

**Housatonic Resources Recovery Authority**

**Financial Statements**

*Year Ended June 30, 2005  
with Report of Independent Auditors*

**Housatonic Resources Recovery Authority**  
**Table of Contents**  
**June 30, 2005**

---

Report of Independent Auditors .....	1
Management’s Discussion and Analysis .....	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	8
Statement of Activities.....	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	10
Statement of Revenues, Expenses and Changes in Fund Balance - Governmental Funds .....	11
Notes to the Financial Statements.....	12
Supplemental Schedule:	
Budgetary Comparison Schedule---General Fund .....	18

**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 year ended June 30, 2005, 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 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 each major fund of the Authority as of June 30, 2005, 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 page 18 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 7, 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, 2005. 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 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 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 10. 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**

- As a result of the operations the Authority's net assets increased by \$74,333 in 2005 compared to a decrease of \$30,648 in 2004.
- The total cost of the Authority's programs and administration was \$179,396 and \$167,426 for 2005 and 2004, respectively.
- During fiscal year 2005, the Authority's revenues from program and administrative fees increased by \$72,587 to \$146,570 as a result of the contract renegotiations with Wheelabrator Environmental Systems, Inc ("WES") and increased revenue sharing due to stronger recycling markets.
- In connection with the adoption of GASB #34 for the year ended June 30, 2003, 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 2005 compared to 2004:

	<b>As of June 30,</b>	
	<u>2005</u>	<u>2004</u>
Current assets	\$ 108,645	\$ 78,301
Current liabilities	<u>21,058</u>	<u>65,047</u>
Net Assets	<u>\$ 87,587</u>	<u>\$ 13,254</u>

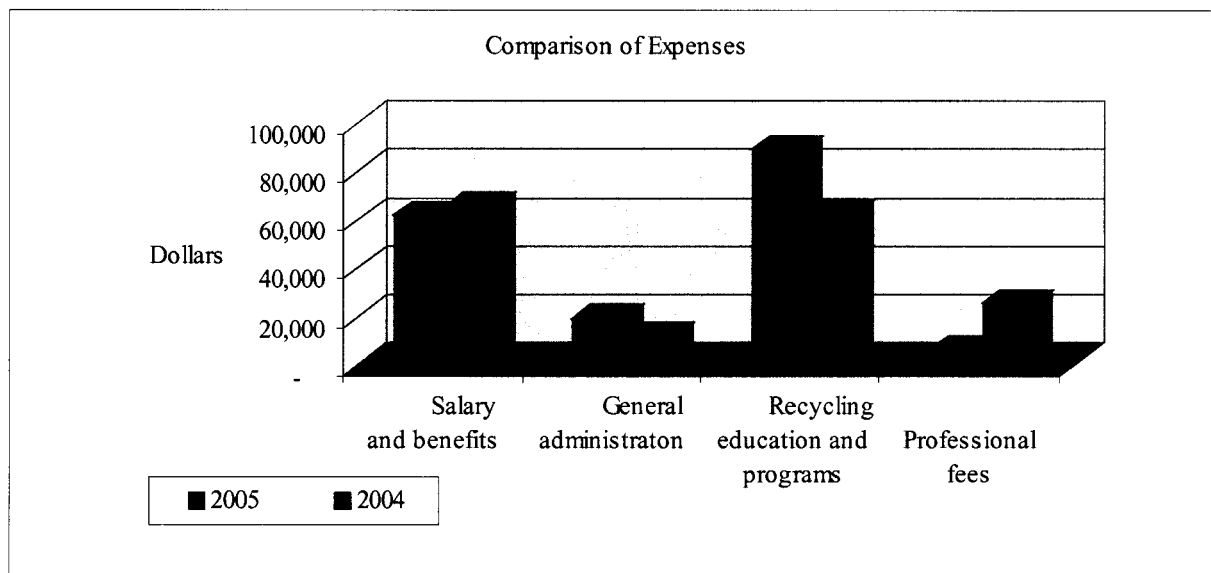
Net assets of the governmental activities increased by \$74,333 in 2005 compared to a decrease of \$30,648 in 2004. The increase in 2005 was the result of the contract renegotiations with WES, which generated increased cash flow offset by the payment of overdue payroll tax liabilities.

	<b>As of June 30,</b>	
	<u>2005</u>	<u>2004</u>
<b>Revenues</b>		
Program revenues:		
Charges for services - user fees	\$ 146,570	\$ 73,983
Operating grants and reimbursements	<u>100,763</u>	<u>62,530</u>
	<u>247,333</u>	<u>136,513</u>
General revenues:		
Investment earnings	377	160
Miscellaneous	6,019	105
	<u>253,729</u>	<u>136,778</u>
<b>Program expenses</b>		
Public works	179,396	167,426
	<u>\$ 74,333</u>	<u>(\$ 30,648)</u>
<b>Increase (decrease) in net assets</b>		

Revenues for the year increased over the prior year due to the successful completion of the renegotiations with WES. The agreement with WES generated an additional \$55,000 in revenues in 2005. Additionally, the Authority received an operating grant from HVCEO in the amount of \$16,990. The HVCEO grant is included in intergovernmental revenues.

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

### THE AUTHORITY'S FINANCIAL HIGHLIGHTS (continued)



Overall, expenses for operations increased in 2005 as compared to 2004 due to lower personnel costs and legal fees, offset by higher costs for office expenses and the Household Hazardous Waste disposal program. Program and administrative fee revenues for municipal solid waste and recycling materials increased in 2005 by \$72,587 as a result of the completion of the Wheelabrator negotiations in January 2004 and greater revenue sharing from recyclables.

#### Governmental Activities

Total revenues increased for the year ended June 30, 2005 over 2004 by 69% due to increases in the program and administration fees and the household hazardous waste reimbursements. Total costs of governmental activities increased for the year ended June 30, 2005 from 2004 as a result of an increase of approximately \$21,000 in household hazardous waste program expenses.

#### General Fund Budgetary Highlights

Over the course of the year ended June 30, 2005 the Authority made one amendment to the general fund budget. The amendment was a supplemental appropriation to increase the audit line item. Overall, actual expenditures were below budget by approximately \$45,000 for the year ended June 30, 2005.

#### 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.

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

**THE AUTHORITY'S FINANCIAL HIGHLIGHTS (continued)**

“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>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Working Capital	\$ 87,600	\$ 5,800	\$ 36,000	\$ 210,600	\$ 247,800
Current Ratio	5.2	1.1	2.5	6.6	13.3

“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>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Days in Operating Cash	163	57	26	248	303

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Return on Unrestricted Net Assets	147.4%	-84.0%	-82.9%	-15.0%	-34.4%

**CAPITAL ASSETS**

At June 30, 2005, 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.

Capital Assets at year-end are as follows:

	<u>June 30, 2005</u>
Recycling processing equipment	\$ 1,200,000
Accumulated depreciation	( 1,200,000)
	<u>\$ -</u>

## **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 2005-06 budget that included approximately \$318,000 in revenues and \$267,000 in expenses. All revenue and expense from special revenue funds have been folded into the general fund for 2005-06. No significant legal issues are anticipated for 2005-06, and thus legal counsel costs are not anticipated to increase. Based on the Authority's decision to make public recycling education a priority, expenses for public education should continue to rise. One additional household hazardous waste collection event is planned during 2005-06, for a total of three events offered on a regional basis. For the first time in 2005-06 the Authority has budgeted to spend its own funds as well as municipal reimbursements on such household hazardous waste collection activities. 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 2005-06 are based on an approved MSW Facility program fee of \$.55 per ton and a Recycling Facility administrative fee of \$13.46 per ton. MSW tonnage delivered to the HRRR system in 2004 and 2005 year to date remains adequate to provide the contracted program fee. MSW tonnage increased 8% from 2003 to 2004, and is on target to increase another 1.5% in 2005. 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 HRRR administrative fee for recyclables increased from \$3.80 per ton in 2004-05, to \$13.46 per ton in 2005-06.

### **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 D. Reedy, Director for the Authority, Old Town Hall, 162 Whisconier Road, Brookfield, Connecticut 06804.

**Housatonic Resources Recovery Authority**  
**Statement of Net Assets**  
**Governmental Activities**

---

**As of June 30, 2005**

**ASSETS**

Cash and cash equivalents	\$ 81,127
Accounts receivable	27,518
Capital assets, net of accumulated depreciation	-
Total assets	<u>\$ 108,645</u>

**Liabilities**

Accounts payable	\$ 10,297
Accrued payroll liabilities	2,311
Deferred revenues	8,450
Total liabilities	<u>21,058</u>

**Net Assets:**

Invested in capital assets	-
Unrestricted	87,587
Total net assets	<u>87,587</u>
Total liabilities and net assets	<u>\$ 108,645</u>

*See accompanying notes to the basic financial statements.*

**Housatonic Resources Recovery Authority**  
**Statement of Activities**  
**For The Year Ended June 30, 2005**

	<u>Program Revenues</u>			
	Expenses	Charges for Services - User Fees	Operating Grants and Reimbursements	Governmental Activities
<b>Governmental activities:</b>				
Public works	\$ -	\$ 146,570	\$ 16,990	\$ 163,560
Salary and benefits	55,115	-	-	(55,115)
Office expenses	13,931	-	-	(13,931)
Recycling education and programs	89,509	-	83,773	(5,736)
Counsel	2,798	-	-	(2,798)
Health insurance	5,971	-	-	(5,971)
Pension	1,368	-	-	(1,368)
Audit	4,500	-	-	(4,500)
Insurance	5,347	-	-	(5,347)
Miscellaneous	569	-	-	(569)
Travel reimbursement	288	-	-	(288)
Total governmental activities	<u>179,396</u>	<u>146,570</u>	<u>100,763</u>	<u>67,937</u>
			General revenues:	
			Investment earnings	377
			Miscellaneous	<u>6,019</u>
				<u>6,396</u>
				<u>74,333</u>
				13,254
				<u>\$ 87,587</u>
			Change in net assets	
			Net Assets---beginning	
			Net Assets---ending	

See accompanying notes to the basic financial statements.

**Housatonic Resources Recovery Authority**  
**Balance Sheet---Governmental Funds**

	<b>As of June 30, 2005</b>		
	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 81,127	\$ -	\$ 81,127
Accounts receivable	27,518	-	27,518
Due from other funds	-	4,915	4,915
Total assets	<u>\$ 108,645</u>	<u>\$ 4,915</u>	<u>\$ 113,560</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 10,297	\$ -	\$ 10,297
Accrued payroll liabilities	2,311	-	2,311
Encumbrances payable	3,500	-	3,500
Due to other funds	4,915	-	4,915
Prepaid hauler registrations	8,450	-	8,450
Total liabilities	<u>29,473</u>	<u>-</u>	<u>29,473</u>
<b>Fund Balances:</b>			
Reserved for site acquisition	-	-	-
Unreserved and undesignated	79,172	4,915	84,087
Total fund balances	<u>79,172</u>	<u>4,915</u>	<u>84,087</u>
Total liabilities and fund balances	<u>\$ 108,645</u>	<u>\$ 4,915</u>	<u>\$ 113,560</u>

**Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets:**

Total fund balance of governmental funds	\$ 84,087
Add: encumbrances	3,500
Total net assets of governmental activities	<u>\$ 87,587</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, 2005**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Charges for services - User fees	\$ 146,570	\$ -	\$ 146,570
Intergovernmental	16,990	83,773	100,763
Investment earnings	377	-	377
Other revenues	6,019	-	6,019
Total revenues	<u>169,956</u>	<u>83,773</u>	<u>253,729</u>
<b>Expenditures</b>			
Current:			
Public works			
Salary and benefits	55,115	-	55,115
Office expenses	13,931	-	13,931
Recycling education and programs	9,236	83,773	93,009
Counsel	2,798	-	2,798
Health insurance	5,971	-	5,971
Pension	1,368	-	1,368
Audit	4,500	-	4,500
Insurance	5,347	-	5,347
Miscellaneous	569	-	569
Travel reimbursement	288	-	288
Total general government	<u>99,123</u>	<u>83,773</u>	<u>182,896</u>
Excess of revenues over expenditures	70,833	-	70,833
Fund balance--at beginning of year	8,339	4,915	13,254
Fund balance--at end of year	<u>\$ 79,172</u>	<u>\$ 4,915</u>	<u>\$ 84,087</u>

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

Excess of revenues over expenditures	\$ 70,833
Add: encumbrances	3,500
Total change in net assets of governmental activities	<u>\$ 74,333</u>

*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 year ended June 30, 2005.

#### ***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. User fees and intergovernmental revenues support the governmental activities of the Authority.

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 relating to fiscal year 2005-06 collected in advance of July 1, 2005.

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, 2005 consist of accounts receivable for Program and Administrative Fees. 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 are 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, a supplemental appropriation was approved to increase the audit line item. The effects of the above-mentioned supplemental appropriation increased the budget by \$3,800.

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 was \$3,500 of encumbrances outstanding at June 30, 2005.

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

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

---

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The following is a summary of cash and cash equivalents at June 30, 2005:

	<u>2005</u>
Deposits	\$ 73,825
Short-Term Investment Fund (STIF)	<u>7,302</u>
Total Cash and Cash Equivalents	<u>\$ 81,127</u>

At June 30, 2005 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.

**NOTE 4 - CAPITAL ASSETS**

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

	<u>June 30, 2005</u>
Recycling processing equipment	\$ 1,200,000
Accumulated depreciation	<u>( 1,200,000)</u>
	<u>\$ _____</u>

**NOTE 5 - 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, 2005 the Authority contributed \$1,368 to the plan on eligible wages of \$16,300.

**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.

## **Housatonic Resources Recovery Authority**

### **Notes to Financial Statements (continued)**

---

#### **NOTE 6 - COMMITMENTS (continued)**

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 \$84,500 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.

#### **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.

#### **NOTE 8 - 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.

*Required Supplemental Information*

**Housatonic Resources Recovery Authority  
 Budgetary Comparison Schedule---General Fund  
 For The Year Ended June 30, 2005**

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>					
Charges for services - User fees	\$ 140,734	\$ -	\$ 140,734	\$ 146,570	\$ 5,836
Intergovernmental	-	-	-	16,990	16,990
Investment earnings and other	300	3,800	4,100	6,396	2,296
Total revenues	141,034	3,800	144,834	169,956	25,122
<b>Expenditures</b>					
General government					
Audit	4,700	3,800	8,500	4,500	4,000
Contingency	5,000	-	5,000	-	5,000
Counsel - Legal	5,000	-	5,000	2,798	2,202
Education - Staff	1,000	-	1,000	350	650
Education - Public	31,722	-	31,722	8,886	22,836
Equipment office	500	-	500	500	-
Insurance	9,250	-	9,250	5,347	3,903
Miscellaneous	1,000	-	1,000	569	431
Office expenses	14,699	-	14,699	13,431	1,268
Staffing	67,162	-	67,162	62,454	4,708
Travel/reimbursement	1,000	-	1,000	288	712
Total expenditures	141,033	3,800	144,833	99,123	45,710
Excess of revenues over (under) expenditures	1	-	1	70,833	70,832
<b>Other Financing Sources:</b>					
Designation of fund balance	-	-	-	-	-
Excess of revenues and other financing sources over expenditures	\$ 1	\$ -	\$ 1	\$ 70,833	\$ 70,832
<b>Reconciliation of Budgetary Comparison Schedule - General Fund to the Statement of Activities:</b>					
Total revenues per general fund				\$ 169,956	
Add: Household hazardous waste reimbursements included in Special Revenue Fund				83,773	
Total revenues per Statement of Activities				\$ 253,729	
Total expenditures per general fund				\$ 99,123	
Add: Household hazardous waste expenditures included in Special Revenue Fund				83,773	
Less: encumbrances				(3,500)	
Total expenses per Statement of Activities				\$ 179,396	