

Housatonic Resources Recovery Authority

Financial Statements with Independent Auditor's Report

Year Ended June 30, 2018

Housatonic Resources Recovery Authority

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June 30, 2018

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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, 2018, 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, 2018, 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 3-8 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 7, 2018

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, 2018. 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 position decreased by \$42,511 in 2018 compared to a decrease of \$30,995 in 2017.
- The total cost of the Authority's programs and administration was \$467,139 and \$393,924 for 2018 and 2017, respectively.
- During fiscal year 2018, the Authority's revenues from program and administrative fees, and hauler permits increased over the prior year by \$47,829 to \$259,977 as a result of an overall increase in recycling fees over the prior year.

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 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 Position and the Statement of Activities

Our analysis of the Authority as a whole begins on page 9. 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 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 are 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.

Required 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 2018 compared to 2017:

<u>Table 1</u>	As of June 30,	
	2018	2017
Current assets	\$ 728,925	\$ 772,218
Capital assets, net	3,626	3,284
Total assets	732,551	775,502
Current liabilities	(4,255)	(4,695)
Net position:		
Invested in capital assets	3,626	3,284
Unrestricted	724,670	767,523
Total net position	\$ 728,296	\$ 770,807

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

FINANCIAL ANALYSIS OF THE AUTHORITY (continued)

Table 2	For the Year Ended June 30,	
	2018	2017
Revenues		
Program revenues:		
Charges for services - user fees	\$ 291,177	\$ 236,908
Operating grants and reimbursements	130,848	115,744
	422,025	352,652
General revenues:		
Investment earnings and miscellaneous	2,603	10,277
Total revenues	424,628	362,929
Program expenses		
General government	467,139	393,924
Decrease in net position	(42,511)	(30,995)
Net position unrestricted - beginning	770,807	801,802
Net position unrestricted - ending	\$ 728,296	\$ 770,807

Governmental Activities and General Fund

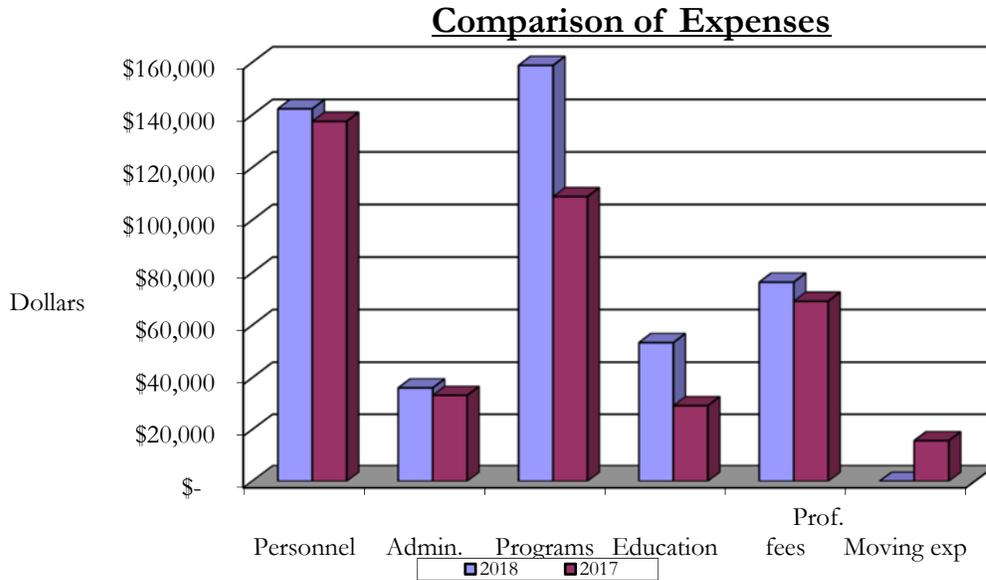
The Authority's operations are accounted for as Governmental Activities. Net position of the governmental activities decreased in 2018. MSW tonnage in the 2017-18 FY increased for the first time in ten years. In 2006 MSW tonnage was approximately 149% of the contractual benchmark in the Waste Supply and Disposal Agreement (WSDA). At the end of the 2017-18 FY MSW tonnage coming into the HRRR system was at 106% of the contractual benchmark.

Recycling tonnage for the HRRR member municipalities delivered to the Oak Ridge Transfer Stations, LLC (formerly known as Winters Bros. Transfers Stations of CT, LLC) recycling center increased by approximately 15% to 11,896 tons in 2017-18. Recycling revenue for 2017-18 was paid at \$7.50/ton and \$6.25/ton by Oak Ridge Transfer Stations, LLC ("Oak Ridge") from July 2017 to June 2018.

General revenues include net investment income and gains totaling \$2,603. Total costs of governmental activities increased for the year ended June 30, 2018 from 2017 due to annual increases for payroll, significant increases in legal expenses due the MSW and Recycling contract negotiations, as well as increases in education and Household Hazardous Waste expenses, offset by no moving costs in the current year. Total expenditures in the General Fund were different from the total expenses in the Statement of Activities due to depreciation and capital asset additions.

**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.

<u>Table 3</u>	Original Budget	Original/Final Budget	Actual	Variance
Revenues:				
Program revenues:				
Charges for services - user fees	\$ 283,000	\$ 283,000	\$ 291,177	\$ 8,177
Operating grants and reimbursements	140,000	140,000	132,412	(7,588)
	423,000	423,000	423,589	589
General revenues:				
Investment earnings and other	12,000	12,000	1,039	(10,961)
Total revenues	435,000	435,000	424,628	(10,372)
Expenditures:				
General government	485,000	485,000	467,481	17,519
Total expenditures	485,000	485,000	467,481	17,519
Excess of revenues (under) over expenditures	(50,000)	(50,000)	(42,853)	7,147
Other Financing Sources:				
Designation of Fund Balance	50,000	50,000	-	(50,000)
Excess of revenues and other financing sources under expenditures	\$ -	\$ -	\$ (42,853)	\$ (42,853)

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

FINANCIAL ANALYSIS OF THE AUTHORITY (continued)

During the year ended June 30, 2018 the Authority made several line item changes to the general fund budget that did not increase budgeted expenditures. Overall, actual expenditures were below budget by approximately \$17,519 for the year ended June 30, 2018.

Financial Ratios

The following financial ratios should be used to assess the financial stability of the Authority's Governmental Activities over an extended period. 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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Working Capital	\$724,700	\$767,500	\$802,000	\$736,000	\$665,000
Current Ratio	171.3	165.5	161.4	34.1	28.7

“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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Days in Operating Cash	507	567	707	686	653

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

CAPITAL ASSETS AND DEPRECIATION

At June 30, 2018, the Authority had \$5,559 invested in capital assets consisting of office equipment and furniture. These capital assets were purchased during the last two years. Depreciation for the current year is \$1,112.

**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 2018-19 budget that included approximately \$461,500 in revenues, and \$461,500 in proposed expenditures. Overall revenues are expected to be sufficient to finance the current year's operation. The budget was approved by the Authority with operating expenditures of \$461,500.

Budgeted revenue overall has increased in 2018-19 by \$26,500. Grants and donations were reduced by \$18,000. Hauler permit fees are expected to have a small decrease to reflect the number of projected permits to be issued in the 2018-19 FY. Interest Income is expected to be the same. HHW revenue increased by \$50,000 to reflect the Authority's authorization to add an additional HHW event in July for a total of \$135,000. Oak Ridge agreed to hold the recycling rebate at \$7.50 for the 2018-19 FY. In addition, since the approval of the 2018-19 budget All American Waste has stopped bringing recycling tonnage into the HRRRA system with an estimated loss of \$3,000 a month.

Budgeted expenses overall had an increase for 2018-19 by \$23,500. There were two significant changes in the 2018-19 budget to expenditures. One was the addition of a third HHW event. The second change was that staff was given a 2.5% increase in salary and the executive director hours were increased from 37.5 hours per week to 40 hours increasing the director's salary to reflect the increase in hours. In addition, the director per the personnel policy was issued life insurance and long-term disability insurance.

Revenues for 2018-19 are based on a contracted MSW program fee of \$1.00 per ton for the 2018 calendar year. MSW tonnage in the 2017-18 FY increased for the first time in ten years. In 2006 MSW tonnage was approximately 149% of the contractual benchmark in the Waste Supply and Disposal Agreement (WSDA). At the end of the 2017-18 FY MSW tonnage coming into the HRRRA system was at 106% of the contractual benchmark. Wheelabrator is expected to make their contracted program fee payments to HRRRA during the FY, meeting the revenue budgeted for MSW program fees.

Recycling tonnage for the HRRRA member municipalities delivered to the Oak Ridge recycling center increased by approximately 15% to 11,896 tons in 2017-18. Recycling revenue for 2017-18 changed from \$7.50/ton to \$6.25/ton back to \$7.50/ton by Oak Ridge from July 2017 to June 2018.

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 Jennifer Heaton-Jones, Executive 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, 2018

Assets:

Cash and cash equivalents	\$ 127,011
Investments	514,416
Accounts receivable	87,498
Capital assets, net of depreciation	3,626
Total assets	<u>\$ 732,551</u>

Liabilities:

Accounts payable and accrued expenses	<u>\$ 4,255</u>
Total liabilities	<u>4,255</u>

Net Position:

Invested in capital assets	3,626
Unrestricted	724,670
Total net position	<u>728,296</u>
Total liabilities and net position	<u>\$ 732,551</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

Statement of Activities---Governmental Activities

For the Year Ended June 30, 2018

Program Activities	Expenses	Program Revenues		Governmental Activities
		Charges for Services - User Fees	Operating Grants and Reimbursements	
General Government	\$ -	\$ 259,977	\$ 53,530	\$ 313,507
Staffing	142,350	-	-	(142,350)
Household Hazardous Waste Expense	127,667	-	77,318	(50,349)
Professional services	76,390	-	-	(76,390)
Education	53,399	-	-	(53,399)
Reimbursement of collected fees	31,200	31,200	-	-
Office expenses	20,843	-	-	(20,843)
Insurance	7,526	-	-	(7,526)
Miscellaneous	4,615	-	-	(4,615)
Travel/mileage reimbursement	2,037	-	-	(2,037)
Depreciation	1,112	-	-	(1,112)
Total governmental activities	<u>467,139</u>	<u>291,177</u>	<u>130,848</u>	<u>(45,114)</u>
		General revenues:		
				1,039
				1,564
			Total general revenues	<u>2,603</u>
			Change in net position	(42,511)
			Net Position---beginning of year	770,807
			Net Position---end of year	<u>\$ 728,296</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

Balance Sheet---Governmental Fund

As of June 30, 2018

	General Fund
	<u> </u>
Assets	
Cash and cash equivalents	\$ 127,011
Investments	514,416
Accounts receivable	87,498
Total assets	<u>\$ 728,925</u>
Liabilities and Fund Balance	
Liabilities:	
Accounts payable and accrued expenses	\$ 4,255
Total liabilities	<u>4,255</u>
Fund Balance:	
Unassigned	724,670
Total fund balance	<u>724,670</u>
Total liabilities and fund balance	<u>\$ 728,925</u>

Reconciliation of Governmental Fund Balance Sheet to Statement of Net Position:

Total fund balance of governmental fund	\$ 724,670
Add: Capital assets, net of depreciation	3,626
Total net position of governmental activities	<u>\$ 728,296</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

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

For the Year Ended June 30, 2018

	General Fund
Revenues	
Charges for services - User fees	\$ 291,177
Intergovernmental	77,318
Investment earnings	1,039
Miscellaneous	55,094
Total revenues	<u>424,628</u>
Expenditures	
Current:	
General Government	
Staffing	142,350
Household Hazardous Waste Expense	127,667
Professional services	76,390
Education	53,399
Reimbursement of collected fees	31,200
Office expenses	22,297
Insurance	7,526
Miscellaneous	4,615
Travel/mileage reimbursement	2,037
Total general government	<u>467,481</u>
Excess of expenditures over revenues	(42,853)
Fund balance--at beginning of year	767,523
Fund balance--at end of year	<u><u>\$ 724,670</u></u>

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Fund to the Statement of Activities:**

Net change in fund balance - governmental fund	(\$ 42,853)
Add: Capital outlay for office furniture	1,454
Less: Depreciation expense on capital assets	(1,112)
Change in net position of governmental activities	<u><u>(\$ 42,511)</u></u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

Notes to Financial Statements

June 30, 2018

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, 2018

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, 2018

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, 2018.

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, some 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, 2018

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 reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for a discussion of fair value measurements.

Receivables

Receivables at June 30, 2018 consist of accounts receivable for Program Fees. All accounts receivable is deemed collectible in full, and therefore no allowance for doubtful accounts exists.

Capital Assets and Depreciation

Capital assets consist of office furniture and computer equipment reported in the governmental-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets, if any, are valued at estimated fair market value on the date donated. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the depreciable capital assets are 5 years. Maintenance and repairs are recorded as expenses when incurred.

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.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2018

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 7, 2018, 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, 2018

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits and investments consist of the following at June 30, 2018:

Cash in checking	\$ 111,309
Short-Term Investment Fund (STIF)	<u>15,702</u>
	<u>\$ 127,011</u>
Investment in mutual funds	<u>\$ 514,416</u>
Total investments	<u>\$ 514,416</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 maintains 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.

In September 2017, the Authority voted to transfer funds from a higher risk investment account to a high-yield corporate investment fund with Vanguard.

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, 2018

**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, 2018, the carrying amount of the Authority's deposits in financial institutions was \$127,011 and the bank balance was \$139,910. The entire bank balance was insured at year-end.

The Authority had \$15,702 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 \$59.6 million (as of June 30, 2018). 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, 2018, the Authority had \$514,416 invested in mutual fund accounts.

Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted process in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority has the following recurring fair value measurements as of June 30, 2018: Mutual funds of \$514,416 that are primarily invested in U.S. Treasury notes are valued using quoted market prices (Level 1 inputs).

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, 2018 the Authority contributed \$7,001 to the plan on eligible wages of \$93,350.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2018

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

A summary of changes in capital assets is as follows:

	Balance			Balance
	June 30, 2017	Increases	Decreases	June 30, 2018
Furniture and equipment	\$ 4,105	\$ 1,454	\$ -	\$ 5,559
Accumulated depreciation	(821)	(1,112)	-	(1,933)
	<u>\$ 3,284</u>	<u>\$ 342</u>	<u>\$ -</u>	<u>\$ 3,626</u>

NOTE 5 - RELATED PARTY TRANSACTIONS

During the year the Authority received a total of \$77,318 from the participating regional towns as a reimbursement for the operation of the Household Hazardous Waste Day events. All amounts invoiced were received.

The Authority also leases for office space from the Town of Brookfield, one of its member towns. The terms of the lease are as follows: 5 years commencing on October 1, 2016 for \$81,000 payable as \$1,350 per month starting on September 1, 2016 and on the first of each month thereafter. Either party may terminate the lease at any time by giving notice at least 90 days prior to the effective date of termination. See NOTE 6.

NOTE 6 - COMMITMENTS

Service Agreements

The Authority and Oak Ridge 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 Oak Ridge recycling facility at 307 White Street in Danbury. The Agreement may be extended by mutual consent for an additional three years to 2019. In March 2016, the Authority extended the Agreement for three more years to June 30, 2019. The amended Agreement requires that the Authority be paid a variable rebate based upon the market price of recycling commodities but no less than \$5.00 per ton for the next three years for recycling generated within a member municipality that was delivered to Oak Ridge recycling facility at 307 White Street in Danbury. The amendment to the Agreement was effective on April 1, 2016. Subsequent to year-end, Oak Ridge agreed to increase the Recycling Rebate from \$5.00 to \$7.50 per ton for FY 2017-18. In November 2017, Oak Ridge temporarily decreased the Recycling Rebate from \$7.50 per ton to \$6.25 per ton due to current market conditions in China.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2018

NOTE 6 - COMMITMENTS (continued)

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.

On January 11, 2018, the Authority signed a Regional Solid Waste and Recycling Agreement with Oak Ridge to accept and dispose of municipal solid waste and recycling materials for the region. The Agreement is effective July 1, 2019 for a period of 10 years, with the right to extend this Agreement beyond the initial 10-year term for 3 separate additional 5-year periods. The Agreement includes all terms and fees related to the acceptance and disposal of municipal solid waste and recycling materials.

Operating Leases

On May 30, 2017, the Authority signed a lease for office space with the Town of Brookfield. The terms of the lease are as follows: 5 years commencing on October 1, 2016 for \$81,000 payable as \$1,350 per month starting on September 1, 2016 and on the first of each month thereafter. Either party may terminate the lease at any time by giving notice at least 90 days prior to the effective date of termination.

The Authority also has a lease for office equipment for a term of 48 months beginning October 2016. Minimum lease payments under this lease are \$140.88 per month.

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 HRRR Service Agreements.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

June 30, 2018

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to public officials, torts, injuries to employees and acts of God. The Authority purchases commercial insurance for all risks of loss. 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 HRRRA Service Agreements require that Oak Ridge Transfer Stations, LLC, Oak Ridge Hauling, 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.

NOTE 9 - FUND BALANCE POLICY

During the year the Authority approved a Fund Balance Policy to establish goals and provide guidance concerning the desired level of fund balance maintained by the Authority to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.

In accordance with the policy, the fund balance will be reviewed by the Executive Committee every year that it is over 200% of the non-reimbursable expenditures for the prior year. Additionally, no part of the fund balance can be spent without the approval of the full authority.

It is the goal of the Authority to achieve and maintain an unassigned fund balance in the general fund at fiscal year-end of not less than 100% of annual operating expenditures. If the unassigned fund balance at fiscal year-end falls below the goal, the Authority shall develop a restoration plan to achieve and maintain the minimum fund balance.

Required Supplemental Information

Housatonic Resources Recovery Authority

Budgetary Comparison Schedule---General Fund

For the Year Ended June 30, 2018

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Revenues:					
Charges for services - User fees	\$ 283,000	\$ -	\$ 283,000	\$ 291,177	\$ 8,177
Intergovernmental	85,000	-	85,000	77,318	(7,682)
Investment earnings and other	12,000	-	12,000	1,039	(10,961)
Miscellaneous	55,000	-	55,000	55,094	94
Total revenues	<u>435,000</u>	<u>-</u>	<u>435,000</u>	<u>424,628</u>	<u>(10,372)</u>
Expenditures:					
General government					
Contingency	20,000	(20,000)	-	-	-
Education	66,500	(12,899)	53,601	53,399	202
Household Hazardous Waste Expense	138,500	(4,426)	134,074	127,667	6,407
Insurance	7,485	-	7,485	7,526	(41)
Miscellaneous	6,050	(612)	5,438	4,615	823
Reimbursement for collected fees	40,000	-	40,000	31,200	8,800
Office expenses	23,200	-	23,200	22,297	903
Professional services	33,050	43,340	76,390	76,390	-
Staffing	148,015	(5,403)	142,612	142,350	262
Travel/mileage reimbursement	2,200	-	2,200	2,037	163
Total expenditures	<u>485,000</u>	<u>-</u>	<u>485,000</u>	<u>467,481</u>	<u>17,519</u>
Excess of revenues (under) over expenditures	(50,000)	-	(50,000)	(42,853)	7,147
Other Financing Sources:					
Designation of Fund Balance	50,000	-	50,000	-	(50,000)
Excess of revenues and other financing sources under expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (42,853)</u>	<u>\$ (42,853)</u>

See Independent Auditor's Report and notes to required supplemental information.

Housatonic Resources Recovery Authority

Notes to Required Supplemental Information

June 30, 2018

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 \$50,000 to fund the deficit of expenditures over revenues. During the year, several line item transfers were made that did not increase total budgeted expenditures.

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, 2018.

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