	General Fund
Revenues	
Charges for services - User fees	\$ 385,108
Intergovernmental	93,770
Investment earnings	5,238
Miscellaneous	11,300
Total revenues	<u>495,416</u>
Expenditures	
Current:	
Public works	
Staffing	105,082
Household Hazardous Waste Day	99,405
Education	15,920
Professional services	22,153
Municipal hauler registration reimbursement	21,865
Office expenses	9,173
Insurance	6,207
Audit	5,400
Miscellaneous	2,927
Travel/mileage reimbursement	633
Total general government	<u>288,765</u>
Excess of revenues over expenditures	<u>206,651</u>
Other Financing Sources	
Special item - recovery of disputed claims	95,841
Total other financing sources	<u>95,841</u>
Net change in fund balance	302,492
Fund balance--at beginning of year	332,472
Fund balance--at end of year	<u>\$ 634,964</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

Notes to Financial Statements

June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Housatonic Resources Recovery Authority (the "Authority") was created in July 1986 in accordance with the Connecticut General Statutes Chapter 103b, Municipal Resource Recovery Authorities. The Authority was established for the purpose of providing municipal solid waste and recycling management for the Housatonic Valley municipalities of Danbury, Bethel, Bridgewater, Brookfield, Kent, New Fairfield, New Milford, Newtown, Redding, Ridgefield and Sherman. The Authority, a jointly governed organization created by the Housatonic Valley municipalities, is a regional authority governed by an eleven-member board comprised of the Chief Elected Officials and other representatives of the member towns and their appointed alternates.

The accompanying statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities, and functions that comprise the Authority. Component units are legally separate entities for which the Authority (primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the Authority's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the Authority. Using these criteria, the Authority has no component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Authority.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset with program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to haulers, and program and administrative fees from municipal solid waste and recycling tip fees, and 2) operating grants and reimbursements from other governmental units as well as corporate grants for recycling education programs. Other items not included among program revenues are reported as general revenues. The major individual governmental fund of the Authority is the general fund and it has been reported as a separate column in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, under accrual accounting.

Revenues such as the per ton program and administrative fees paid by those collectors of municipal solid waste and recyclables within the HRRRA region who use any of the three MSW transfer stations and/or the recycling Intermediate Processing Center (“IPC”) associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the Authority receives the cash.

Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Authority uses only governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The Authority reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources of the Authority except those required to be accounted for in another fund. The general fund balance is available to the Authority for any purpose provided it is expended or transferred according to the By-Laws of the Authority.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, available means expected to be received within sixty days of the fiscal year-end.

Expenses/Expenditures

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All cash and cash equivalents are insured or collateralized with securities held by the pledging financial institution segregated from its other assets, in accordance with State Statutes.

Investments

The Authority invests excess cash in certificates of deposit with a local financial institution. The Authority classifies all deposit with original maturities greater than three months from the date of acquisition as investments for financial statement purposes.

Receivables

Receivables at June 30, 2010 consist of accounts receivable for Program and Administrative Fees. All accounts receivable are deemed collectible in full, and therefore no allowance for doubtful accounts exists.

Capital Assets and Depreciation

Capital assets consist of recycling facility equipment and are recorded at cost. Donated fixed assets, if any, are valued at estimated fair market value on the date donated. Depreciation of capital assets is computed and recorded by the straight-line method. The estimated useful life of the depreciable capital asset is 10-years. The cost of maintenance and repairs is not the Authority's responsibility by contract.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenues

The Authority reports unearned deferred revenues for any fiscal year 2010-11 hauler registration and municipal permit fees received in advance of July 1, 2010.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets, are capital assets less depreciation and related debt. Net assets are reported as restricted when there are legal limitations imposed on their use by Authority legislation or external restrictions by other governments, creditors, grantors, laws or regulations of other governments. Unrestricted net assets are all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated transactions and events that occurred through November 15, 2010, the date these financial statements were available to be issued, for recognition and/or disclosure in these financial statements.

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

The following is a summary of deposits at June 30, 2010:

Cash in checking	\$ 385,268
Short-Term Investment Fund (STIF)	<u>15,220</u>
Total Cash and Cash Equivalents	<u>\$ 400,488</u>

At June 30, 2010 the carrying amount of the Authority’s deposits in financial institutions was \$385,268 and the bank balance was \$372,786.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2010

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk based capital ratio. Municipal deposits that exceed the coverage of the Federal Depository Insurance are collateralized by amounts held by the pledging bank's trust department.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2010 the Authority's cash equivalents amounted to \$15,220. These amounts were invested with the State of Connecticut Treasurer's Short - Term Investment Fund ("STIF"). The STIF is an investment pool of high quality, short-term money market instruments (under 60 days). The STIF is rated AAAm by Standard and Poor's. The STIF maintains a designated surplus reserve equal to one-tenth of one percent of the funds value, until it reaches one percent of the value of all investments in the Fund. The funds in the reserve act as a general reserve against losses and are not held in a specific depositor's name. Currently the reserve contains in excess of \$37.2 million (as of March 2010). Any losses experienced from a security default or a decline in market value of a security will be charged against the reserve.

Investments

The Authority invests excess cash in certificates of deposit with a local financial institution. The Authority classifies all deposit with original maturities greater than three months from the date of acquisition as investments for financial statement purposes. At June 30, 2010 the carrying amount of the Authority's investments was \$204,635. The entire balance was covered by Federal Depository Insurance, or collateral held by the pledging financial institution, segregated from other assets as provided in accordance with State Statutes.

NOTE 3 - CAPITAL ASSETS

There was no activity in the capital asset accounts for the year. Capital assets consist of the following:

Recycling processing equipment	\$ 1,200,000
Accumulated depreciation	(1,200,000)
	<u>\$ -</u>

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2010

NOTE 4 - PENSION PLAN

The Authority has established a Simplified Employee Pension Plan covering all employees. The Authority is required to contribute 7.5% of eligible employee's wages to the plan. Employees vest immediately in their accounts upon entrance into the plan. During the year ended June 30, 2010 the Authority contributed \$5,716 to the plan on eligible wages of \$76,212.

NOTE 5 - RELATED PARTY TRANSACTIONS

During the year the Authority received a total of \$93,770 from the participating regional towns as a reimbursement for the operation of the Household Hazardous Waste Day events. All amounts invoiced were received by June 30, 2010.

NOTE 6 - COMMITMENTS

On March 13, 1991, the Authority entered into a construction and service agreement with Recycling Technologies, Inc. (RTI) for the design and construction of a regional recycling facility in Danbury, Connecticut. The facility remains the property of RTI; while certain recycling equipment with a cost of \$1.2 million purchased with grant funds remains the property of the Authority. The service agreement states that RTI shall operate, maintain and repair the facility for a term of 10 years beginning on the acceptance date, with options for extension. In June 2005 the Authority voted to exercise its second and final option to extend the agreement for an additional 5 years to February 16, 2013.

In connection with the service agreement RTI originally gave the Authority \$500,000 as a guarantee to faithfully perform and comply with the terms of the service agreement. Pursuant to the agreement, the funds were gradually reduced, in accordance with a schedule of repayments during the prior years. As a result of various breaches in the service agreement claimed by the Authority, the escrow funds were paid to the Authority to satisfy the above breaches. (See Note 9).

On July 1, 1993 the Authority entered into a 26-year commitment with Wheelabrator Environmental Systems, Inc. (WES) to accept solid waste generated by the member towns of the region and to pay the Authority an Administrative Fee collected from the MSW collectors within the region who used the disposal facilities provided under that contract. Effective January 1, 2004, certain terms of the agreement were amended and restated, including a reduction from 4 to 3 in the number of contractually required transfer stations located within the region, a reduction in the overall per ton service fee charged to collectors, a reduction in the put or pay risk to member municipalities for tonnage shortfalls in any particular year, establishment of annual service fee increases based on 1/2 of the prior year's Consumer Price Index and establishment of a program fee with annual increases to provide the Authority with sufficient revenue for continued operation.

The above agreements will remain in effect when, and if, the transfer station assets are sold.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2010

NOTE 7 - ECONOMIC DEPENDENCE

A major portion of the Authority's revenues is derived from fees based on throughput in the recycling and municipal solid waste facilities. Declines in the levels of throughput in either facility or a negotiated change in the fee structure could adversely affect the Authority's ability to generate future cash flow from the HRRR Service Agreements.

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, damage to, and theft or destruction of assets, error and omissions, injuries to employees and natural disaster. During 2009-10, the Authority obtained general property and liability insurance coverage in the amount of \$1 million each occurrence and \$2 million in the aggregate with a \$250 deductible. The HRRR Service Agreements require that RTI, its parent Company AWD, and Wheelabrator, indemnify the Authority and the municipalities from any and all damages, and causes of action which may arise from a party's use or entrance into the Transfer station. In addition to general property and liability insurance, the Authority continued to contract with insurance carriers for public officials liability insurance in the amount of \$3 million per claim and \$3 million in the aggregate with a \$5,000 deductible per claim, employment practices liability coverage in the amount of \$3 million per claim, \$3 million in the aggregate with no deductible, and a surety bond in the amount of \$20,000. The Authority has had no significant reduction in the coverage on the above insurances from prior year. The Authority has had no settlements on any insurance coverage in the current year or prior year.

The Authority has also obtained health insurance coverage for its employee from a third party insurer. Workers compensation coverage has also been obtained from a third party insurer. The premiums are calculated based upon accident history, compensation amounts and administrative costs.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2010

NOTE 9 - RECOVERY OF DISPUTED CLAIMS

In 2008-09 the Authority entered into discussions with RTI to try to reach agreement on what the Authority claimed was a breach of the Regional Recycling Center Service Agreement dated March 13, 1991 as amended February 5, 1992 and October 21, 1994. In 2009-10 the Authority discovered that some recyclables contractually committed to RTI were diverted to Advanced Recycling Corporation (ARC) over the life of the contract thus depriving the Authority of the program administration fee for such tonnage as well as the revenue sharing from the sale of such commodities. In addition, RTI had not provided a Marketing Plan acceptable to the Authority, the residue rate from RTI was higher than allowed by contract, glass processed by RTI did not meet the minimum quality standard set in the contract, and there were numerous other monetary and non-monetary breaches of the agreement.

During the 2009-10 FY the RTI contract dispute was not resolved successfully and RTI remained in breach of the agreement. Using public information provided by RTI and ARC, the Authority determined that the dollar value of the diversion of RTI tonnage over the last six years was at least \$200,000. In order to protect its financial interests, in January 2010 the Authority withdrew the funds deposited by RTI in escrow as a performance guarantee in accordance with the service agreement, plus interest, for a total of \$95,841 and applied those funds towards partial payment of its monetary losses. These funds are reported as a special item in the Statement of Activities and the Statement of Revenues, Expenses and Changes in Fund Balance at June 30, 2010.

Required Supplemental Information

Housatonic Resources Recovery Authority

Budgetary Comparison Schedule---General Fund

For the Year Ended June 30, 2010

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues					
Charges for services - User fees	\$ 295,705	\$ -	\$ 295,705	\$ 385,108	\$ 89,403
Intergovernmental	112,000	-	112,000	93,770	(18,230)
Investment earnings and other	5,500	-	5,500	5,238	(262)
Miscellaneous	11,300	-	11,300	11,300	-
Total revenues	424,505	-	424,505	495,416	70,911
Expenditures					
General government					
Audit	5,400	-	5,400	5,400	-
Contingency	4,000	-	4,000	-	4,000
Education	25,000	-	25,000	15,920	9,080
Household Hazardous Waste Day	119,500	-	119,500	99,405	20,095
Insurance	7,175	-	7,175	6,207	968
Miscellaneous	4,450	-	4,450	2,927	1,523
Municipal hauler registration reimbursement	30,000	-	30,000	21,865	8,135
Office expenses	12,350	-	12,350	9,173	3,177
Professional services	55,500	(500)	55,000	22,153	32,847
Staffing	104,650	500	105,150	105,082	68
Travel/mileage reimbursement	1,250	-	1,250	633	617
Total expenditures	369,275	-	369,275	288,765	80,510
Excess of revenues over expenditures	55,230	-	55,230	206,651	151,421
Other Financing Sources					
Special item - recovery of disputed claims	-	-	-	95,841	95,841
Total other financing sources	-	-	-	95,841	95,841
Net change in fund balance	\$ 55,230	\$ -	\$ 55,230	\$ 302,492	\$ 247,262

See accompanying notes to the required supplemental information.

Housatonic Resources Recovery Authority

Notes to Required Supplemental Information

June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control within the Authority for the General Fund. An annual operating budget is adopted each fiscal year in accordance with the Authority's By-Laws and amended as required. The General Fund budget is adopted on a modified accrual basis of accounting (GAAP), except that encumbrances and continued appropriations are treated as budgeted expenditures in the year of incidence of the commitment to purchase and certain employee benefits are budgeted on the cash basis of accounting.

The Board is authorized to transfer budget amounts within line items, as well as any supplemental appropriations and appropriations of fund balance that amend the total expenditures. There were no such supplemental appropriations during the year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities. There were no encumbrances outstanding at June 30, 2010.

All unencumbered appropriations lapse at the end of each fiscal year.