

Housatonic Resources Recovery Authority

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

Year Ended June 30, 2012

Housatonic Resources Recovery Authority

**Table of Contents**

June 30, 2012

	<u>Page</u>
Report of Independent Certified Public Accountants .....	1
Management's Discussion and Analysis (Unaudited) .....	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities .....	11
Fund Financial Statements:	
Balance Sheet - Governmental Fund .....	12
Statement of Revenues, Expenses and Changes in Fund Balance - Governmental Fund.....	13
Notes to the Financial Statements.....	14
Required Supplemental Information:	
Budgetary Comparison Schedule---General Fund .....	22
Notes to Required Supplemental Information.....	23

### Independent Auditor's Report

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, 2012, as listed in the table of contents. These basic 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 basic 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 basic 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, 2012, 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.

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

*Nanavaty, Nanavaty & Davenport, LLP*

November 8, 2012

## *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, 2012. Please read it in conjunction with the Authority's financial statements, which begin on page 9.

### **FINANCIAL HIGHLIGHTS**

- As a result of the operations the Authority's net assets increased by \$8,345 in 2012 compared to a decrease of \$6,578 in 2011.
- The total cost of the Authority's programs and administration was \$318,300 and \$325,573 for 2012 and 2011, respectively.
- During fiscal year 2012, the Authority's revenues from program and administrative fees increased over the prior year by \$7,650 to \$326,645 as a result of changes in the fee arrangement with the vendor for recycled materials.

### **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 9 and 10) 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 11. 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, changes in tonnage in the local towns, 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 11. 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 13-21 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.

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

**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 2012 compared to 2011:

**Table 1**

	As of June 30,	
	2012	2011
Current assets	\$ 639,055	\$ 637,595
Current liabilities	<u>(2,324)</u>	<u>(9,209)</u>
Net Assets - unrestricted	<u><u>\$ 636,731</u></u>	<u><u>\$ 628,386</u></u>

**Table 2**

**For the Year Ended of June 30,**

**2012**

**2011**

**Revenues**

Program revenues:

Charges for services - user fees	\$ 212,390	\$ 123,780
Operating grants and reimbursements	<u>90,677</u>	<u>125,129</u>
	<u><u>303,067</u></u>	<u><u>248,909</u></u>

General revenues:

Investment earnings and miscellaneous	23,578	10,086
Gain on sale of assets	-	60,000
Total revenues	<u>326,645</u>	<u>318,995</u>

**Program expenses**

Public works	<u>318,300</u>	<u>325,573</u>
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Change in net assets	8,345	(6,578)
Net assets (unrestricted) – beginning	<u>628,386</u>	<u>634,964</u>
Net assets (unrestricted) – ending	<u><u>\$ 636,731</u></u>	<u><u>\$ 628,386</u></u>

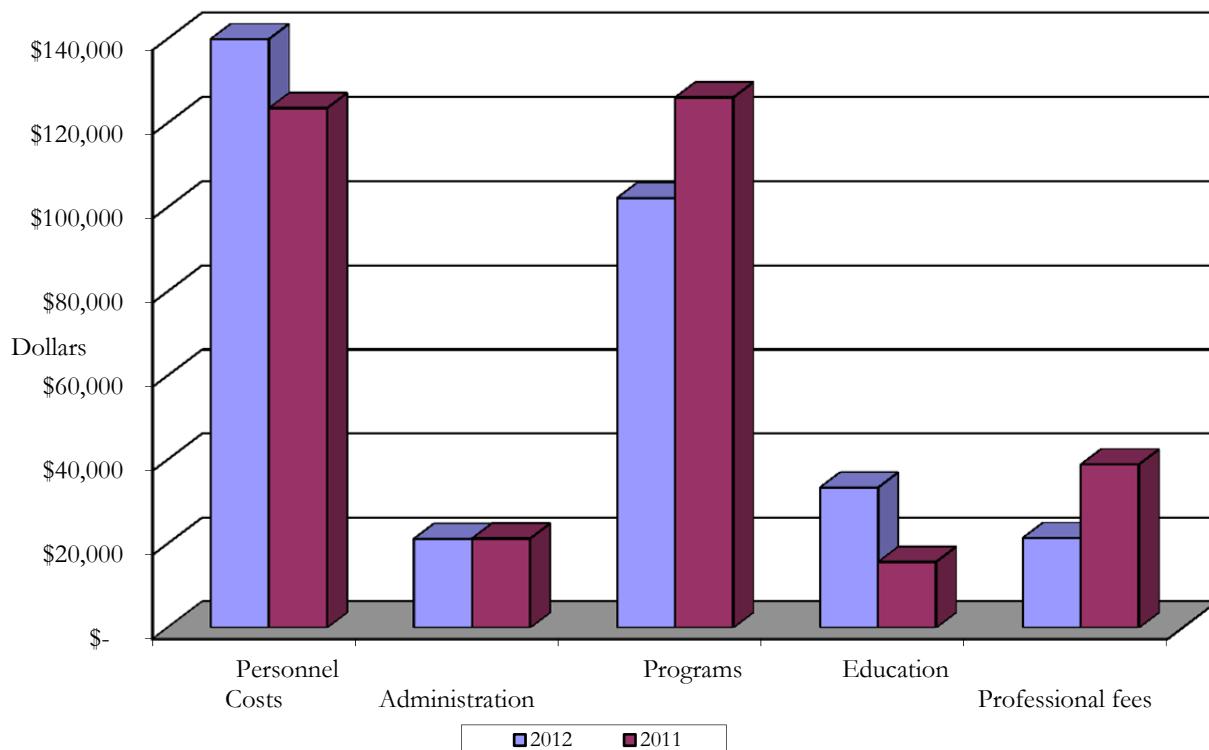
**Housatonic Resource Recovery Authority**  
**Management's Discussion and Analysis (Unaudited)**

**FINANCIAL ANALYSIS OF THE AUTHORITY (continued)**

**Governmental Activities and General Fund**

All of the Authority's operations are accounted for as Governmental Activities. Net assets of the governmental activities increased in 2012. Recycling tonnage for the HRRA member municipalities delivered to the Regional Recycling Center rose from an all-time low in 2010-11 of 6,820 tons to one of the highest levels in the past ten years at 8,534 tons, a 25% increase in 2011-12. This was the result of a change to single stream recycling at the start of the last fiscal year, a targeted public education program surrounding the change, and the addition of numerous items to the list of recyclables. Recycling revenues for 2011-12 included \$53,200 from an estimated 7,300 tons of recycling. The Authority and Winters Bros. negotiated an amendment to the Regional Recycling Center Service Agreement (RRCSA) that required that the Authority be paid \$7 per ton through April 30, 2012, and then \$10 per ton through February 2, 2013, for recycling delivered to the Regional Recycling Center at 307 White Street in Danbury, now operated by Winters Bros. General revenues include investment income and gains totaling \$23,545. Total costs of governmental activities decreased for the year ended June 30, 2011 from 2011 due to lower legal services and Household Hazardous Waste costs offset by higher public education costs as well as salary costs. Total revenues and expenditures in the General Fund were equal to the total revenues in the Statement of Activities.

**Comparison of Expenses**



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

**FINANCIAL ANALYSIS OF THE AUTHORITY (continued)**

*General Fund Budgetary Highlights*

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

<b>Table 3</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
Program revenues:				
Charges for services - user fees	\$ 257,700	\$ 257,700	\$ 212,390	\$ (45,310)
Operating grants and reimbursements	105,000	105,000	67,677	(37,323)
	362,700	362,700	280,067	(82,633)
General revenues:				
Investment earnings	12,000	12,000	23,545	11,545
Miscellaneous	13,000	13,000	23,033	10,033
Total revenues	387,700	387,700	326,645	(61,055)
<b>Program expenses</b>				
Public works	376,538	391,538	318,300	73,238
<b>Increase (decrease) in net assets</b>				
Designation of fund balance	11,162	(3,838)	8,345	12,183
	-	15,000	-	(15,000)
<b>Net Change in fund balance</b>	<b>\$ 11,162</b>	<b>\$ 11,162</b>	<b>\$ 8,345</b>	<b>\$ (2,817)</b>

Over the course of the year ended June 30, 2012 the Authority made several budget line item transfers and one designation of fund balance in the general fund budget. The additional designation of fund balance was for \$15,000 to cover additions to the education budget. The line item transfers were made to cover personnel related costs. Overall, actual expenditures were below budget by approximately \$73,238 for the year ended June 30, 2012.

*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.

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Working Capital	\$ 637,000	\$ 628,000	\$ 635,000	\$ 332,500	\$ 271,800
Current Ratio	277.8	69.2	16.2	10.0	17.9

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

**FINANCIAL ANALYSIS OF THE AUTHORITY (continued)**

“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.

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
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Days in Operating Cash	577	533	772	336	279
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“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.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Authority established a fiscal year 2012-13 budget that included approximately \$384,000 in revenues and \$380,000 in proposed expenditures. Revenue is budgeted to decrease 2% in 2012-13 primarily due to the completion of the sale of the Authority's recycling equipment in last fiscal year. Expenditures are anticipated to remain stable compared with the prior fiscal year. Overall revenues are expected to be adequate to finance the current year operation and to modestly add to the undesignated fund balance.

Revenues for 2012-13 are based on a contracted MSW program fee of \$.77 per ton for the 2012 calendar year, the same as the 2011 MSW program fee. MSW tonnage delivered to the HRRA system during the first two quarters of the 2011-12 year were adequate to provide the contracted MSW program fee, so it was not increased on January 1, 2012. MSW tonnage in 2011-12 fell again for the fifth year but the rate of decrease slowed to only a trickle at .1%. 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 2011-12 MSW tonnage coming into the HRRA system was at 122% of the minimum annual guarantee. Four member municipalities, the Towns of Brookfield, Kent, New Milford and Redding 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 over the last few years were the result of intentional diversion of tonnage to non-HRRA transfer stations by some haulers in the region who owned their own transfer stations out of the region as well as to the economy. In 2011-12, the hauler, who in prior years diverted the greatest tonnage of MSW out of the region, was purchased by Winters Bros. and the tonnage returned to the HRRA system. MSW tonnage, however, did not rise but remained the same as in the prior year. Despite reports that Connecticut's economy was improving in 2011-12, MSW tonnage in the HRRA region and throughout the state remained at depressed levels.

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

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

Recycling revenues for 2012-13 were budgeted conservatively based on an estimated 7,800 tons at \$10 per ton since a new agreement was not in place prior to the start of the fiscal year.

The Authority is in the midst of a three year transition plan to prepare for the possible retirement of the Director in 2014-15. The Administrative Assistant hired during the 2010-11 fiscal year took responsibility for Accounts Payable during 2011-12. Over the next two years the Administrative Assistant will be given progressively more responsibility for all aspects of the financial management of the Authority so that she will be able to assume those duties seamlessly in the absence of the current Director.

**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, 2012

**Assets**

Cash and cash equivalents	\$ 167,449
Investments	433,636
Accounts receivable	36,500
Prepaid expenses	1,470
Total assets	<u><u>\$ 639,055</u></u>

**Liabilities**

Accounts payable and accrued expenses	\$ 2,324
Total liabilities	<u><u>2,324</u></u>

**Net Assets:**

Unrestricted	<u><u>636,731</u></u>
Total net assets	<u><u>636,731</u></u>
Total liabilities and net assets	<u><u>\$ 639,055</u></u>

*See accompanying notes to the basic financial statements.*

Housatonic Resources Recovery Authority

**Statement of Activities---Governmental Activities**

For the Year Ended June 30, 2012

Program Activities	Program Revenues				Governmental Activities	
	Expenses	Charges for Services		Operating Grants and Reimbursements		
		- User Fees				
Public works	\$ -	\$ 184,175		\$ 23,000	\$ 207,175	
Staffing	139,988	-		-	(139,988)	
Household Hazardous Waste Day	74,187	-		67,677	(6,510)	
Education	33,424	-		-	(33,424)	
Professional services	15,780	-		-	(15,780)	
Municipal hauler registration reimbursement	28,060	28,215		-	155	
Office expenses	9,863	-		-	(9,863)	
Insurance	6,530	-		-	(6,530)	
Audit	5,650	-		-	(5,650)	
Miscellaneous	3,588	-		-	(3,588)	
Travel/mileage reimbursement	1,230	-		-	(1,230)	
Total governmental activities	<u>318,300</u>	<u>212,390</u>		<u>90,677</u>	<u>(15,233)</u>	
			General revenues:			
			Investment earnings		<u>23,578</u>	
			Total general revenues		<u>23,578</u>	
			Change in net assets		<u>8,345</u>	
			Net Assets--beginning		<u>628,386</u>	
			Net Assets--ending		<u>\$ 636,731</u>	

*See accompanying notes to the basic financial statements.*

Housatonic Resources Recovery Authority

**Balance Sheet---Governmental Funds**

As of June 30, 2012

	<b>General Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 167,449
Investments	433,636
Accounts receivable	36,500
Prepaid expenses	1,470
Total assets	<u>\$ 639,055</u>
<b>Liabilities and Fund Balances</b>	
Liabilities:	
Accounts payable and accrued expenses	\$ 2,324
Total liabilities	<u>2,324</u>
Fund Balances:	
Unassigned	636,731
Total fund balances	<u>636,731</u>
Total liabilities and fund balances	<u>\$ 639,055</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, 2012

	<b>General Fund</b>
<b>Revenues</b>	
Charges for services - User fees	\$ 212,390
Intergovernmental	67,677
Investment earnings	23,578
Miscellaneous	23,000
Total revenues	326,645
<b>Expenditures</b>	
Current:	
Public works	139,988
Staffing	74,187
Household Hazardous Waste Day	33,424
Education	15,780
Professional services	28,060
Municipal hauler registration reimbursement	9,863
Office expenses	6,530
Insurance	5,650
Audit	3,588
Miscellaneous	1,230
Travel/mileage reimbursement	318,300
Total general government	
Excess of revenues over expenditures	8,345
Fund balance--at beginning of year	628,386
Fund balance--at end of year	\$ 636,731

*See accompanying notes to the basic financial statements.*

# Housatonic Resources Recovery Authority

## Notes to Financial Statements

June 30, 2012

### **NOTE 1 - SUMMARY OF 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, 2012

**NOTE 1 - SUMMARY OF 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 HRRA 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.

The financial statements of the Authority are presented in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2012

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)**

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the Authority's financial activities for the fiscal year ended June 30, 2012.

*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.

The Authority members are authorized to transfer budget amounts within line items as well as any supplemental appropriations that amend the total expenditures. During the year, several line item transfers were necessary.

*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.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2012

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)**

*Investments*

The Authority invests excess cash in mutual fund accounts with a national financial institution. The Authority classifies this type of deposit as an investment for financial statement purposes. Investments are stated at fair value, based on quoted market prices.

*Receivables*

Receivables at June 30, 2012 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.

*Deferred Revenues*

The Authority reports unearned deferred revenues for any fiscal year 2012-13 hauler registration and municipal permit fees received in advance of July 1, 2012.

*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."

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2012

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)**

*Fund Balance Reporting*

The Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) define the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be reported using the fund balance categories listed below:

1. *Non-spendable* - fund balance that is either (a) not in spendable form, or (b) legally or contractually required to remain intact.
2. *Restricted* - fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation
3. *Committed* - fund balance that can be used only for the specific purposes determined by a formal action of the members of the Authority (the Authority's highest level of decision-making authority)
4. *Assigned* - fund balance that is intended to be used by the Authority for specific purposes but does not meet the criteria to be classified as restricted or committed
5. *Unassigned* - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

*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 8, 2012, the date these financial statements were available to be issued, for recognition and/or disclosure in these financial statements.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2012

**NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

Deposits and investments consist of the following at June 30, 2012:

Cash in checking	\$ 152,270
Short-Term Investment Fund (STIF)	<u>15,279</u>
	<u><u>\$ 167,549</u></u>
Investment in mutual funds	<u>\$ 433,636</u>
Total investments	<u><u>\$ 433,636</u></u>

*Deposits*

The Authority's deposits can include demand and savings accounts and certificates of deposit with Connecticut banks. The Authority policy adopts the State of Connecticut requirements that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the banks risk based capital ratio.

*Investments*

The Authority's investments consist of shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant fluctuating net asset values) whose portfolios include obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. The Authority also invests in shares of the Connecticut Short-term Investment Fund.

*Concentrations*

The Authority does not have a formal policy; however their practice has been to maintain a diversified portfolio to minimize risk of loss resulting from over-concentration of assets in a specific issuer.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2012

**NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS 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. At June 30, 2012 the carrying amount of the Authority's deposits in financial institutions was \$152,270 and the bank balance was \$164,003. The entire bank balance was insured at year-end.

At June 30, 2012, the Authority had \$15,279 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 AAA 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 \$46 million (as of April 2012). Any losses experienced from a security default or a decline in market value of a security will be charged against the reserve.

There is a risk that in the event of a failure of the counterparty to an investment transaction, the Authority will not be able to recover the value of its investment that is the possession of another party. At June 30, 2012 the Authority had \$425,591 invested in mutual fund accounts.

**NOTE 3 - 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, 2012 the Authority contributed \$7,682 to the plan on eligible wages of \$102,424.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

During the year the Authority received a total of \$67,677 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, 2012.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2012

**NOTE 5 - 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.

On May 1, 2011 ownership of the regional recycling facility in Danbury was transferred from RTI to Winter Bros. Transfer Stations of CT, LLC, (Winter Bros.). As a result, Winter Bros. has assumed RTI's obligations and is bound under the above mentioned service agreement, with certain amended terms. Winter Bros. shall collect on behalf and for the benefit of HRRA, as part of the Tip Fee charged per Ton for the delivery of Recyclable Material, the amount of, for the period from May 1, 2011 through April 20, 2012, seven dollars (\$7.00) and for the period from May 1, 2012 through February 2, 2013 ten dollars (\$10.00), times the number of Tons of Recyclable Material delivered to the Facility by or on behalf of HRRA, the Participating Municipalities and the HRRA Member Towns of Ridgefield and Redding, Connecticut during each month and, within ten (10) days from the end of each calendar month, shall transmit to HRRA the applicable amount set forth above for the amount of Tons delivered to the Facility for the month prior to the preceding month. The terms of the Regional Recycling Agreement entered into between HRRA and Winter Bros. begins on the Acceptance Date of May 1, 2012 and terminates at 12:01 AM on February 2, 2013.

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  $\frac{1}{2}$  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 remain in effect even though the transfer station assets have been sold.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2012

**NOTE 6 - ECONOMIC DEPENDENCY**

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 HRRA Service Agreements.

**NOTE 7 - 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 2011-12, the Authority obtained general property and liability insurance coverage in the amount of \$2 million in the aggregate and \$1 million each occurrence, with a \$250 deductible. The HRRA Service Agreements require that Winter Bros. Transfer Stations of CT, LLC, Winter Bros. Waste Systems of CT, LLC, 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.

*Required Supplemental Information*

Housatonic Resources Recovery Authority

**Budgetary Comparison Schedule---General Fund**

For the Year Ended June 30, 2012

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>					
Charges for services - User fees	\$ 257,700	\$ -	\$ 257,700	\$ 212,390	\$ (45,310)
Intergovernmental	105,000	-	105,000	67,677	(37,323)
Investment earnings and other	12,000	-	12,000	23,578	11,578
Miscellaneous	13,000	-	13,000	23,000	10,000
Total revenues	387,700	-	387,700	326,645	(61,055)
<b>Expenditures</b>					
General government					
Audit	5,650	-	5,650	5,650	-
Education	29,500	15,000	44,500	33,424	11,076
Household Hazardous Waste Day	108,750	-	108,750	74,187	34,563
Insurance	6,860	-	6,860	6,530	330
Miscellaneous	3,600	-	3,600	3,588	12
Municipal hauler registration reimbursement	35,000	-	35,000	28,060	6,940
Office expenses	11,000	-	11,000	9,863	1,137
Professional services	34,440	(1,060)	33,380	15,780	17,600
Staffing	140,488	560	141,048	139,988	1,060
Travel/mileage reimbursement	1,250	500	1,750	1,230	520
Total expenditures	376,538	15,000	391,538	318,300	73,238
Excess of revenues over (under) expenditures	11,162	(15,000)	(3,838)	8,345	12,183
<b>Other Financing Sources</b>					
Designation of fund balance	-	15,000	15,000	-	(15,000)
Total other financing sources	-	15,000	15,000	-	(15,000)
Net change in fund balance	\$ 11,162	\$ -	\$ 11,162	\$ 8,345	\$ (2,817)

*See accompanying notes to the required supplemental information.*

Housatonic Resources Recovery Authority

**Notes to Required Supplemental Information**

June 30, 2012

**NOTE 1 - SUMMARY OF 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, 2012.

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