

Housatonic Resources Recovery Authority

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

Year Ended June 30, 2014

Housatonic Resources Recovery Authority

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June 30, 2014

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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, 2014, 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, 2014, 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 5, 2014

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, 2014. 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 \$3,047 in 2014 compared to \$28,392 in 2013.
- The total cost of the Authority's programs and administration was \$391,966 and \$312,303 for 2014 and 2013, respectively.
- During fiscal year 2014, the Authority's revenues from program and administrative fees, and hauler permits increased over the prior year by \$32,544 to \$265,265 as a result of an increase in recycling tonnage and an increase in hauler permit fees.

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 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 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 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 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 assets, revenues and expenses for fiscal year 2014 compared to 2013:

<u>Table 1</u>	As of June 30,	
	<u>2014</u>	<u>2013</u>
Current assets	\$ 688,078	\$ 678,485
Current liabilities	(23,940)	(17,394)
Net Position -unrestricted	<u>\$ 664,138</u>	<u>\$ 661,091</u>

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

FINANCIAL ANALYSIS OF THE AUTHORITY (continued)

Table 2	For the Year Ended of June 30,	
	2014	2013
Revenues		
Program revenues:		
Charges for services - user fees	\$ 265,265	\$ 232,721
Operating grants and reimbursements	106,997	99,890
	<u>372,262</u>	<u>332,611</u>
General revenues:		
Investment earnings and miscellaneous	22,751	8,084
Total revenues	<u>395,013</u>	<u>340,695</u>
Program expenses		
General government	391,966	312,303
Change in net assets	3,047	28,392
Net position (unrestricted) – beginning	661,091	632,699
Net position (unrestricted) – ending	<u>\$ 664,138</u>	<u>\$ 661,091</u>

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 2014. MSW tonnage in 2013-14 fell again for the seventh 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 2013-14 MSW tonnage coming into the HRRR system was at 104% of the minimum annual guarantee. Six member municipalities, the Towns of Bridgewater, Brookfield, Kent, New Milford, Redding and Sherman 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 in 2013-14 continued to be the result of intentional diversion of tonnage to non-HRRR transfer stations by some haulers in the region to either out of state transfer stations or in-state options with lower tip fees. The continued diversion of some MSW material to the recycling stream has also had an effect on the drop in MSW tonnage.

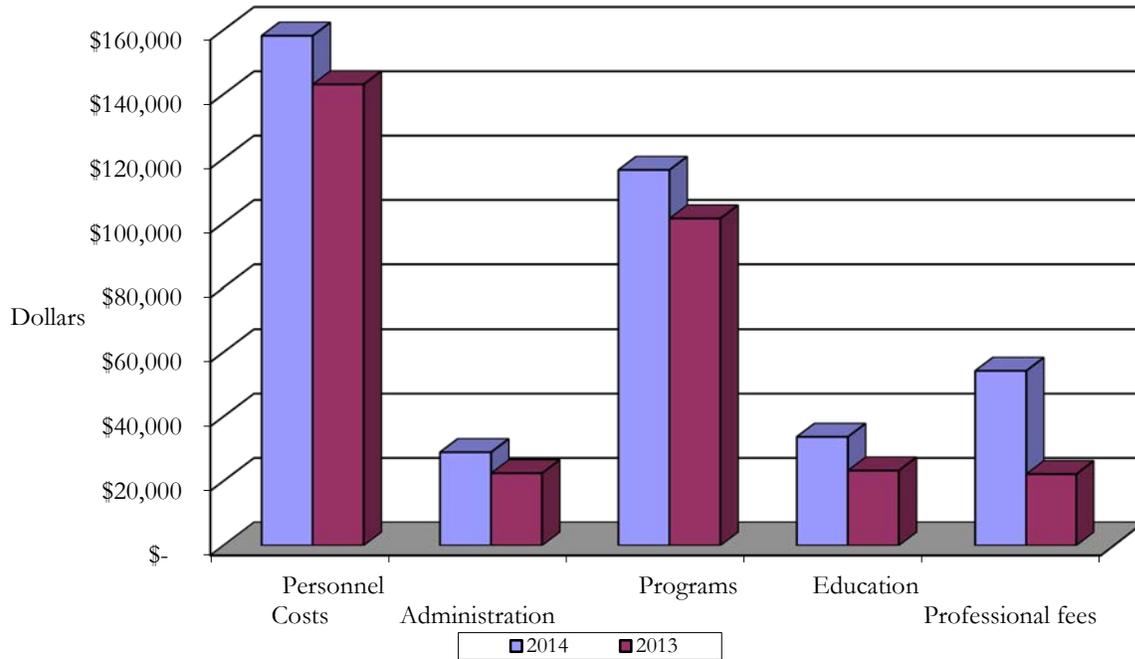
Recycling tonnage for the HRRR member municipalities delivered to the Winters Bros. Recycling Center increased by approximately 39% to 11,423 tons in 2013-14. The increase was the result of All American Waste continuing to bring tonnage to the White Street Transfer Station. Recycling revenues for 2013-14 were paid at \$10/ton by Winters Bros.

General revenues include investment income and gains totaling \$22,721. Total costs of governmental activities increased for the year ended June 30, 2014 from 2013 due to higher costs for staffing, public education and legal expenses. 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	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Charges for services - User fees	\$ 250,000	\$ 250,000	\$ 265,265	\$ 15,265
Intergovernmental	90,000	90,000	84,697	(5,303)
Investment earnings and other	15,500	15,500	22,721	7,221
Miscellaneous	25,300	25,300	22,330	(2,970)
Total revenues	380,800	380,800	395,013	14,213
Expenditures:				
General government	390,513	423,013	391,966	31,047
Excess of revenues (under) over expenditures	(9,713)	(42,213)	3,047	45,260
Other Financing Sources:				
Designation of Fund Balance	9,713	42,213	-	(42,213)
Excess of revenues and other financing sources over expenditures	\$ -	\$ -	\$ 3,047	\$ 3,047

**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, 2014 the Authority appropriated an additional \$32,500 from fund balance and also made several budget line item transfers in the general fund budget. The additional appropriation of fund balance was to cover legal costs associated with defending the MSW system in the region. Overall, actual expenditures were below budget by approximately \$31,047 for the year ended June 30, 2014.

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.

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Working Capital	\$ 664,000	\$ 661,000	\$ 637,000	\$ 628,000	\$ 635,000
Current Ratio	28.7	39.9	277.8	69.2	16.2

“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.

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Days in Operating Cash	657	603	577	533	772

“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 2014-15 budget that included approximately \$366,050 in revenues, and \$364,543 in proposed expenditures. Budgeted revenue has been reduced in 2014-15 as HRRRA will no longer receive the annual \$7,000 grant from HVCEO due to the merger of HVCEO with the nearby South Western Regional Planning Agency. Also the town of Bridgewater will no longer host a Household Hazardous Waste event in partnership with Roxbury thereby decreasing the HHW revenue line by \$15,000. Budgeted expenses were reduced for 2014-15. Staff and medical benefits will be down due to the staff changes noted below. Legal expenses will decrease due to the settlement with the owners of the proposed new transfer station in Danbury, and HHW cost will be down due to dropping the Bridgewater collection. Office expenses were increased in anticipation of the possible office relocation that is being influenced by the HVCEO merger.

Overall revenues are expected to be sufficient to finance the current year's operation without use of the fund balance. Revenues for 2014-15 are based on a contracted MSW program fee of \$.81 per ton for the 2014 calendar year. MSW tonnage in 2013-14 fell again for the seventh 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 2013-14 MSW tonnage coming into the HRRRA system was at 104% of the minimum annual guarantee. Six member municipalities, the Towns of Bridgewater, Brookfield, Kent, New Milford, Redding and Sherman 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 HRRRA system in 2013-14 continued to be the result of intentional diversion of tonnage to non-HRRRA transfer stations by some haulers in the region to either out of state transfer stations or in-state options with lower tip fees. The continued diversion of some MSW material to the recycling stream has also had an effect on the drop in MSW tonnage.

Recycling tonnage for the HRRRA member municipalities delivered to the Winters Bros. Recycling Center increased by approximately 39% to 11,422 tons in 2013-14. The increase was the result of All American Waste continuing to bring tonnage to the White Street Transfer Station. Recycling revenues for 2013-14 were paid at \$10/ton by Winters Bros.

For 2014-15 the Authority initiated its succession plan and appointed the Assistant Director to the position of Director and the former Director to the role of Assistant Director decreasing the hours of the position to 12 hours a week. The new Director accepted a stipend in lieu of medical insurance.

Until the HVCEO merger takes place, HRRRA will remain in its current location at the Old Town Hall in Brookfield.

**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 Jen Iannucci, 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, 2014

Assets:

Cash and cash equivalents	\$ 219,461
Investments	433,917
Accounts receivable	34,607
Prepaid expenses and other	93
Total assets	<u><u>\$ 688,078</u></u>

Liabilities:

Accounts payable and accrued expenses	\$ 14,811
Prepaid hauler permits and fees	9,129
Total liabilities	<u><u>23,940</u></u>

Net Position:

Unrestricted	664,138
Total net position	<u><u>664,138</u></u>
Total liabilities and net position	<u><u>\$ 688,078</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, 2014

Program Activities	Expenses	Program Revenues		Governmental Activities
		Charges for Services - User Fees	Operating Grants and Reimbursements	
Public works	\$ -	\$ 238,785	\$ 22,300	\$ 261,085
Staffing	158,605	-	-	(158,605)
Household Hazardous Waste Day	90,103	-	84,697	(5,406)
Education	33,709	-	-	(33,709)
Professional services	54,233	-	-	(54,233)
Municipal hauler registration reimbursement	26,385	26,480	-	95
Office expenses	10,284	-	-	(10,284)
Insurance	6,489	-	-	(6,489)
Audit	6,000	-	-	(6,000)
Miscellaneous	3,998	-	-	(3,998)
Travel/mileage reimbursement	2,160	-	-	(2,160)
Total governmental activities	<u>391,966</u>	<u>265,265</u>	<u>106,997</u>	<u>(19,704)</u>
		General revenues:		
				22,721
				30
			Total general revenues	<u>22,751</u>
			Change in net assets	3,047
			Net Position---beginning of year	661,091
			Net Position---end of year	<u>\$ 664,138</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

Balance Sheet---Governmental Funds

As of June 30, 2014

	General Fund
	<u> </u>
Assets	
Cash and cash equivalents	\$ 219,461
Investments	433,917
Accounts receivable	34,607
Prepaid expenses and other	93
Total assets	<u><u>\$ 688,078</u></u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable and accrued expenses	\$ 14,811
Prepaid hauler permits and fees	9,129
Total liabilities	<u>23,940</u>
Fund Balances:	
Unassigned	664,138
Total fund balances	<u>664,138</u>
Total liabilities and fund balances	<u><u>\$ 688,078</u></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, 2014

	General Fund
Revenues	
Charges for services - User fees	\$ 265,265
Intergovernmental	84,697
Investment earnings	22,721
Miscellaneous	22,330
Total revenues	<u>395,013</u>
Expenditures	
Current:	
Public works	
Staffing	158,605
Household Hazardous Waste Day	90,103
Education	33,709
Professional services	54,233
Municipal hauler registration reimbursement	26,385
Office expenses	10,284
Insurance	6,489
Audit	6,000
Miscellaneous	3,998
Travel/mileage reimbursement	2,160
Total general government	<u>391,966</u>
Excess of revenues over expenditures	3,047
Fund balance--at beginning of year	661,091
Fund balance--at end of year	<u>\$ 664,138</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

Notes to Financial Statements

June 30, 2014

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 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, 2014

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 regional recycling facility 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, 2014

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, 2014.

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 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, 2014

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 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 2014-15 hauler registration and municipal permit fees received in advance of July 1, 2014.

Net Position

Net position is the net effect of assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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. Opening net position has been decreased by \$217 to reflect adjustments made to benefit related liability accounts.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2014

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

Opening fund balance has been decreased by \$217 to reflect adjustments made to benefit related liability accounts.

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 5, 2014, 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, 2014

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits and investments consist of the following at June 30, 2014:

Cash in checking	\$ 204,137
Short-Term Investment Fund (STIF)	<u>15,325</u>
	<u>\$ 219,462</u>
Investment in mutual funds	<u>\$ 433,917</u>
Total investments	<u>\$ 433,917</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 bank's 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, 2014

**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, 2014 the carrying amount of the Authority's deposits in financial institutions was \$204,137 and the bank balance was \$224,973. The entire bank balance was insured at year-end.

At June 30, 2014, the Authority had \$15,325 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 \$50 million (as of June 2014). 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, 2014 the Authority had \$433,917 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, 2014 the Authority contributed \$9,094 to the plan on eligible wages of \$122,020.

NOTE 4 - RELATED PARTY TRANSACTIONS

During the year the Authority received a total of \$84,697 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, 2014.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2014

NOTE 5 - COMMITMENTS

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 market 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. The Agreement may be extended by mutual consent for an additional three years to 2019. At no time during 2013-14 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 the Company's 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 - COMPLIANCE AND ACCOUNTABILITY

At June 30, 2014 the following line items exceeded the amended budget.

	<u>Amended Budget</u>	<u>Actual</u>	<u>(Unfavorable)</u>	
Professional services	\$ 53,000	\$ 54,233	\$ (1,233)	(a)

(a) Consulting fees related to battery stewardship not budgeted.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2014

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 2013-14, 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 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, 2014

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:					
Charges for services - User fees	\$ 250,000	\$ -	\$ 250,000	\$ 265,265	\$ 15,265
Intergovernmental	90,000	-	90,000	84,697	(5,303)
Investment earnings and other	15,500	-	15,500	22,721	7,221
Miscellaneous	25,300	-	25,300	22,330	(2,970)
Total revenues	380,800	-	380,800	395,013	14,213
Expenditures:					
General government					
Audit	6,000	-	6,000	6,000	-
Education	49,500	-	49,500	33,709	15,791
Household Hazardous Waste Day	94,500	-	94,500	90,103	4,397
Insurance	7,150	-	7,150	6,489	661
Miscellaneous	4,000	-	4,000	3,998	2
Municipal hauler registration reimbursement	25,000	5,000	30,000	26,385	3,615
Office expenses	11,195	-	11,195	10,284	911
Professional services	25,500	27,500	53,000	54,233	(1,233)
Staffing	165,918	(1,000)	164,918	158,605	6,313
Travel/mileage reimbursement	1,750	1,000	2,750	2,160	590
Total expenditures	390,513	32,500	423,013	391,966	31,047
Excess of revenues (under) over expenditures	(9,713)	(32,500)	(42,213)	3,047	45,260
Other Financing Sources:					
Designation of Fund Balance	9,713	32,500	42,213	-	(42,213)
Excess of revenues and other financing sources over expenditures	\$ -	\$ -	\$ -	\$ 3,047	\$ 3,047

Housatonic Resources Recovery Authority

Notes to Required Supplemental Information

June 30, 2014

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. The original budget included a designation of fund balance of \$9,713. There were also supplemental appropriations during the year totaling \$32,500.

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, 2014.

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