

Housatonic Resources Recovery Authority

Financial Statements

*Years Ended June 30, 2004 and 2003
with Report of Independent Auditors*

Housatonic Resources Recovery Authority
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June 30, 2004 and 2003

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NANAVATY, NANAVATY & DAVENPORT, LLP

Certified Public Accountants

Report of Independent Auditors

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Housatonic Resources Recovery Authority (the "Authority") as of and for the years ended June 30, 2004 and 2003, which comprise the Authority's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority as of June 30, 2004 and 2003, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9, the Authority has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as of June 30, 2003.

The management's discussion and analysis on pages 2-7 and the budgetary comparison schedule on pages 20-21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nanavaty, Nanavaty & Davenport, LLP

March 10, 2005

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, 2004 and 2003.

Please read it in conjunction with the Authority's financial statements, which begin on page 8.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 8, 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 and special revenue fund programs.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

Our analysis of the Authority as a whole begins on page 8. One of the most important questions asked about the Authority's finances is "Is the Authority better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, we present the Authority's operations as the following type of activities:

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

USING THIS ANNUAL REPORT (continued)

- Governmental activities: the Authority's basic services are reported here, including the public works and general administration. A per ton program fee for municipal solid waste and recycled materials finance most of these activities.

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 governmental funds accounting approach is as follows:

Governmental funds: the basic services that the Authority provides are reported in the general fund. The focus is on how money flows into and out of the general fund and the balance left at year-end that is available for spending. The Authority also uses a special revenue fund to account for assets accumulated for the Authority's Household Hazardous Waste and America Recycles Day programs.

Governmental funds 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 funds helps readers determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. The governmental activities presented in the Statement of Net Assets and the Statement of Activities is reconciled to the governmental funds in the Balance Sheet for the general fund.

THE AUTHORITY'S FINANCIAL HIGHLIGHTS

- The Authority's net assets decreased by \$30,648 or 70% in 2004 and \$166,595 or 79% in 2003 as a result of each year's operations.
- The total cost of the Authority's programs and administration was \$167,426 and \$225,959 for 2004 and 2003, respectively.
- During fiscal year 2004, the Authority's revenues from program and administrative fees increased by \$58,993 to \$73,983 as a result of the contract renegotiations with Wheelabrator Environmental Systems, Inc.
- In connection with the adoption of GASB #34, the Authority recorded \$1,200,000 of accumulated depreciation on capital assets of \$1,200,000. The Authority's capital asset consists of the recycling facility equipment, which was determined to have a 10-year life from the date of completion of construction in 1993.

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

THE AUTHORITY'S FINANCIAL HIGHLIGHTS (continued)

The following table and exhibits present condensed information about the General Fund's net assets, revenues and expenses for fiscal year 2004:

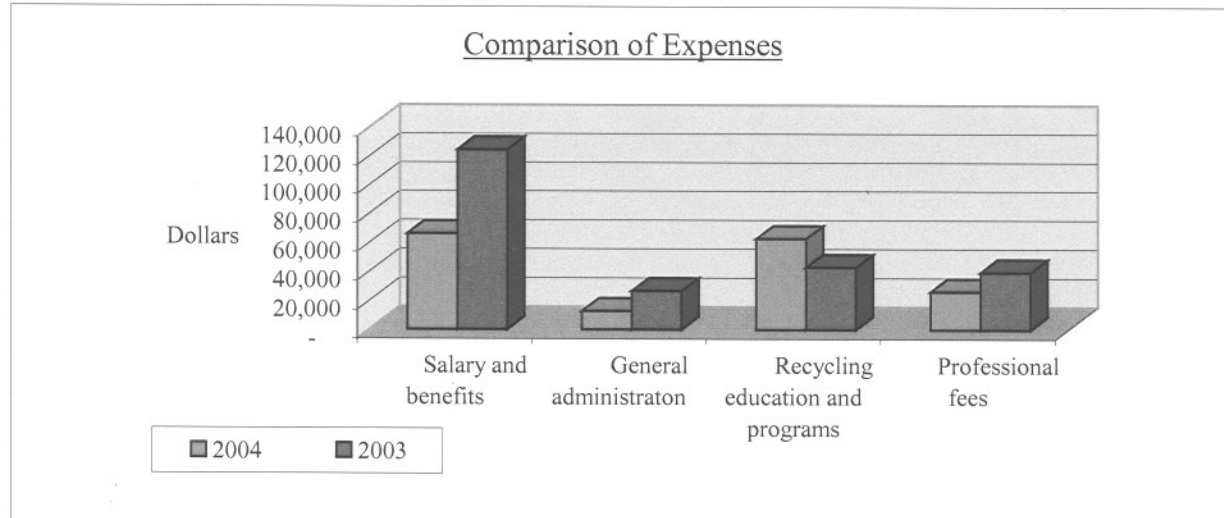
	As of June 30,	
	2004	2003
Current assets	\$ 78,300	\$ 68,400
Other liabilities	65,000	24,500
Net Assets	<u>\$ 13,300</u>	<u>\$ 43,900</u>

Net assets of the governmental activities decreased by \$30,600 or 70% in 2004 and \$166,600 or 79% in 2003. The decrease in both years was the result of the use of unrestricted funds for operating expenses, without adequate revenues to offset these expenses.

	As of June 30,	
	2004	2003
Revenues		
Program revenues:		
Charges for services - user fees	136,513	57,934
General revenues:		
Investment earnings	160	1,430
Miscellaneous	105	-
Total revenues	<u>136,778</u>	<u>59,364</u>
Program expenses		
Public works	<u>167,426</u>	<u>225,959</u>
Decrease in net assets	<u>(\$ 30,648)</u>	<u>(\$ 166,595)</u>

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

THE AUTHORITY'S FINANCIAL HIGHLIGHTS (continued)



Overall, expenses for operations decreased in 2004 as compared to 2003 due to lower personnel costs, legal fees and office expenses, offset by higher costs for the Household Hazardous Waste disposal program. Program and administrative fee revenues for municipal solid waste and recycling materials increased in 2004 by \$58,993 as a result of the completion of the Wheelabrator negotiations in January 2004.

Governmental Activities

Total revenues increased for the year ended June 30, 2004 over 2003 by 137% due to increases in the program and administration fees, household hazardous waste reimbursements and the receipt of \$40,000 in connection with the WES renegotiations. Total costs of governmental activities decreased for the year ended June 30, 2004 from 2003 due to reduction in staffing and employee related costs, and legal fees. The reductions were the result of a decision by the Authority to control costs by eliminating the assistant director position as well as finalizing the WES renegotiations and settling outstanding legal claims.

General Fund Budgetary Highlights

Over the course of the year ended June 30, 2004 and 2003 the Authority made some amendments to the general fund budget. The amendments were made to cover anticipated budget overruns. Even with the amendments that were made certain line items exceeded budget in the areas of legal expenses and insurance costs in 2004, and educational costs and staffing expenses in 2003. Overall, actual expenditures were below budget by approximately \$90,064 and \$51,536 for the years ended June 30, 2004 and 2003, respectively. Both years included a designation of budgetary fund balance to satisfy budget shortfalls. Due to revenue shortfalls, approximately \$30,000 of budgetary fund balance was actually used to fund governmental activities for the year ended June 30, 2004.

Housatonic Resource Recovery Authority

Management's Discussion and Analysis (Unaudited)

THE AUTHORITY'S FINANCIAL HIGHLIGHTS (continued)

Financial Ratios

The financial ratios below should be used to assess the financial stability of the Authority's Governmental Activities over an extended period of time. The ratios of Working Capital and Days in Cash demonstrate a continuing ability to finance operations with cash. 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.

"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.

	2004	2003	2002	2001	2000
Working Capital	\$ 13,000	\$ 44,000	\$ 210,600	\$ 247,800	\$ 377,800
Current Ratio	1.2	2.8	6.6	13.3	8.4

"Days in Cash" represents the number of days normal operations could continue with no future revenue collection.

	2004	2003	2002	2001	2000
Days in Operating Cash	74	40	248	303	439

"Return on Net Assets" measures profitability as a percentage of total net assets.

	2004	2003	2002	2001	2000
Return on Unrestricted Net Assets	-70.0%	-79%	-15.0%	-34.4%	-32.8%

CAPITAL ASSETS

At June 30, 2004 and 2003, the Authority had \$1,200,000 invested in a capital assets consisting of recycling facility equipment. At June 30, 2003 the recycling facility equipment was fully depreciated.

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

CAPITAL ASSETS (continued)

Capital Assets at year-end are as follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Recycling processing equipment	\$ 1,200,000	\$ 1,200,000
Accumulated depreciation	(1,200,000)	(1,200,000)
	<u>\$ -</u>	<u>\$ -</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Authority established a fiscal year 2004-05 budget that included approximately \$141,000 in revenues and expenses. After the budget was adopted, HVCEO provided the Authority with a grant of \$17,000 to be used to fund general administrative expenses. When the former Director resigned, the Authority brought on a new Director at fewer hours per week and was able to lower its biggest expense, personnel costs. Legal counsel costs are also anticipated to show significant decline over the previous two years due to the successful conclusion of the WES contract renegotiations. Based on the Authority's decision to make public recycling education a priority, expenses for public education should rise substantially in 2004-05 compared with previous years.

Overall, however, revenues are expected to be adequate to finance the current year expenditures, and no appropriations of unrestricted net assets are planned.

Revenues for 2004-05 are based on an approved MSW Facility program fee of \$.55 per ton and a Recycling Facility administrative fee of \$3.80 per ton. Annual MSW tonnage delivered to the HRRRA system, 172,000 tons in 2004, remains adequate to provide the contracted program fee. MSW tonnage increased 8.7% or almost 14,000 tons between 2003 and 2004. Recycling tonnage remains in the 12,000 tons per year range. Based, however, on the strong markets for all program recyclables except glass, the per ton HRRRA administrative fee for recyclables has increased from \$.84 per ton in 2002-03, to \$1.88 per ton in 2003-04, to \$3.80 per ton in 2004-05.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Housatonic Resource Recovery Authority, its member towns and cities, and the citizens of those municipalities, with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact Cheryl Reedy, Executive Director for the Authority, Old Town Hall, Route 25, Brookfield, Connecticut 06804

Housatonic Resources Recovery Authority
Statement of Net Assets
Governmental Activities

	As of June 30,	
	2004	2003
ASSETS		
Cash and cash equivalents	\$ 34,396	\$ 25,015
Accounts receivable	43,905	43,402
Capital assets, net of accumulated depreciation	-	-
Total assets	<u>\$ 78,301</u>	<u>\$ 68,417</u>
Liabilities		
Accounts payable	\$ 56,555	\$ 24,515
Due to member towns	7,907	-
Deferred revenues	585	-
Total liabilities	<u>65,047</u>	<u>24,515</u>
Net Assets:		
Invested in capital assets	-	-
Unrestricted	13,254	43,902
Total net assets	<u>13,254</u>	<u>43,902</u>
Total liabilities and net assets	<u>\$ 78,301</u>	<u>\$ 68,417</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority
Statement of Activities
For The Year Ended June 30, 2004

Program Activities	Expenses	Program Revenues	Governmental Activities
		Charges for Services - User Fees	
Governmental activities:			
Public works	\$ -	\$ 73,983	\$ 73,983
Salary and benefits	60,144		(60,144)
Office expenses	3,079		(3,079)
Recycling education and programs	62,680	62,530	(150)
Counsel	22,173		(22,173)
Health insurance	1,569		(1,569)
Pension	4,161		(4,161)
Audit	4,000		(4,000)
Insurance	9,520		(9,520)
Miscellaneous	100		(100)
Total governmental activities	<u>167,426</u>	<u>136,513</u>	<u>(30,913)</u>
		General revenues:	
		Investment earnings	160
		Miscellaneous	105
			<u>265</u>
	Change in net assets		(30,648)
	Net Assets---beginning, as adjusted		43,902
	Net Assets---ending		<u><u>\$ 13,254</u></u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority
Statement of Activities
For The Year Ended June 30, 2003

<u>Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services - User Fees</u>	<u>Governmental Activities</u>
Governmental activities:			
Public works	\$ -	\$ 14,990	\$ 14,990
Salary and benefits	102,698		(102,698)
Office expenses	17,489		(17,489)
Recycling education and programs	43,040	42,944	(96)
Counsel	35,230		(35,230)
Health insurance	7,115		(7,115)
Pension	6,799		(6,799)
Audit	4,400		(4,400)
Insurance	8,533		(8,533)
Miscellaneous	655		(655)
Total governmental activities	<u>225,959</u>	<u>57,934</u>	<u>(168,025)</u>
		General revenues:	
		Investment earnings	<u>1,430</u>
			<u>1,430</u>
	Change in net assets		<u>(166,595)</u>
	Net Assets---beginning, as adjusted		<u>210,497</u>
	Net Assets---ending		<u><u>\$ 43,902</u></u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority
Balance Sheet---Governmental Funds

	As of June 30, 2004			As of June 30, 2003		
	General Fund	Special Revenue Fund	Total Governmental Funds	General Fund	Special Revenue Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 34,396	\$ -	\$ 34,396	\$ 25,015	\$ -	\$ 25,015
Accounts receivable	43,905		43,905	43,402		43,402
Due from other funds	-	4,915	4,915	-	4,915	4,915
Total assets	<u>\$ 78,301</u>	<u>\$ 4,915</u>	<u>\$ 83,216</u>	<u>\$ 68,417</u>	<u>\$ 4,915</u>	<u>\$ 73,332</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 56,555	\$ -	\$ 56,555	\$ 24,515	\$ -	\$ 24,515
Due to member towns	7,907		7,907	-	-	-
Due to other funds	4,915		4,915	4,915	-	4,915
Deferred revenues	585	-	585	-	-	-
Total liabilities	<u>69,962</u>	<u>-</u>	<u>69,962</u>	<u>29,430</u>	<u>-</u>	<u>29,430</u>
Fund Balances:						
Reserved for site acquisition	-	-	-	86,437	-	86,437
Unreserved and undesignated	8,339	4,915	13,254	(47,450)	4,915	(42,535)
Total fund balances	<u>8,339</u>	<u>4,915</u>	<u>13,254</u>	<u>38,987</u>	<u>4,915</u>	<u>43,902</u>
Total liabilities and fund balances	<u>\$ 78,301</u>	<u>\$ 4,915</u>	<u>\$ 83,216</u>	<u>\$ 68,417</u>	<u>\$ 4,915</u>	<u>\$ 73,332</u>
Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets:						
Total fund balance of governmental funds			\$ 13,254			\$ 43,902
Add: Capital assets, net of depreciation			-			-
Total net assets of governmental activities			<u>\$ 13,254</u>			<u>\$ 43,902</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, 2004			For The Year Ended June 30, 2003		
	General Fund	Special Revenue Fund	Total Governmental Funds	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues						
Charges for services - User fees	\$ 73,983	\$ -	\$ 73,983	\$ 14,990	\$ -	\$ 14,990
Intergovernmental	-	62,530	62,530	-	42,944	42,944
Investment earnings	160	-	160	1,430	-	1,430
Other revenues	105	-	105	-	-	-
Total revenues	74,248	62,530	136,778	16,420	42,944	59,364
Expenditures						
Current:						
Public works						
Salary and benefits	60,144	-	60,144	102,698	-	102,698
Office expenses	3,079	-	3,079	17,489	-	17,489
Recycling education and programs	150	62,530	62,680	96	42,944	43,040
Counsel	22,173	-	22,173	35,230	-	35,230
Health insurance	1,569	-	1,569	7,115	-	7,115
Pension	4,161	-	4,161	6,799	-	6,799
Audit	4,000	-	4,000	4,400	-	4,400
Insurance	9,520	-	9,520	8,533	-	8,533
Miscellaneous	100	-	100	655	-	655
Total general government	104,896	62,530	167,426	183,015	42,944	225,959
Excess of revenues over expenditures	(30,648)	-	(30,648)	(166,595)	-	(166,595)
Fund balance--at beginning of year	38,987	4,915	43,902	205,582	4,915	210,497
Fund balance--at end of year	\$ 8,339	\$ 4,915	\$ 13,254	\$ 38,987	\$ 4,915	\$ 43,902

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Housatonic Resources Recovery Authority (the "Authority") was created in July 1986 in accordance with the Connecticut General Statutes Chapter 103b, Municipal Resource Recovery Authorities. The Authority was established for the purpose of providing municipal solid waste and recycling management for the Housatonic Valley municipalities of Danbury, Bethel, Bridgewater, Brookfield, Kent, New Fairfield, New Milford, Newtown, Redding, Ridgefield and Sherman. The Authority, a joint venture of 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.

As required by generally accepted accounting principles, these financial statements present all the significant activities on which the Authority exercises oversight responsibility for the years ended June 30, 2004 and 2003.

Basis of Presentation – Fund Accounting

The accounting system is organized and operates on a fund basis. 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's funds use one fund category for financial statement presentation purposes: Governmental funds, which include the general and special revenue funds.

Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Authority. The governmental activities of the Authority are supported by user fees and intergovernmental revenues.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliation with brief explanation to better identify the relationship between the government-wide financial statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financial statements.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect (as applicable), and revenues of the Authority for its governmental services. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses are those that are allocated between the funds to reflect a more appropriate presentation. Revenues include per ton program and administrative fees paid by those collectors of municipal solid waste and recyclables within the HRRA region who use any of the three MSW transfer stations and/or the recycling Intermediate Processing Center ("IPC") provided by member municipalities, through HRRA, to meet each municipality's obligation under state law to "make provisions for the disposal of solid waste generated within its borders." These fees are remitted monthly from RTI and WES to HRRA based on formulas found in the HRRA Service Agreements. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Authority.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions enabling legislation. The adoption of GASB No. 34, *"Basic Financial Statements---and Management's Discussion and Analysis---State and Local Governments"* required the Authority to record accumulated depreciation on the recycling facility equipment equal to its full value. Therefore, there was no effect on opening net assets at July 1, 2002.

Separate financial statements are provided for governmental funds. The major individual governmental funds are the general fund and the special revenue fund.

Fund Financial Statements

Fund financial statements report detailed information about the Authority. The focus of governmental fund financial statements is on major funds. The major funds of the Authority are the General fund and the Special Revenue fund.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this method, revenues are recognized when susceptible to accrual (i.e. when they become measurable and available). Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Expenditure Recognition

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual grants are used as guidance. User fees for access to services, which include Program Fees and Administrative Fees, are recognized as revenue when earned in accordance with contract terms. Deferred revenues consist of hauler registration fees collected in advance of July 1, 2004.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Allocations of costs, such as depreciation, are not recognized in the governmental funds.

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 Authority or its agent in the Authority's name.

Receivables

Receivables at June 30, 2004 and 2003 consist of accounts receivable for Program and Administrative Fees and reimbursements from member towns. All accounts receivable are deemed collectible in full.

Capital Assets and Depreciation

Capital assets consist of recycling facility equipment and are recorded at cost. Donated fixed assets, if any, are valued at estimated fair market value on the date donated. Depreciation of capital assets is computed and recorded by the straight-line method. The estimated useful life of the depreciable capital asset is 10-years. The cost of maintenance and repairs is charged to operations as incurred.

Net Assets

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

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control within the Authority for the General Fund and certain Special Revenue Funds. 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. During the year, appropriations of fund balance were necessary to fund budgeted operating deficits in the General Fund and balance the budget. The effects of the above-mentioned appropriations of fund balance were \$16,220 and \$206,623 for June 30, 2004 and 2003, respectively.

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, 2004 and 2003.

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

Housatonic Resources Recovery Authority
Notes to Financial Statements (continued)

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY (continued)

The general fund had the following unfavorable budget variances for the year ended June 30, 2004:

<u>Account</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Counsel - Legal	\$ 10,000	\$ 22,173	\$ (12,173)
Insurance	\$ 8,533	\$ 9,520	\$ (987)

(a) Invoices for services were received after the final budget transfers were approved.

(b) June 30, 2004 accruals not covered by budget.

The general fund had the following unfavorable budget variances for the year ended June 30, 2003:

<u>Account</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Education - Staff	\$ (500)	\$ -	\$ (500) (a)
Staffing	\$ 113,800	\$ 116,612	\$ (2,812) (b)

(a) Error in budget transfers

(b) June 30, 2003 and prior payroll tax accruals not covered by budget.

NOTE 3 - CASH AND CASH EQUIVALENTS

The following is a summary of cash and cash equivalents at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Deposits	\$ 27,258	\$ 17,960
Short-Term Investment Fund (STIF)	7,138	7,055
Total Cash and Cash Equivalents	<u>\$ 34,396</u>	<u>\$ 25,015</u>

At June 30, 2004 and 2003 the Authority through its investment in STIF, held investments in adjustable rate asset backed, corporate, federal agency and other government bonds whose interest rate varies directly with short-term money market indices and are reset daily, weekly, monthly, quarterly, and semi-annually. The STIF is a fund managed by the Treasurer's Office of the State of Connecticut.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

There was no activity for the years ended June 30, 2004 and 2003. Capital assets consist of the following:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Recycling processing equipment	\$ 1,200,000	\$ 1,200,000
Accumulated depreciation	<u>(1,200,000)</u>	<u>(1,200,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 - PENSION PLANS

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, 2004 and 2003 the Authority contributed \$4,161 and \$6,799 to the plan on eligible wages of \$55,500 and \$90,700.

NOTE 6 - FUND BALANCE DESIGNATIONS

At June 30, 2003 the Authority has designated \$86,437 of fund balance representing amounts collected from member towns for "Site Acquisition Options." These funds are to be used for future facility site acquisition. On January 1, 2004 the contract with WES was renegotiated and now requires only three transfer stations. Therefore, this designation is not required as of June 30, 2004.

NOTE 7 - COMMITMENTS

On March 13, 1991 the Authority entered into a construction and service agreement with Recycling Technologies, Inc. (RTI) for the design and construction of a regional recycling facility in Danbury, Connecticut. The facility remains the property of RTI; while certain recycling equipment with a cost of \$1.2 million purchased with grant funds remains the property of the Authority. The service agreement states that RTI shall operate, maintain and repair the facility for a term of 10 years beginning on the acceptance date, with options for extension. In October 2001 the Authority voted to exercise its option to extend the agreement for an additional 5 years. In connection with the service agreement RTI originally gave the Authority \$500,000 as a guarantee to faithfully perform and comply with the terms of the service agreement. Pursuant to the agreement, the funds were gradually reduced, in accordance with a schedule of repayments, and \$83,000 remains in the account, and will remain for the balance of the agreement unless used for their guarantee purposes. The funds are being held in an escrow account under the Authority's name.

Housatonic Resources Recovery Authority

Notes to Financial Statements (continued)

NOTE 7 – 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 ½ 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 8 - ECONOMIC DEPENDANCE

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 9 - PRIOR YEAR RESTATEMENTS

During June 30, 2003, the Authority adopted GASB No. 34, *"Basic Financial Statements---and Management's Discussion and Analysis---State and Local Governments."* Statement No. 34 established new financial reporting requirements for all state and local governments and governmental units and consists of the following as it relates to the Authority:

- Management's Discussion and Analysis.
- Government-wide financial statements combined with fund financial statements
- Notes to the financial statements.

The adoption of Statement No. 34 required an adjustment to opening net assets in order to comply with its provisions. The adjustment relates to recording capital assets and related accumulated depreciation. See Note 1 for further discussion of the restatement.

Supplemental Schedules

Housatonic Resources Recovery Authority
Budgetary Comparison Schedule---General Fund
For The Year Ended June 30, 2004

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues					
Charges for services - User fees	\$ 169,315	\$ -	\$ 169,315	\$ 73,983	\$ (95,332)
Investment earnings and other	9,425	-	9,425	265	(9,160)
Total revenues	178,740	-	178,740	74,248	(104,492)
Expenditures					
General government					
Audit	4,550	-	4,550	4,000	550
Contingency	20,000	5,000	25,000	-	25,000
Counsel - Legal	15,000	(5,000)	10,000	22,173	(12,173)
Education - Staff	1,000	-	1,000	-	1,000
Education - Public	15,000	-	15,000	150	14,850
Equipment office	500	-	500	-	500
Insurance	8,533	-	8,533	9,520	(987)
Miscellaneous	715	-	715	100	615
Office expenses	17,490	-	17,490	3,079	14,411
Staffing	111,777	-	111,777	65,874	45,903
Travel/reimbursement	395	-	395	-	395
Total expenditures	194,960	-	194,960	104,896	90,064
Excess of revenues over (under) expenditures	(16,220)	-	(16,220)	(30,648)	(14,428)
Other Financing Sources:					
Designation of fund balance	16,220	-	16,220	-	(16,220)
Excess of expenditures and other financing sources over revenues	\$ -	\$ -	\$ -	\$ (30,648)	\$ (30,648)

Housatonic Resources Recovery Authority
Budgetary Comparison Schedule---General Fund
For The Year Ended June 30, 2003

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues					
Charges for services - User fees	\$ 15,390	\$ -	\$ 15,390	\$ 14,990	\$ (400)
Investment earnings and other	12,538	-	12,538	1,430	(11,108)
Total revenues	27,928	-	27,928	16,420	(11,508)
Expenditures					
General government					
Audit	4,400	-	4,400	4,400	-
Contingency	20,000	-	20,000	-	20,000
Counsel - Legal	64,500	(4,800)	59,700	35,230	24,470
Education - Staff	500	(1,000)	(500)	-	(500)
Education - Public	5,000	-	5,000	96	4,904
Insurance	8,605	1,900	10,505	8,533	1,972
Miscellaneous	1,000	-	1,000	655	345
Office expenses	17,946	2,000	19,946	17,489	2,457
Staffing	111,900	1,900	113,800	116,612	(2,812)
Travel/reimbursement	700	-	700	-	700
Total expenditures	234,551	-	234,551	183,015	51,536
Excess of revenues over (under) expenditures	(206,623)	-	(206,623)	(166,595)	40,028
Other Financing Sources:					
Designation of fund balance	206,623	-	206,623	-	(206,623)
Excess of expenditures and other financing sources over revenues	\$ -	\$ -	\$ -	\$ (166,595)	\$ (166,595)