

Housatonic Resources Recovery Authority

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

Year Ended June 30, 2016

Housatonic Resources Recovery Authority

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June 30, 2016

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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, 2016, 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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 23-24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Nanavaty, Nanavaty & Davenport, LLP*

December 13, 2016

## *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, 2016. Please read it in conjunction with the Authority's financial statements, which begin on page 10.

### **FINANCIAL HIGHLIGHTS**

- As a result of the operations the Authority's net position increased by \$70,782 in 2016 compared to \$66,882 in 2015.
- The total cost of the Authority's programs and administration was \$323,035 and \$297,766 for 2016 and 2015, respectively.
- During fiscal year 2016, the Authority's revenues from program and administrative fees, and hauler permits decreased over the prior year by \$4,263 to \$249,999 as a result of a decrease in recycling fees as a result of the fee change to \$5/ton in April 2016, as well as a decrease in MSW tonnage.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 10 and 11) provide information about the activities of the Authority as a whole and represent a longer-term view of the Authority's finances. Fund financial statements start on page 12. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide statements by providing line item expense information about the Authority's general fund.

### **The Statement of Net Position and the Statement of Activities**

Our analysis of the Authority as a whole begins on page 10. One of the most important questions asked about the Authority's finances is "Is the Authority better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Authority and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

**USING THIS ANNUAL REPORT (continued)**

**Reporting the Authority's Fund Financial Statements**

The Authority uses governmental funds to report its operations. The fund financial statements begin on page 12. The Authority's only governmental fund is the general fund.

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

*Notes to the Financial Statements:* The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 14-22 of this report.

*Supplemental Information:* In addition to the basic financial statements and accompanying notes, this report also presents a Budgetary Comparison Schedule for the General Fund that can be found on pages 23-24 of this report.

**FINANCIAL ANALYSIS OF THE AUTHORITY**

The following tables and exhibits present condensed information about the Authority's net position, revenues and expenses for fiscal year 2016 compared to 2015:

	<b>As of June 30,</b>	
	<b>2016</b>	<b>2015</b>
Current assets	\$ 806,982	\$ 758,399
Current liabilities	(5,180)	(27,379)
Net Position -unrestricted	<u>\$ 801,802</u>	<u>\$ 731,020</u>

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

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

<u>Table 2</u>	<b>For the Year Ended of June 30,</b>	
	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Program revenues:		
Charges for services - user fees	\$ 271,784	\$ 277,142
Operating grants and reimbursements	100,948	81,023
	372,732	358,165
General revenues:		
Investment earnings and miscellaneous	21,085	6,483
Total revenues	393,817	364,648
<b>Program expenses</b>		
General government	323,035	297,766
<b>Change in net position</b>	70,782	66,882
<b>Net position (unrestricted) – beginning</b>	731,020	664,138
<b>Net position (unrestricted) – ending</b>	\$ 801,802	\$ 731,020

*Governmental Activities and General Fund*

All of the Authority's operations are accounted for as Governmental Activities. Net position of the governmental activities increased in 2016. In 2006 MSW tonnage was approximately 149% of the contractual benchmark in the Waste Supply and Disposal Agreement (WSDA). At the end of the 2015-16 FY MSW tonnage coming into the HRRR system was at 96% of the contractual benchmark. The decreases in MSW tonnage into the HRRR system in 2015-16 continued to be the result of intentional diversion of tonnage to non-HRRR transfer stations by some haulers in the region to either out of state transfer stations or in-state options with lower tip fees. The continued diversion of some MSW material to the recycling stream has also had an effect on the drop in MSW tonnage.

Recycling tonnage for the HRRR member municipalities delivered to the Winters Bros. Recycling Center increased by approximately 2% to 12,108 tons in 2015-16. Recycling revenue for 2015-16 were paid at \$10/ton by Winters Bros. from July 2015 to April 2016, after which the recycling tip fee was reduced to \$5/ton through June 2016.

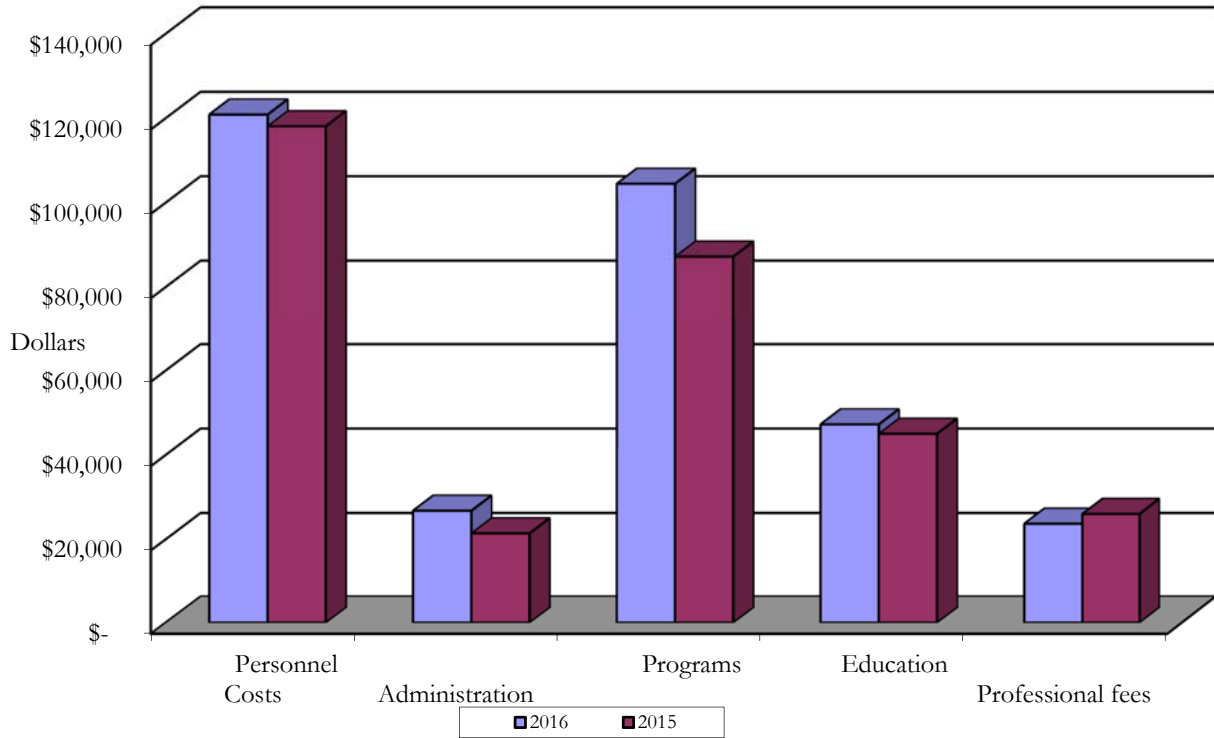
General revenues include investment income and gains totaling \$20,921. Total costs of governmental activities increased for the year ended June 30, 2016 from 2015 due to annual increases for payroll and higher Household Hazardous Waste Days costs due to an additional event. Total revenues and expenditures in the General Fund were equal to the total revenues in the Statement of Activities.



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

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

**Comparison of Expenses**



*General Fund Budgetary Highlights*

Table 3 summarizes the changes in the budget and shows a comparison with the actual results.

	<b>Original/Final</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>			
Program revenues:			
Charges for services - user fees	\$ 269,325	\$ 271,784	\$ 2,459
Operating grants and reimbursements	89,000	101,112	12,112
	358,325	372,896	14,571
General revenues:			
Investment earnings	12,000	20,921	8,921
<b>Total revenues</b>	370,325	393,817	23,492
<b>Program expenses</b>			
General government	364,488	323,035	41,453
<b>Increase in net assets</b>	\$ 5,837	\$ 70,782	\$ 64,945

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

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

During the year ended June 30, 2016 the Authority did not make any changes to the general fund budget. Overall, actual expenditures were below budget by approximately \$41,453 for the year ended June 30, 2016.

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.

	2016	2015	2014	2013	2012
Working Capital	\$802,000	\$736,000	\$665,000	\$661,000	\$637,000
Current Ratio	161.4	34.1	28.7	39.9	277.8

“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.

	2016	2015	2014	2013	2012
Days in Operating Cash	707	686	653	603	577

“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.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES**

The Authority established a fiscal year 2016-17 budget that included approximately \$365,250 in revenues, and \$365,250 in proposed operating expenditures, plus capital and non-recurring expenditures of \$30,130 that will be funded from fund balance.

Budgeted revenue overall has decreased in 2016-17 by \$5,075. Grants and donations were increased to \$35,000 based on a new recycling contract with Winters Brother and their offer to increase their contribution to education services. Haulers permit fees increased by \$50 to \$225. HHW revenue, interest income and MSW program fees remain flat. There was a significant decrease in the recycling revenue. The new single stream recycling contract with Winters Bros. decreased the rebate from \$10 per ton to \$5 per ton due to market value in commodities. Since the approval of the 2016-17 budget, All American Waste has contracted to rebate HRRRA \$5 per ton for recycling material transported outside the region.

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (continued)**

Budgeted expenses overall had a small increase for 2016-17 by \$762. Education is down due to the reduction in revenue. HHW expenses are flat. Miscellaneous expenses had a small decrease. There is no longer a need to subscribe to the RISI report because the current recycling contract does not use commodity market to calculate the rebate. Municipal hauler registration and HRRR permit fees increased. Office expenses decreased due to a change in office space and allocation of expenses. The Assistant Director was given a 2.5% increase in salary and the Executive Director was given a merit raise that increased the Directors salary \$11,455. Professional services decreased and a new Contingency line item was created that will be used if additional funds are needed. Travel and mileage reimbursement remained flat. Funds in contingency were also allocated for new equipment, furniture and a copy machine for the office move.

Overall revenues are expected to be sufficient to finance the current year's operation. Legal fees were reduced in the current budget to \$20,000 and moved to contingency, which can be used for any purpose with the approval of the full Authority as needed. The Authority created a new fund balance 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. The policy also clearly states that no part of the fund balance can be spent without the approval of the full Authority.

Revenues for 2016-17 are based on a contracted MSW program fee of \$1.00 per ton for the 2016 calendar year. MSW tonnage in the 2015-16 FY fell again for the ninth year. In 2006 MSW tonnage was approximately 149% of the contractual benchmark in the Waste Supply and Disposal Agreement (WSDA). At the end of the 2015-16 FY MSW tonnage coming into the HRRR system was at 96% of the contractual benchmark. Wheelabrator is expected to make their contracted program fee payments to HRRR during the FY, meeting the revenue budgeted for MSW program fees.

It is believed the decrease in MSW tonnage into the HRRR system in 2015-16 continued to be the result of intentional diversion of tonnage to non-HRRR transfer stations by some haulers in the region to either out of state transfer stations or in-state options with lower tip fees.

Recycling tonnage for the HRRR member municipalities delivered to the Winters Bros. Recycling Center increased by approximately 2% to 12,108 tons in 2015-16. Recycling revenue for 2015-16 were paid at \$10/ton by Winters Bros. from July 2015 to April 2016 after which the recycling tip fee reduced to \$5 /ton from April to June 2016.

The funds that were budgeted to support the office move for HRRR and any necessary increases in rent, utilities, office equipment or supplies in the 2015-16 HRRR budget were not utilized due to WestCOG not moving out of the Old Town Hall location until August 31, 2016.

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

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Housatonic Resource Recovery Authority, its member towns and cities and the citizens of those municipalities, with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact Jen Iannucci, 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, 2016

**Assets:**

Cash and cash equivalents	\$ 232,962
Investments	532,119
Accounts receivable	37,991
Prepaid expenses and other	3,910
Total assets	<u>\$ 806,982</u>

**Liabilities:**

Accounts payable and accrued expenses	\$ 51
Prepaid hauler fees	5,129
Total liabilities	<u>5,180</u>

**Net Position:**

Unrestricted	<u>801,802</u>
Total net position	<u>801,802</u>
Total liabilities and net position	<u>\$ 806,982</u>

*See accompanying notes to the basic financial statements.*

Housatonic Resources Recovery Authority

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

For the Year Ended June 30, 2016

Program Activities	Expenses	Program Revenues		Governmental Activities
		Charges for Services - User Fees	Operating Grants and Reimbursements	
Public works	\$ -	\$ 249,999	\$ 21,000	\$ 270,999
Staffing	120,860	-	-	(120,860)
Household Hazardous Waste Day	82,677	-	79,948	(2,729)
Education	47,236	-	-	(47,236)
Professional services	23,702	-	-	(23,702)
Municipal hauler registration reimbursement	21,785	21,785	-	-
Office expenses	7,762	-	-	(7,762)
Insurance	6,620	-	-	(6,620)
Audit	6,100	-	-	(6,100)
Miscellaneous	4,359	-	-	(4,359)
Travel/mileage reimbursement	1,934	-	-	(1,934)
Total governmental activities	<u>323,035</u>	<u>271,784</u>	<u>100,948</u>	<u>49,697</u>
		General revenues:		
				20,921
				164
			Total general revenues	<u>21,085</u>
			Change in net position	70,782
			Net Position---beginning of year	731,020
			Net Position---end of year	<u>\$ 801,802</u>

See accompanying notes to the basic financial statements.

Housatonic Resources Recovery Authority

**Balance Sheet---Governmental Funds**

As of June 30, 2016

	<b>General Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 232,962
Investments	532,119
Accounts receivable	37,991
Prepaid expenses and other	3,910
Total assets	<u>\$ 806,982</u>
<b>Liabilities and Fund Balances</b>	
Liabilities:	
Accounts payable and accrued expenses	\$ 51
Prepaid hauler permits and fees	5,129
Total liabilities	<u>5,180</u>
Fund Balances:	
Unassigned	801,802
Total fund balances	<u>801,802</u>
Total liabilities and fund balances	<u>\$ 806,982</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, 2016

	<b>General Fund</b>
<b>Revenues</b>	
Charges for services - User fees	\$ 271,784
Intergovernmental	79,948
Investment earnings	20,921
Miscellaneous	21,164
Total revenues	<u>393,817</u>
<b>Expenditures</b>	
Current:	
Public works	
Staffing	120,860
Household Hazardous Waste Day	82,677
Education	47,236
Professional services	23,702
Municipal hauler registration reimbursement	21,785
Office expenses	7,762
Insurance	6,620
Audit	6,100
Miscellaneous	4,359
Travel/mileage reimbursement	1,934
Total general government	<u>323,035</u>
Excess of revenues over expenditures	70,782
Fund balance--at beginning of year	731,020
Fund balance--at end of year	<u>\$ 801,802</u>

*See accompanying notes to the basic financial statements.*

Housatonic Resources Recovery Authority

**Notes to Financial Statements**

June 30, 2016

**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, 2016

**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, 2016

**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, 2016.

*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, 2016

**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, 2016 consist of accounts receivable for Program Fees. All accounts receivable is deemed collectible in full, and therefore no allowance for doubtful accounts exists.

*Prepaid Hauler Permits*

The Authority reports unearned prepaid revenues for 2016-17 recycling fees received in advance of July 1, 2016.

*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, 2016

**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 13, 2016, 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, 2016

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

Deposits and investments consist of the following at June 30, 2016:

Cash in checking	\$ 217,569
Short-Term Investment Fund (STIF)	<u>15,393</u>
	<u>\$ 232,962</u>
Investment in mutual funds	<u>\$ 532,119</u>
Total investments	<u>\$ 532,119</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.

*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, 2016

**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, 2016 the carrying amount of the Authority's deposits in financial institutions was \$217,569 and the bank balance was \$223,227. The entire bank balance was insured at year-end.

The Authority had \$15,393 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 \$51.4 million (as of June 30, 2016). 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, 2016 the Authority had \$532,119 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, 2016: Mutual funds of \$532,119 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, 2016 the Authority contributed \$7,834 to the plan on eligible wages of \$105,500.



Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2016

**NOTE 4 - RELATED PARTY TRANSACTIONS**

During the year the Authority received a total of \$79,948 from the participating regional towns as a reimbursement for the operation of the Household Hazardous Waste Day events. All amounts invoiced were received.

**NOTE 5 - COMMITMENTS**

The Authority and Winters Bros. negotiated a new Regional Recycling Agreement effective April 1, 2013. The new Agreement required that the Authority be paid a variable rebate based upon the market price of recycling commodities but no less than \$7.50 per ton for the next three years for recycling generated within a member municipality that was delivered to Winters Bros. recycling facility at 307 White Street in Danbury. The Agreement may be extended by mutual consent for an additional three years to 2019. 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 Winters Bros. recycling facility at 307 White Street in Danbury. The amendment Agreement was effective on April 1, 2016. During the prior year, the Authority also negotiated a one-year agreement with All American Waste to pay the Authority \$5/ton for all recycling collected in member municipalities by All American Waste and delivered to the Company's own transfer station in New Milford, Connecticut. That agreement expired during this fiscal year.

On July 1, 1993 the Authority entered into a 26-year commitment with Wheelabrator Environmental Systems, Inc. (WES) to accept solid waste generated by the member towns of the region and to pay the Authority an Administrative Fee collected from the MSW collectors within the region who used the disposal facilities provided under that contract. Effective January 1, 2004, certain terms of the agreement were amended and restated, including a reduction from 4 to 3 in the number of contractually required transfer stations located within the region, a reduction in the overall per ton service fee charged to collectors, a reduction in the put or pay risk to member municipalities for tonnage shortfalls in any particular year, establishment of annual service fee increases based on 1/2 of the prior year's Consumer Price Index and establishment of a program fee with annual increases to provide the Authority with sufficient revenue for continued operation.

**NOTE 6 - ECONOMIC DEPENDENCY**

A major portion of the Authority's revenues is derived from fees based on throughput in the recycling and municipal solid waste facilities. Declines in the levels of throughput in either facility or a negotiated change in the fee structure could adversely affect the Authority's ability to generate future cash flow from the HRRRA Service Agreements.

Housatonic Resources Recovery Authority

**Notes to Financial Statements (continued)**

June 30, 2016

**NOTE 7 - 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 Winter Bros. Transfer Stations of CT, LLC, Winter Bros. Waste Systems of CT, LLC, and Wheelabrator, indemnify the Authority and the municipalities from any and all damages, and causes of action which may arise from a party's use or entrance into the Transfer station.

**NOTE 8 - 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, 2016

	<b>Original/Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Charges for services - User fees	\$ 269,325	\$ 271,784	\$ 2,459
Intergovernmental	75,000	79,948	4,948
Investment earnings and other	12,000	20,921	8,921
Miscellaneous	14,000	21,164	7,164
Total revenues	<u>370,325</u>	<u>393,817</u>	<u>23,492</u>
<b>Expenditures:</b>			
General government			
Audit	6,500	6,100	400
Education	48,500	47,236	1,264
Household Hazardous Waste Day	78,500	82,677	(4,177)
Insurance	7,225	6,620	605
Miscellaneous	5,750	4,359	1,391
Municipal hauler registration reimbursement	30,000	21,785	8,215
Office expenses	29,100	7,762	21,338
Professional services	36,000	23,702	12,298
Staffing	120,913	120,860	53
Travel/mileage reimbursement	2,000	1,934	66
Total expenditures	<u>364,488</u>	<u>323,035</u>	<u>41,453</u>
Excess of revenues over expenditures	<u>\$ 5,837</u>	<u>\$ 70,782</u>	<u>\$ 64,945</u>

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

Housatonic Resources Recovery Authority

**Notes to Required Supplemental Information**

June 30, 2016

**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 was not amended during the year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities. There were no encumbrances outstanding at June 30, 2016.

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