

**Housatonic Resources Recovery Authority**

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

**Year Ended June 30, 2006**

Housatonic Resources Recovery Authority

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June 30, 2006

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**NANAVATY, NANAVATY & DAVENPORT, LLP**

*Certified Public Accountants*

Report of Independent Certified Public Accountants

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, 2006, which comprises 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of the Authority as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2-7 and the budgetary comparison schedule on pages 19-21 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*

September 14, 2006

## *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, 2006. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

### **FINANCIAL HIGHLIGHTS**

- As a result of the operations the Authority's net assets increased by \$121,635 in 2006 compared to an increase of \$74,333 in 2005.
- The total cost of the Authority's programs and administration was \$204,694 and \$179,396 for 2006 and 2005, respectively.
- During fiscal year 2006, the Authority's revenues from program and administrative fees increased by \$70,266 to \$216,836 as a result of increased revenue sharing due to stronger recycling markets.

### **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 and 9) 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 10. 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 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 non-financial 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, the condition of the Authority's capital asset, 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 10. The Authority's only governmental fund is the general fund.

*Governmental funds:* the basic services that the Authority provides are reported in the governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that is available for spending. The governmental fund statements provide a detailed short-term view of the Authority's general governmental operations and the basic services that it provides. The information presented in the governmental fund helps readers determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. The governmental activities presented in the Statement of Net Assets and the Statement of Activities is reconciled to the governmental funds in the Balance Sheet of the general fund.

*Notes to the Financial Statements:* The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 12-18 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 19-21 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 2006 compared to 2005:

<u>Table 1</u>	<u>As of June 30,</u>	
	<u>2006</u>	<u>2005</u>
Current assets	\$ 220,703	\$ 108,645
Current liabilities	11,481	21,058
Net Assets - unrestricted	\$ 209,222	\$ 87,587

Net assets of the governmental activities increased by \$121,635 in 2006 compared to 74,333 in 2005. The increase in 2006 was the result of the higher revenue sharing due to the stronger recycling markets. Additionally, the Authority received an operating grant from HVCEO in the amount of \$17,000. The HVCEO grant is included in operating grants and reimbursements. Table 2 on the following page summarizes the change in net assets for the year.

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

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

**Table 2**

	<b>As of June 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Revenues</b>		
Program revenues:		
Charges for services - user fees	\$ 216,836	\$ 146,570
Operating grants and reimbursements	106,142	100,763
	322,978	247,333
General revenues:		
Investment earnings	3,337	377
Miscellaneous	14	6,019
	326,329	253,729
<b>Program expenses</b>		
Public works	204,694	179,396
<b>Increase (decrease) in net assets</b>	121,635	74,333
<b>Net assets (unrestricted) – beginning</b>	87,587	13,254
<b>Net assets (unrestricted) – ending</b>	\$ 209,222	\$ 87,587

*Governmental Activities and General Fund*

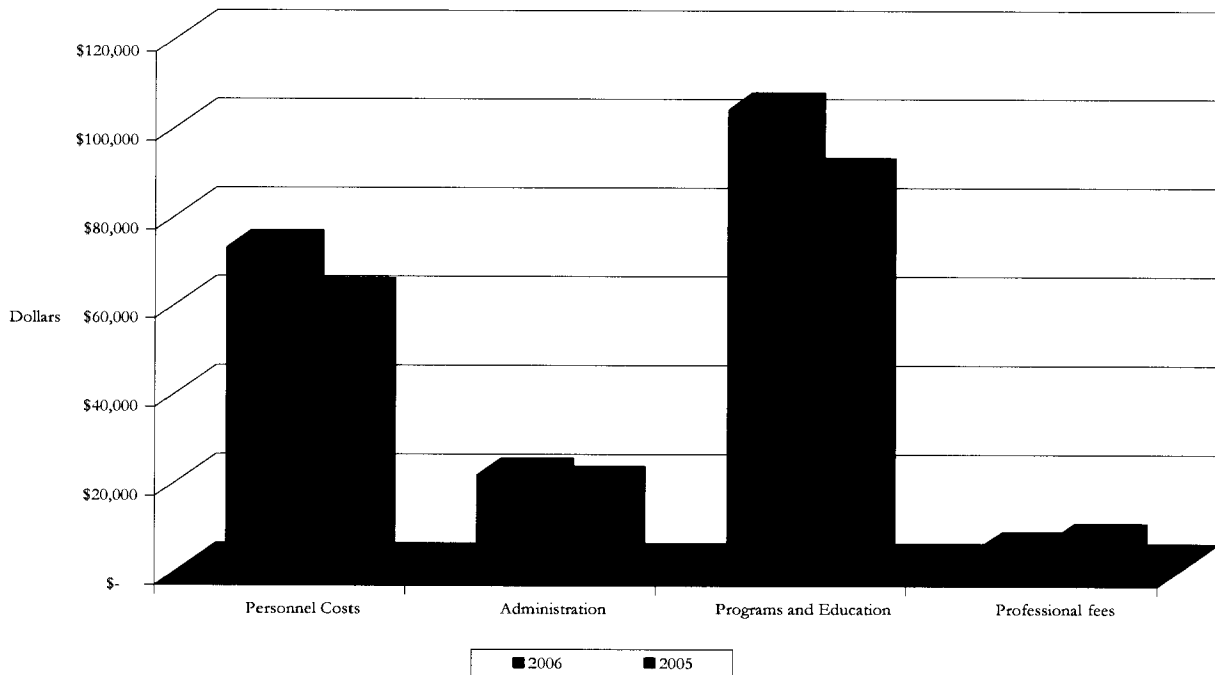
All of the Authority's operations are accounted for as Governmental Activities. Total revenues increased for the year ended June 30, 2006 over 2005 by 29% due to increases in the recycling fees. Total costs of governmental activities increased for the year ended June 30, 2006 from 2005 as a result of an increase of approximately \$11,000 in personnel costs and \$15,000 in household hazardous waste program expenses. Personnel costs included the Director's salary, health insurance, payroll taxes and pension contribution.

Total revenues in the General Fund were equal to the total revenues in the Statement of Activities. Total expenditures were lower in the General Fund due to \$3,500 in encumbrances that were recognized as expenditures in the General Fund in the year ended June 30, 2005.

**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.

<u><b>Table 3</b></u>	<u><b>Original Budget</b></u>	<u><b>Final Budget</b></u>	<u><b>Actual</b></u>	<u><b>Variance</b></u>
<b>Revenues</b>				
Program revenues:				
Charges for services - user fees	\$ 216,696	\$ 216,696	\$ 216,836	\$ 140
Operating grants and reimbursements	101,000	101,000	106,142	5,142
	<u>317,696</u>	<u>317,696</u>	<u>322,978</u>	<u>5,282</u>
General revenues:				
Investment earnings	360	360	3,351	2,991
<b>Total revenues</b>	<u>318,056</u>	<u>318,056</u>	<u>326,329</u>	<u>8,273</u>
<b>Program expenses</b>				
Public works	266,908	282,908	201,194	(81,714)
<b>Increase in net assets</b>	<u>\$ 51,148</u>	<u>\$ 35,148</u>	<u>\$ 125,135</u>	<u>\$ 89,987</u>



**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, 2006 the Authority made several amendments to the general fund budget. The amendments consisted of line item transfers within the established budget as well as a supplemental appropriation of \$16,000 to increase the Household Hazardous Waste Danbury Area Towns line item. Overall, actual expenditures were below budget by approximately \$81,700 for the year ended June 30, 2006.

*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.

“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>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Working Capital	\$ 209,200	\$ 87,600	\$ 5,800	\$ 36,000	\$ 210,600
Current Ratio	19.2	5.2	1.1	2.5	6.6

“Days in 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.

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Days in Operating Cash	319	163	57	26	248

**CAPITAL ASSETS**

At June 30, 2006, the Authority had \$1,200,000 invested in capital assets consisting of recycling processing equipment. At June 30, 2006 the recycling facility equipment was fully depreciated.

**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 2006-07 budget that included approximately \$302,000 in revenues and \$251,000 in expenses. Staffing expense increased in 2006-07 due to a change in the Director's hours from 28 to 30 hours per week and to increased costs for medical insurance. Household hazardous waste collection event costs are expected to rise due to the increased cost of fuel, which is reflected in a recovery fee surcharge for each event.

Federal indictments of some solid waste haulers in the region as well as the owner of the Danbury transfer station and recycling intermediate processing center in June of 2006 have, to date, had little or no impact neither on MSW or recycling tonnage nor on HRRR revenue. The financial operation of the transfer station and recycling center are being monitored by the U.S. Marshall, Asset Forfeiture Division, until there is a final disposition of the case. HRRR officials and staff are in regular contact with the Marshall's office. The only budgetary effect expected for HRRR from the federal probe will be legal fees of an estimated \$5,000 to \$10,000 in excess of the \$3,000 originally budgeted for the year. Overall, however, revenues are expected to be adequate to finance the current year expenditures.

Revenues for 2006-07 are based on an approved MSW Facility program fee of \$.55 per ton and a Recycling Facility administrative fee of \$11.37 per ton. MSW tonnage delivered to the HRRR system in 2005 and 2006 year to date remains adequate to provide the contracted program fee. MSW tonnage remained unchanged from 2004 to 2005, and is running at the same rate in 2006. MSW tonnage remains at approximately 150% of the contracted guaranteed annual tonnage in the Waste Supply and Disposal Agreement. Recycling tonnage is anticipated to decline by 5-10% in 2006, similar to the decrease in recycling tonnage in other parts of the State. The strong markets for program recyclables have weakened somewhat, and the per-ton HRRR administrative fee for recyclables decreased from \$13.46 per ton in 2005-06 to \$11.37 per ton in 2006-07. Still, the recycling administrative fee remains substantially higher than the \$1.88 per ton in 2003-04 and the \$3.80 per ton in 2004-05.

In order to better protect the Authority's financial health from unexpected changes in waste flow, recycling markets, collection rates, contract compliance and other forces in the solid waste and recycling environment that are outside the Authority's control, the Authority set as a financial goal the attainment by June 30, 2009 of an unrestricted net asset fund balance equal to 100% of the last completed fiscal year's budgeted annual expenditures, or approximately \$267,000 in 2005-06. At June 30, 2006, the Authority had unrestricted net assets equal to more than 75% of budgeted annual expenditures and was on track to be at 90% of its goal by June 30, 2007.

**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 citizen of those municipalities, with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact Cheryl D. Reedy, Director for the Authority, Old Town Hall, 162 Whisconier Road, Brookfield, Connecticut 06804.

## *Basic Financial Statements*

Housatonic Resources Recovery Authority

Statement of Net Assets---Governmental Activities

As of June 30, 2006

**Assets**

Cash and cash equivalents	\$ 179,249
Accounts receivable	41,454
Capital assets, net of accumulated depreciation	-
Total assets	<u>\$ 220,703</u>

**Liabilities**

Accounts payable	\$ 2,982
Accrued payroll liabilities	2,194
Deferred revenues	6,305
Total liabilities	<u>11,481</u>

**Net Assets:**

Invested in capital assets	-
Unrestricted	209,222
Total net assets	<u>209,222</u>
Total liabilities and net assets	<u>\$ 220,703</u>

*See accompanying notes to the basic financial statements.*

Housatonic Resources Recovery Authority

Statement of Activities---Governmental Activities

For the Year Ended June 30, 2006

Program Activities	Program Revenues			Governmental Activities
	Expenses	Charges for Services - User Fees	Operating Grants and Reimbursements	
Public works	\$ -	\$ 216,836	\$ 17,500	\$ 234,336
Salary and benefits	60,825	-	-	(60,825)
Office expenses	14,952	-	-	(14,952)
Recycling education and programs	104,146	-	88,642	(15,504)
Counsel	740	-	-	(740)
Health insurance	8,131	-	-	(8,131)
Pension	4,223	-	-	(4,223)
Audit	4,700	-	-	(4,700)
Insurance	5,646	-	-	(5,646)
Miscellaneous	1,087	-	-	(1,087)
Travel reimbursement	244	-	-	(244)
Total governmental activities	204,694	216,836	106,142	118,284
			General revenues:	
			Investment earnings	3,337
			Miscellaneous	14
				<u>3,351</u>
				<u>121,635</u>
Change in net assets				
Net Assets---beginning				87,587
Net Assets---ending				<u><u>\$ 209,222</u></u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

**Balance Sheet---Governmental Funds**

As of June 30, 2006

	<b>General Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 179,249
Accounts receivable	41,454
Total assets	<u>\$ 220,703</u>
<b>Liabilities and Fund Balances</b>	
Liabilities:	
Accounts payable	\$ 2,982
Accrued payroll liabilities	2,194
Prepaid hauler registrations	6,305
Total liabilities	<u>11,481</u>
Fund Balances:	
Unreserved and undesignated	<u>209,222</u>
Total fund balances	<u>209,222</u>
Total liabilities and fund balances	<u>\$ 220,703</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, 2006

	<u>General Fund</u>
<b>Revenues</b>	
Charges for services - User fees	\$ 216,836
Intergovernmental	106,142
Investment earnings	3,337
Other revenues	14
Total revenues	<u>326,329</u>
<b>Expenditures</b>	
Current:	
Public works	
Salary and benefits	60,825
Office expenses	14,952
Recycling education and programs	100,646
Counsel	740
Health insurance	8,131
Pension	4,223
Audit	4,700
Insurance	5,646
Miscellaneous	1,087
Travel reimbursement	244
Total general government	<u>201,194</u>
Excess of revenues over expenditures	125,135
Fund balance--at beginning of year	84,087
Fund balance--at end of year	<u><u>\$ 209,222</u></u>

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

Excess of revenues over expenditures	\$ 125,135
Less: Prior year encumbrances	(3,500)
Total change in net assets of governmental activities	<u><u>\$ 121,635</u></u>

*See accompanying notes to the basic financial statements.*

Housatonic Resources Recovery Authority

**Notes to Financial Statements**

June 30, 2006

**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 jointly governed organization created by the Housatonic Valley municipalities, is a regional authority governed by an eleven-member board comprised of the Chief Elected Officials and other representatives of the member towns and their appointed alternates.

The accompanying statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities, and functions that comprise the Authority. Component units are legally separate entities for which the Authority (primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the Authority's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the Authority. Using these criteria, the Authority has no component units.

*Government-Wide and Fund Financial Statements*

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Authority.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset with program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to haulers, and program and administrative fees from municipal solid waste and recycling tip fees, and 2) operating grants and reimbursements from other governmental units. 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, 2006

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, under accrual accounting.

Revenues such as the per ton program and administrative fees paid by those collectors of municipal solid waste and recyclables within the HRRRA region who use any of the three MSW transfer stations and/or the recycling Intermediate Processing Center ("IPC") associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the Authority receives the cash.

*Fund Accounting*

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Authority uses only governmental funds.

*Governmental Funds*

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The Authority reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources of the Authority except those required to be accounted for in another fund. The general fund balance is available to the Authority for any purpose provided it is expended or transferred according to the By-Laws of the Authority.

Housatonic Resources Recovery Authority  
**Notes to Financial Statements (continued)**

June 30, 2006

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

*Revenues - Exchange and Non-Exchange Transactions*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, available means expected to be received within sixty days of the fiscal year-end.

*Expenses/Expenditures*

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

*Cash and Cash Equivalents*

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All cash and cash equivalents are insured or collateralized with securities held by the pledging financial institution segregated from its other assets, in accordance with State Statutes.

*Receivables*

Receivables at June 30, 2006 consist of accounts receivable for Program and Administrative Fees. All accounts receivable are deemed collectible in full, and therefore no allowance for doubtful accounts exists.

*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.

*Deferred Revenues*

The Authority reports unearned deferred revenues for any fiscal year 2006-07 hauler registration fees received in advance of July 1, 2006.

Housatonic Resources Recovery Authority  
Notes to Financial Statements (continued)

June 30, 2006

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

*Net Assets*

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

*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.

**NOTE 2 - DEPOSITS**

The following is a summary of deposits at June 30, 2006:

Cash in checking	\$ 74,729
Short-Term Investment Fund (STIF)	104,518
Total Cash and Cash Equivalents	<u>\$ 179,247</u>

At June 30, 2006 the carrying amount of the Authority’s deposits in financial institutions was \$74,729 and the bank balance was \$71,364.

*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. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository’s risk based capital ratio. Municipal deposits that exceed the coverage of the Federal Depository Insurance are collateralized by amounts held by the pledging bank’s trust department. At June 30, 2006 the entire amount of the Authority’s deposits was covered by Federal Depository Insurance.

Housatonic Resources Recovery Authority  
Notes to Financial Statements (continued)

June 30, 2006

**NOTE 2 - DEPOSITS (continued)**

*Cash Equivalents*

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2006 the Authority's cash equivalents amounted to \$104,518. These amounts were 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 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 \$47 million. Any losses experienced from a security default or a decline in market value of a security will be charged against the reserve. The STIF is rated AAAM by Standard and Poor's and has never experienced such losses since its inception in 1972.

**NOTE 3 - CAPITAL ASSETS**

There was no activity in the capital asset accounts for the year. Capital assets consist of the following:

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

**NOTE 4 - 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, 2006 the Authority contributed \$4,223 to the plan on eligible wages of \$56,367.

**NOTE 5 - RELATED PARTY TRANSACTIONS**

During the year the Authority received a total of \$88,642 from the participating regional towns as a reimbursement for the operation of the Household Hazardous Waste Date events. All amounts invoiced were received by June 30, 2006 and no amounts remain outstanding at year-end.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2006

**NOTE 6 - COMMITMENTS**

On March 13, 1991, the Authority entered into a construction and service agreement with Recycling Technologies, Inc. (RTI) for the design and construction of a regional recycling facility in Danbury, Connecticut. The facility remains the property of RTI; while certain recycling equipment with a cost of \$1.2 million purchased with grant funds remains the property of the Authority. The service agreement states that RTI shall operate, maintain and repair the facility for a term of 10 years beginning on the acceptance date, with options for extension. In June 2005 the Authority voted to exercise its second and final option to extend the agreement for an additional 5 years to June 30, 2011.

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 \$87,600 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.

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.

The above agreements are herein collectively referred to as the "HRRRA Service Agreements."

**NOTE 7 - ECONOMIC DEPENDENCE**

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.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2006

**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 2005-06, the Authority contracted with insurance carriers for public officials liability insurance in the amount of \$3 million per claim and \$3 million in the aggregate with a \$5,000 deductible per claim, employment practices liability coverage in the amount of \$3 million per claim, \$3 million in the aggregate with no deductible, and a surety bond in the amount of \$20,000. The Authority has had no significant reduction in the coverage on the above insurances from prior years. The Authority has had no settlements on any insurance coverage in the current year or prior years.

The Authority was not able to obtain general property and liability insurance coverage as they have been deemed a high-risk insured. The Towns of Newtown and Ridgefield have named the Authority as an additional insured on their respective municipal liability policies with respect to the transfer stations in those municipalities. The HRRRA Service Agreements require that the operator of the Danbury transfer station 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.

The Authority has obtained health insurance coverage for its employee from a third party insurer. Workers compensation coverage has also been obtained from a third party insurer. The premiums are calculated based upon accident history, compensation amounts and administrative costs.

***Required Supplemental Information***

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

For the Year Ended June 30, 2006

	<b>Original Budget</b>	<b>Amendments</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>					
Charges for services - User fees	\$ 216,696	\$ -	\$ 216,696	\$ 216,836	\$ 140
Intergovernmental	101,000	-	101,000	106,142	5,142
Investment earnings and other	360	-	360	3,351	2,991
Total revenues	318,056	-	318,056	326,329	8,273
<b>Expenditures</b>					
General government					
Audit	6,000	-	6,000	4,700	1,300
Contingency	5,000	-	5,000	-	5,000
Legal	5,000	(1,600)	3,400	740	2,660
Education - public	35,000	-	35,000	2,547	32,453
Education - staff	1,000	-	1,000	530	470
HFWDD Bridgewater Area Towns	12,000	-	12,000	7,804	4,196
HHWDD Danbury Area Towns	72,000	16,000	88,000	80,674	7,326
HHWDD Regional	26,000	-	26,000	9,091	16,909
Insurance - errors & omissions	8,500	-	8,500	4,834	3,666
Insurance - general liability	2,000	(150)	1,850	-	1,850
Insurance - surety bond	150	-	150	140	10
Insurance - workers comp	450	150	600	597	3
Miscellaneous - misc	1,000	-	1,000	786	214
Miscellaneous - payroll processing	600	-	600	301	299
Office expenses - equipment	1,500	-	1,500	1,034	466
Office expenses - rent	15,000	-	15,000	13,356	1,644
Office expenses - supplies	650	-	650	562	88
Staffing - disability insurance	2,400	-	2,400	75	2,325
Staffing - life insurance	600	(150)	450	-	450
Staffing - medical insurance	8,000	(750)	7,250	7,231	19
Staffing - HSA insurance	-	900	900	900	-
Staffing - CT SUI taxes	225	-	225	165	60
Staffing - Fed FICA taxes	4,208	125	4,333	4,293	40
Staffing - Pension	4,125	100	4,225	4,223	2
Staffing - salary	55,000	1,375	56,375	56,367	8
Travel/reimbursement	500	-	500	244	256
Total expenditures	266,908	16,000	282,908	201,194	81,714
Excess of revenues over (under) expenditures	\$ 51,148	(\$ 16,000)	\$ 35,148	\$ 125,135	\$ 89,987

See accompanying notes to the required supplemental information.



**Budgetary Comparison Schedule---General Fund (continued)**

For the Year Ended June 30, 2006

**Reconciliation of Budgetary Comparison Schedule - General Fund  
to the Statement of Activities:**

Total expenditures per general fund	\$ 201,194
Add: Prior year encumbrances recognized as current year expense in the Statement of Activities	3,500
Total expenses per Statement of Activities	<u>\$ 204,694</u>

*See accompanying notes to the required supplemental information.*

Housatonic Resources Recovery Authority

**Notes to Required Supplemental Information**

June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT 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. During the year, a supplemental appropriation was approved to increase the Household Hazardous Waste line item. The effects of the above-mentioned supplemental appropriation increased the budget by \$16,000.

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, 2006.

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