

Housatonic Resources Recovery Authority

**Audited Financial Statements with  
Independent Auditor's Report**

Year Ended June 30, 2013

Housatonic Resources Recovery Authority

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June 30, 2013

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## **Independent Auditor's Report**

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

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions 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 from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Housatonic Resources Recovery Authority, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 23-24 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*

December 4, 2013

## *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, 2013. 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 position increased by \$28,392 in 2013 compared to \$4,530 in 2012.
- The total cost of the Authority's programs and administration was \$312,303 and \$318,300 for 2013 and 2012, respectively.
- During fiscal year 2013, the Authority's revenues from program and administrative fees, and hauler permits increased over the prior year by \$24,146 to \$232,721 as a result of slight changes in tonnage and fee increases.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position and the Statement of Activities**

The 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 Position 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 Position and the Statement of Activities report the Authority's net position and changes in them. You can think of the Authority's net position 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 position 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 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 Position 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 14-22 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 23-24 of this report.

**FINANCIAL ANALYSIS OF THE AUTHORITY**

The following tables and exhibits present condensed information about the Authority's net position, revenues and expenses for fiscal year 2013 compared to 2012:

	<b>As of June 30,</b>	
	<b>2013</b>	<b>2012</b>
Current assets	\$ 678,485	\$ 635,240
Current liabilities	(17,177)	(2,324)
Net position - unrestricted	\$ 661,308	\$ 632,916

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

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

<b>Table 2</b>	<b>For the Year Ended of June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenues</b>		
Program revenues:		
Charges for services - user fees	\$ 232,721	\$ 208,575
Operating grants and reimbursements	99,890	90,677
	332,611	299,252
General revenues:		
Investment earnings and miscellaneous	8,084	23,578
Total revenues	340,695	322,830
<b>Program expenses</b>		
Public works	312,303	318,300
<b>Change in net position</b>	28,392	4,530
<b>Net position (unrestricted) – beginning</b>	632,916	628,386
<b>Net position (unrestricted) – ending</b>	\$ 661,308	\$ 632,916

*Governmental Activities and General Fund*

All of the Authority's operations are accounted for as Governmental Activities. Net position of the governmental activities increased in 2013. MSW tonnage in 2012-13 fell again for the sixth year. 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 2012-13 MSW tonnage coming into the HRRR system was at 114% of the minimum annual guarantee. Four member municipalities, the Towns of Bridgewater, 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 HRRR system over the last few years were the result of intentional diversion of tonnage to non-HRRR transfer stations by some haulers in the region who own their own transfer stations out of the region as well as to the economy. MSW tonnage in the HRRR region and throughout the state remained at depressed levels compared with pre-recession tonnage from 2007-2008.

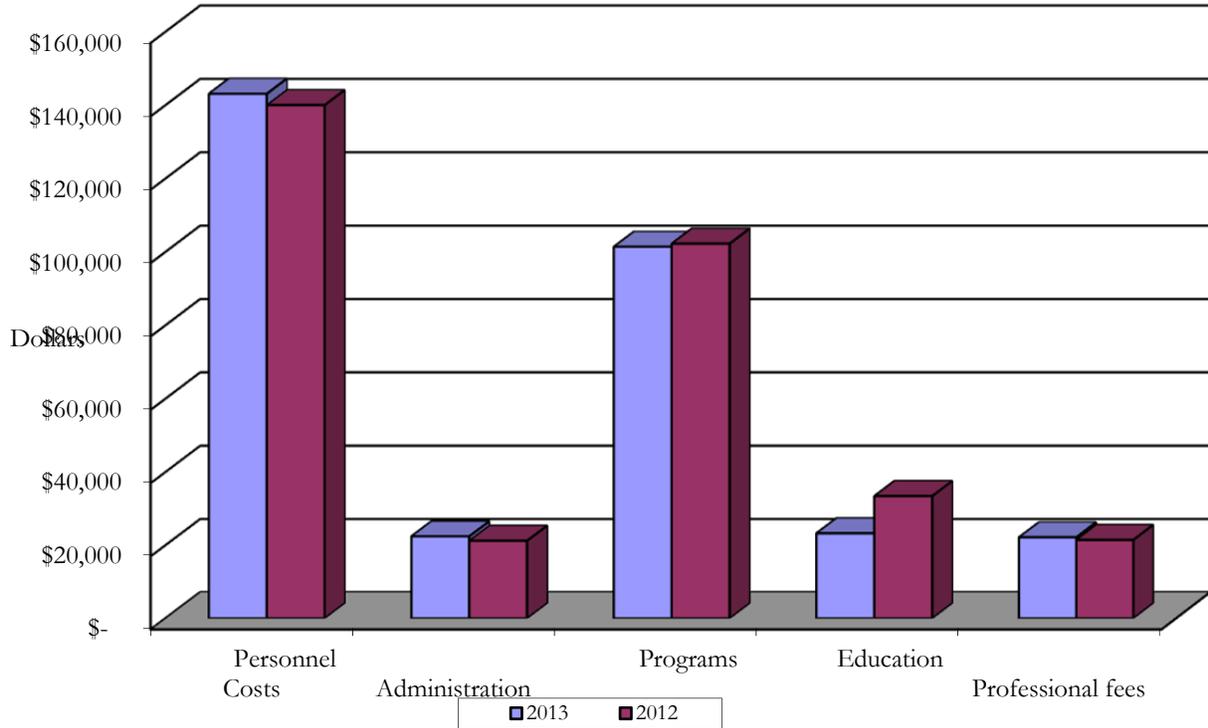
Recycling tonnage for the HRRR member municipalities delivered to the Winters Bros. Recycling Center decreased by approximately 4% to 8,200 tons in 2012-13. The decrease is likely the result of more recycling being collected by haulers who tip recycling at facilities other than Winters Bros., e.g. All American Waste and Country Disposal.

General revenues include investment income and gains totaling \$8,047. Total costs of governmental activities decreased for the year ended June 30, 2013 from 2012 due to lower public education expenses offset by slight increases in salary costs. 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.

<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	\$ 242,500	\$ 242,500	\$ 232,721	\$ (9,779)
Operating grants and reimbursements	105,000	105,000	74,090	(30,910)
	347,500	347,500	306,811	(40,689)
General revenues:				
Investment earnings	14,000	14,000	8,047	(5,953)
Miscellaneous	22,800	22,800	25,837	3,037
Total revenues	384,300	384,300	340,695	(43,605)
<b>Program expenses</b>				
Public works	379,829	379,829	312,303	67,526
<b>(Decrease) increase in net position</b>	<b>\$ (4,471)</b>	<b>\$ (4,471)</b>	<b>\$ 28,392</b>	<b>\$ 23,921</b>

**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, 2013 the Authority made several budget line item transfers in the general fund budget. The line item transfers were made to cover personnel related costs. Overall, actual expenditures were below budget by approximately \$67,526 for the year ended June 30, 2013.

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>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Working Capital	\$ 661,000	\$ 637,000	\$ 628,000	\$ 635,000	\$ 332,500
Current Ratio	39.9	277.8	69.2	16.2	10.0

“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>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Days in Operating Cash	603	577	533	772	336

“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.

**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 2013-14 budget that included approximately \$380,500 in revenues, use of \$10,000 in fund balance and \$390,500 in proposed expenditures. Revenue and 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 along with the one-time addition from fund balance of \$10,000.

Revenues for 2013-14 are based on a contracted MSW program fee of \$.79 per ton for the 2013 calendar year. Recycling revenues for 2012-13 were paid at \$10/ton by Winters Bros. and, starting in January 2013, at \$5/ton by All American Waste. The Authority and Winters Bros. negotiated a new Regional Recycling Agreement effective April 1, 2013. The new Agreement required that the Authority be paid a variable rebate based upon the price of recycling commodities but no less than \$7.50 per ton for the next three years for recycling generated within a member municipality that was delivered to Winters Bros. at 307 White Street in Danbury. At no time during 2012-13 did the rate the Authority was paid fall below \$10/ton. In addition the Authority negotiated a one year agreement with All American Waste to pay the Authority \$5/ton for all recycling collected in member municipalities by All American Waste and delivered to its own transfer station in New Milford. Recycling revenues for 2013-14 were budgeted conservatively based on an estimated 8,000 tons at \$10 per ton plus \$17,000 in estimated payments from All American Waste.

The Authority continued with its three year transition plan to prepare for the retirement of the Director in 2014-15. The Administrative Assistant became the Assistant Director during 2012-13, and her hours were increased for 2013-14 so that she could shadow the Director over the next year. The Assistant Director has been 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 when the current Director moves from full time to part time in 2014-15.

Planning is underway for the possibility that the Authority may have to move its office sometime in the next two years. The Authority sublets an office from the Housatonic Valley Council of Elected Officials (HVCEO), which leases the building from the Town of Brookfield. Due to a change in state law, HVCEO will be merging with another region in the state and the HVCEO offices will likely move closer to the geographic midpoint in the new region. The tentative proposed location would be inconvenient for the haulers and the public served by HRRRA, so the two agencies may separate offices in the future. This would have a financial impact on HRRRA. Despite the fact that HRRRA pays rent of approximately \$10,000 a year to HVCEO, that amount is offset by a \$7,000 grant that HVCEO gives to HRRRA each year. That grant would likely go away if the two agencies were physically separated since it was intended to be an offset for rent paid. In addition, HRRRA would have to provide for its own utilities and office equipment which are now paid for by HVCEO. Budgetary changes associated with a possible office move would be seen first in the 2014-15 budget.

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

**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 Position---Governmental Activities**

As of June 30, 2013

**Assets:**

Cash and cash equivalents	\$ 219,239
Investments	425,927
Accounts receivable	32,394
Prepaid expenses	850
Total assets	<u>678,410</u>

**Liabilities:**

Accounts payable and accrued expenses	10,827
Prepaid hauler permits	6,275
Total liabilities	<u>17,102</u>

**Net Position:**

Unrestricted	661,308
Total net position	<u>\$ 661,308</u>

*See accompanying notes to the basic financial statements.*

Housatonic Resources Recovery Authority

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

For the Year Ended June 30, 2013

Program Activities	Expenses	Program Revenues		Governmental Activities
		Charges for Services - User Fees	Operating Grants and Reimbursements	
Public works	\$ -	\$ 211,261	\$ 25,800	\$ 237,061
Staffing	143,096	-	-	(143,096)
Household Hazardous Waste Day	79,944	-	74,090	(5,854)
Education	23,242	-	-	(23,242)
Professional services	16,347	-	-	(16,347)
Municipal hauler registration reimbursement	21,460	21,460	-	-
Office expenses	8,882	-	-	(8,882)
Insurance	6,479	-	-	(6,479)
Audit	5,800	-	-	(5,800)
Miscellaneous	4,827	-	-	(4,827)
Travel/mileage reimbursement	2,226	-	-	(2,226)
Total governmental activities	<u>312,303</u>	<u>232,721</u>	<u>99,890</u>	<u>20,308</u>
		General revenues:		
				8,047
				37
			Total general revenues	<u>8,084</u>
			Change in net assets	28,392
			Net position---beginning of year (restated)	632,916
			Net position---end of year	<u>\$ 661,308</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

**Balance Sheet---Governmental Funds**

As of June 30, 2013

	<b>General Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 219,239
Investments	425,927
Accounts receivable	32,394
Prepaid expenses and other	850
Total assets	<u>\$ 678,410</u>
<b>Liabilities and Fund Balances</b>	
Liabilities:	
Accounts payable and accrued expenses	\$ 10,827
Prepaid hauler permits	6,275
Total liabilities	<u>17,102</u>
Fund Balances:	
Unassigned	661,308
Total fund balances	<u>661,308</u>
Total liabilities and fund balances	<u>\$ 678,410</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, 2013

	<b>General Fund</b>
<b>Revenues</b>	
Charges for services - User fees	\$ 232,721
Intergovernmental	74,090
Investment earnings	8,047
Miscellaneous	25,837
Total revenues	<u>340,695</u>
<b>Expenditures</b>	
Current:	
Public works	
Staffing	143,096
Household Hazardous Waste Day	79,944
Education	23,242
Professional services	16,347
Municipal hauler registration reimbursement	21,460
Office expenses	8,882
Insurance	6,479
Audit	5,800
Miscellaneous	4,827
Travel/mileage reimbursement	2,226
Total general government	<u>312,303</u>
Excess of revenues over expenditures	28,392
Fund balance--at beginning of year (restated)	632,916
Fund balance--at end of year	<u><u>\$ 661,308</u></u>

*See accompanying notes to the basic financial statements.*

Housatonic Resources Recovery Authority

**Notes to Financial Statements**

June 30, 2013

**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 Position 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, 2013

**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 ninety 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 facilities 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, and state statute.

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, 2013

**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, 2013.

*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 Connecticut General Statutes and 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 ninety 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, 2013

**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, 2013 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.

*Prepaid Hauler Permits*

The Authority reports unearned prepaid revenues for any fiscal year 2013-14 hauler registration and municipal permit fees received in advance of July 1, 2013.

*Net Position*

Net position is the net effect of assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets, are capital assets less depreciation and related debt. Net position is 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. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2013

**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 December 4, 2013, 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, 2013

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

Deposits and investments consist of the following at June 30, 2013:

Cash in checking	\$ 203,935
Short-Term Investment Fund (STIF)	<u>15,304</u>
	<u>\$ 219,239</u>
Investment in mutual funds	<u>\$ 425,927</u>
Total investments	<u>\$ 425,927</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, 2013

**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, 2013 the carrying amount of the Authority's deposits in financial institutions was \$203,935 and the bank balance was \$211,048. The entire bank balance was insured at year-end.

At June 30, 2013, the Authority had \$15,304 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 \$49.7 million (as of June 2013). 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, 2013 the Authority had \$425,927 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 employees' wages to the plan. Employees vest immediately in their accounts upon entrance into the plan. During the year ended June 30, 2013 the Authority contributed \$7,933 to the plan on eligible wages of \$104,413.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

During the year the Authority received a total of \$74,090 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, 2013.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2013

**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. In June 2005 the Authority voted to exercise its second and final option to extend that 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. assumed RTI's obligations and was bound under the above mentioned service agreement, with certain amended terms. The terms of the Regional Recycling Agreement entered into between HRRRA and Winter Bros. began on the Acceptance Date of May 1, 2012 and terminated at 12:01 AM on February 2, 2013. The Authority and Winters Bros. negotiated a new Regional Recycling Agreement effective April 1, 2013. The new Agreement required that the Authority be paid a variable rebate based upon the price of recycling commodities but no less than \$7.50 per ton for the next three years for recycling generated within a member municipality that was delivered to Winters Bros. recycling facility at 307 White Street in Danbury. At no time during 2012-13 did the rate the Authority was paid fall below \$10/ton. The Authority also negotiated a one-year agreement with All American Waste to pay the Authority \$5/ton for all recycling collected in member municipalities by All American Waste and delivered to its own transfer station in New Milford, Connecticut.

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.

**NOTE 6 - RESTATEMENT OF NET POSITION AND FUND BALANCE**

Net position and fund balance at the beginning of the year has been restated in the amount of \$3,815. The decrease to net position and fund balance represents an adjustment to recognize revenues from MSW program fees in fiscal year 2012-13 that had previously been recognized in fiscal year 2011-12.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2013

**NOTE 7 - 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 HRRRA 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 2012-13, the Authority obtained general property and liability insurance coverage in the amount of \$2 million in the aggregate and \$1 million each occurrence, with no retention. The HRRRA 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 retention 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 \$250,000, with a \$2,500 retention. 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 an 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, 2013

	<b>Original Budget</b>	<b>Amendments</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>					
Charges for services - User fees	\$ 242,500	\$ -	\$ 242,500	\$ 232,721	\$ (9,779)
Intergovernmental	105,000	-	105,000	74,090	(30,910)
Investment earnings and other	14,000	-	14,000	8,047	(5,953)
Miscellaneous	22,800	-	22,800	25,837	3,037
Total revenues	384,300	-	384,300	340,695	(43,605)
<b>Expenditures</b>					
General government					
Audit	5,800	-	5,800	5,800	-
Education	27,500	-	27,500	23,242	4,258
Household Hazardous Waste Day	109,500	-	109,500	79,944	29,556
Insurance	6,735	-	6,735	6,479	256
Miscellaneous	4,000	1,400	5,400	4,827	573
Municipal hauler registration reimbursement	35,000	-	35,000	21,460	13,540
Office expenses	11,200	-	11,200	8,882	2,318
Professional services	35,500	(3,721)	31,779	16,347	15,432
Staffing	143,844	721	144,565	143,096	1,469
Travel/mileage reimbursement	750	1,600	2,350	2,226	124
Total expenditures	379,829	-	379,829	312,303	67,526
Excess of revenues over expenditures	\$ 4,471	\$ -	\$ 4,471	\$ 28,392	\$ 23,921

See accompanying notes to the required supplemental information.

Housatonic Resources Recovery Authority

**Notes to Required Supplemental Information**

June 30, 2013

**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, 2013.

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