

TUNXIS RECYCLING OPERATING COMMITTEE

FINANCIAL STATEMENTS

JUNE 30, 2010

TUNXIS RECYCLING OPERATING COMMITTEE

JUNE 30, 2010

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Independent Auditors' Report

To the Board of Directors
Tunxis Recycling Operating Committee
Bristol, Connecticut

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tunxis Recycling Operating Committee (TROC) as of and for the year ended June 30, 2010, which collectively comprise TROC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TROC's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TROC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, 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 opinions.

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 TROC as of June 30, 2010 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 8 and budgetary comparison information on pages 22 through 23 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2010 on our consideration of TROC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Blum, Shapiro & Company, P.C.

October 5, 2010

TUNXIS RECYCLING OPERATING COMMITTEE MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Tunxis Recycling Operating Committee's (TROC) financial performance is provided by management to provide an overview of TROC's financial activities for the fiscal year ended June 30, 2010. Please read this MD&A in conjunction with TROC's financial statements, Exhibits I to IV.

FINANCIAL HIGHLIGHTS

- Net assets of all governmental activities decreased by (\$45,374) or (2.8%).
- Total cost of all TROC's programs was \$970,800.
- The General Fund reported a fund balance this year of \$1,123,940.
- The resources available for appropriation were \$14,478 less than budgeted for the General Fund.
- Expenditures were \$176,981 below spending limits for the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (Exhibits I and II, respectively) provide information about the activities of TROC as a whole and present a longer-term view of TROC's finances. Fund financial statements are presented in Exhibits III and IV. 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 TROC's operations in more detail than the government-wide statements by providing information about TROC's most significant funds.

Government-Wide Financial Statements

The analysis of TROC as a whole begins on Exhibits I and II. The statement of net assets and the statement of activities report information about TROC as a whole and about its activities for the current period. 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report TROC's net assets and changes in them. TROC's net assets, the difference between assets and liabilities, is one way to measure TROC's financial health, or financial position. Over time, increases or decreases in TROC's net assets is one indicator of whether its financial health is improving or deteriorating.

In the statement of net assets and the statement of activities, TROC reports the following activities:

- *Governmental Activities* - TROC's basic services are reported here, including recycling contracts, professional services, management fees, advertising, penalties, new material recycling, disposal costs, supplies and general administration. Tipping fees finance most of these activities.

Fund Financial Statements

The fund financial statements begin with Exhibit III and provide detailed information about the most significant funds - not TROC as a whole. The Board of Directors establishes funds to help control and manage financial activities for particular purposes (like the Regional Household Hazardous Waste Fund) or to show that it is meeting legal responsibilities for using grants and other money.

Governmental Funds (Exhibits III and IV) - TROC's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of TROC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance TROC's programs. The relationship (or differences), if any, between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation included in the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

TROC's combined net assets decreased by (2.8%) over the past year from \$1,637,068 to \$1,591,694. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of TROC's governmental activities.

Table 1 - Net Assets

	Governmental Activities	
	2010	2009
Current and other assets	\$ 1,691,869	\$ 1,811,691
Other liabilities	<u>100,175</u>	<u>174,623</u>
Net Assets:		
Unrestricted	<u>\$ 1,591,694</u>	<u>\$ 1,637,068</u>

Table 2 - Changes in Net Assets

	Governmental Activities	
	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 862,782	\$ 966,340
General revenues:		
Unrestricted investment earnings	4,170	17,702
Other general revenues	58,474	50,679
Total revenues	<u>925,426</u>	<u>1,034,721</u>
Program expenses:		
Solid waste recycling	<u>970,800</u>	<u>975,765</u>
Increase (Decrease) in Net Assets	\$ <u>(45,374)</u>	\$ <u>58,956</u>

TROC's total revenues were \$925,426. The total cost of all programs and services was \$970,800. Our analysis below separately considers the operations of governmental activities.

TROC FUNDS FINANCIAL ANALYSIS

Governmental Funds

As TROC completed the year, its governmental funds (as presented in the balance sheet - Exhibit III) reported combined fund balance of \$1,591,694, which is a decrease from last year's total of \$1,637,068. Included in this year's total change in fund balance is a small net increase of \$1,117 in TROC's General Fund (Exhibit IV).

General Fund Budgetary Highlights

Both revenues and expenditures in the General Fund decreased in Fiscal Year 2010 from the prior year. Lower recycling tonnages resulted in lower tipping fee revenues. There was also a reduction in commodities revenues as paper markets stabilized and the lower tonnage deliveries meant there was less fiber available to market. The lower tonnages also resulted in lower expenditures (recycling vendor's fees). Unlike Fiscal Year 2009, there were no transfers out of the General Fund in Fiscal Year 2010.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Summary

For Fiscal Year 2010, the General Fund reported a small increase in Fund Balance. The Board had budgeted a use of Fund Balance of \$161,386 (if necessary) for Fiscal Year 2010. None of the budgeted Fund Balance was used in Fiscal Year 2010.

While commodities revenues decreased from the prior year, they exceeded budget by \$98,913. Higher than budgeted commodities revenues offset lower revenues for tip fees and interest income. The TROC Board adopted a budget for Fiscal Year 2011 that included a reduction in tip fees of \$3.50 per

ton (10.4%) and a use of fund balance of \$139,550 (if necessary). TROC's stable financial condition provided the organization with the flexibility to adopt the budget despite uncertainties related to the Murphy Road Recycling negotiations (see Note 8) and declines in two important revenue sources (tip fees and interest earnings). The reduction in the curbside recycling fee for Fiscal Year 2011 follows seven consecutive years of a \$33.50 tip fee.

TROC remains concerned with the falling recycling tonnages delivered to the region's recycling center. A portion of this declining tonnage is due to circumstances beyond our control, such as lightweighting of recyclable materials, the expanded bottle bill, less newspapers and cardboard due to the recent economic downturn and the availability of less costly facilities within close proximity to the Berlin facility. TROC hopes to capture additional recyclables from residences during the next few years by adding new items to the list of acceptable recyclables and via new collection methods, specifically "single stream" recycling. However, the amount of the increase can not be determined at this time. As of June 30, 2010, approximately 30% of TROC materials are being delivered as single stream. That percentage is expected to increase as more TROC communities (including the cities of Meriden and New Britain) implement single stream during Fiscal Year 2011 and the City of Bristol expands its single stream program.

TROC's Special Revenue Fund, which accounts for all revenues and expenditures related to the regional Household Hazardous Waste (HHW) and e-waste collections, ended the year with a positive fund balance of \$97,702. This favorable result is due to a number of proactive steps taken by the TROC Board over the past few years.

Net assets of the Capital and Nonrecurring Fund decreased by (\$73,739). This was primarily the result of professional services expenditures related to the Murphy Road Recycling negotiations (see Note 8). The Capital and Nonrecurring Fund Balance exceeds \$370,000 as of June 30, 2010. Unlike the past few years, there were no General Fund transfers into this Fund during Fiscal Year 2010.

BRRFOC contributed \$53,000 and Covanta contributed \$10,000 towards TROC programs in Fiscal Year 2010.

General Fund Expenses

Murphy Road Recycling Service Agreement

Contractual negotiations with Murphy Road took place during Fiscal Year 2010 and continue in Fiscal Year 2011. As discussed in the Subsequent Events Note 8, on July 22, 2010, a Letter of Understanding was executed to establish specific terms, conditions, formulas and parameters associated with the revised contract. If the parties successfully conclude negotiations based on the July 22 Letter of Understanding, revenues and expenditures in TROC's General Fund budget will both drop significantly. The terms of the Letter of Understanding include lower per ton payments, reduced TROC share of commodities revenue, adjustments to the minimum tonnage commitment, and incentives for TROC to deliver more tonnage. While certain budget items may change significantly, the net impact on the TROC budget is projected to be small and the current aggregate tip fee of \$30.00 is expected to remain in effect for the balance of the Fiscal Year.

Public Education

Regional public education expenditures support ongoing efforts and new initiatives related to the DEP Solid Waste Management Plan, which calls for a doubling of the state's recycling/diversion rate from 30% to 58% over the next 15 years. Compared to the prior year, expenditures increased from \$51,903 to \$62,611 (net of a \$10,000 contribution from BRRFOC for the new TROC/BRRFOC web site). For Fiscal Year 2011, TROC adopted a public education appropriation of \$72,000. Subsequent to the adoption of the Fiscal Year 2011 budget, the Board has recognized the need for additional public education activities related to the implementation of single stream recycling. Additional funding in the amount of \$62,500, dedicated to single stream recycling public education efforts, was approved in July, 2010.

General Fund Revenues

Sales of Recyclables

The TROC/Murphy Road Recycling Service Agreement contains a provision for a revenue share when the newspaper price per ton exceeds a threshold level. As paper markets stabilized in Fiscal Year 2010, TROC received over \$173,000 in revenues. The Budget Committee felt comfortable recommending that the commodity revenue budget be increased from \$74,325 to \$135,000 for Fiscal Year 2011. The 5-yr. average budgeted revenues for this line item is \$112,584. Fiber payments to TROC over the past five years have averaged \$256,948. The new contract terms with Murphy Road could result in a significant reduction in this revenue stream to TROC in exchange for a lower per ton tipping fee.

Community Tonnage/Tip Fee

The budget includes a \$30.00/ton tipping fee with the annual put/pay commitment as adopted by the Board of Directors on December 15, 2005. The Board decided that the new commitments will remain in place for a least five fiscal years. Fiscal Year 2011 will be the fifth and final year of the current minimum tonnage formula. We are projecting 16,136 tons delivered in Fiscal Year 2011. The vendor's current annual minimum tonnage requirement is 16,900, and one of the key topics for consideration as part of the negotiation is the put-or-pay commitment to the vendor. Please see Note 8. For budgeting purposes, we have assumed a put-pay assessment will take place in July 2011. Please note that the TROC Board has waived the assessment in the past three years.

Curbside tonnage delivered to the recycling center decreased by more than 6% in Fiscal Year 2010 compared to the prior fiscal year. TROC will be working with its communities to increase recycling tonnages through a variety of initiatives. It is uncertain whether TROC, as a region, will meet its budgeted tonnage target of 16,136 tons for Fiscal Year 2011.

Special Revenue Fund Discussion

Regional HHW Program

Participating communities are Berlin, Bristol, Burlington, Meriden, New Britain, Plainville, Plymouth, Prospect, Southington and Wolcott. The TROC Board has established an HHW Subcommittee that is charged with oversight of activities related to this regional program. However, since the HHW program is a subset of TROC, the TROC Board of Directors must approve the HHW budget.

The HHW program showed an excess of revenues over expenditures for Fiscal Year 2010 of \$27,248, resulting in a fund balance of \$97,702. For Fiscal Year 2011, additional transfers of \$43,000 will be made from BRRFOC. No contribution from the TROC General Fund is budgeted. TROC's per vehicle fee for Fiscal Year 2011 will decrease by \$2.50 per vehicle (3%) to \$80.00. Without the continued financial support of the Bristol Resource Recovery Facility Operating Committee (BRRFOC), the Special Revenue Fund would operate at a deficit. The new Agreement with Clean Harbors, which went into effect July 1, 2010, includes the same pricing as last year. Overall participation (number of vehicles) was down by 16% in Fiscal Year 2010 compared to the prior fiscal year, which we attribute to the decline in buying and selling of homes.

Consumer Electronics

TROC continues to plan and budget for one regional consumer electronics collection. However, the CT DEP is in the process of implementing regulations pursuant to Public Act 07-129, *An Act Concerning the Collection and Recycling of Covered Electronic Devices*. See Note 8. TROC is evaluating whether to continue one day e-waste collections. Municipal e-waste collections already have been implemented in several TROC towns.

CONTACTING TROC'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers and creditors with a general overview of TROC's finances and to show TROC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Tunxis Recycling Operating Committee, 43 Enterprise Drive, Bristol, Connecticut 06010 (860) 585-0419 or at www.tunxisrecycling.org.

TUNXIS RECYCLING OPERATING COMMITTEE

STATEMENT OF NET ASSETS

JUNE 30, 2010

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 1,623,922
Due from other municipalities	<u>67,947</u>
Total assets	<u>1,691,869</u>
Liabilities:	
Accounts and accrued liabilities	<u>100,175</u>
Net Assets:	
Unrestricted	<u>\$ 1,591,694</u>

The accompanying notes are an integral part of the financial statements

TUNXIS RECYCLING OPERATING COMMITTEE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

Function/Program Activities	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenue (Expense) and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:				
Solid waste recycling	\$ <u>970,800</u>	\$ <u>862,782</u>	\$ <u>-</u>	\$ <u>(108,018)</u>
General revenues:				
Unrestricted investment earnings				4,170
Other				<u>58,474</u>
Total general revenues				<u>62,644</u>
Change in net assets				(45,374)
Net Assets - Beginning of Year				<u>1,637,068</u>
Net Assets - End of Year				\$ <u>1,591,694</u>

The accompanying notes are an integral part of the financial statements

TUNXIS RECYCLING OPERATING COMMITTEE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2010

	<u>General</u>	<u>Capital and Nonrecurring</u>	<u>Regional Household Hazardous Waste</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,623,922	\$	\$	\$ 1,623,922
Due from other funds		370,052	93,824	463,876
Due from other municipalities	<u>64,069</u>		<u>3,878</u>	<u>67,947</u>
Total Assets	<u>\$ 1,687,991</u>	<u>\$ 370,052</u>	<u>\$ 97,702</u>	<u>\$ 2,155,745</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and accrued liabilities	\$ 100,175	\$	\$	\$ 100,175
Due to other funds	<u>463,876</u>			<u>463,876</u>
Total liabilities	<u>564,051</u>	<u>-</u>	<u>-</u>	<u>564,051</u>
Fund balances:				
Reserved		13,186		13,186
Unreserved:				
General Fund	1,123,940			1,123,940
Special revenue funds			97,702	97,702
Capital project funds		<u>356,866</u>		<u>356,866</u>
Total fund balances	<u>1,123,940</u>	<u>370,052</u>	<u>97,702</u>	<u>1,591,694</u>
Total Liabilities and Fund Balances	<u>\$ 1,687,991</u>	<u>\$ 370,052</u>	<u>\$ 97,702</u>	<u>\$ 2,155,745</u>

The accompanying notes are an integral part of the financial statements

TUNXIS RECYCLING OPERATING COMMITTEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Capital and Nonrecurring</u>	<u>Regional Household Hazardous Waste</u>	<u>Total Governmental Funds</u>
Revenues:				
Tipping fees	\$ 538,401	\$	\$ 151,143	\$ 689,544
Interest income	2,928	985	257	4,170
Commodities	173,238			173,238
Other	5,474		53,000	58,474
Total revenues	<u>720,041</u>	<u>985</u>	<u>204,400</u>	<u>925,426</u>
Expenditures:				
Current:				
Professional services	5,378			5,378
Management fee	150,094			150,094
Recycling contract	492,483			492,483
Berlin host fees	8,358			8,358
Regional Public Education	62,611			62,611
Advertising			10,705	10,705
Supplies			614	614
Disposal costs			118,167	118,167
Host fees			7,047	7,047
Administrative			16,091	16,091
Electronics			24,528	24,528
Capital outlay		74,724		74,724
Total expenditures	<u>718,924</u>	<u>74,724</u>	<u>177,152</u>	<u>970,800</u>
Net Changes in Fund Balances	1,117	(73,739)	27,248	(45,374)
Fund Balance - Beginning of Year	<u>1,122,823</u>	<u>443,791</u>	<u>70,454</u>	<u>1,637,068</u>
Fund Balance - End of Year	<u>\$ 1,123,940</u>	<u>\$ 370,052</u>	<u>\$ 97,702</u>	<u>\$ 1,591,694</u>

The accompanying notes are an integral part of the financial statements

**TUNXIS RECYCLING OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Tunxis Recycling Operating Committee (TROC) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant policies of TROC are described below.

A. Reporting Entity

TROC was created by an Inter-Community Agreement dated August 3, 1990 pursuant to Section 22a-221(c) of the General Statutes of Connecticut. TROC is a joint venture as defined by GASB Statement No. 14. TROC is responsible for the development, operation and management of a solid waste recycling program for the contracting communities. The communities consist of Berlin, Bristol, Burlington, Meriden, Morris, New Britain, Plainville, Plymouth, Prospect, Southington, Warren, Washington and Wolcott. The Governing Board consists of town officials appointed by each of the participating municipalities and assumes all the management decisions.

TROC is vested with the following powers and authority:

- Act as agent for and on behalf of the contracting communities as provided in the Inter-Community Agreement;
- Determine, fix and charge reasonable fees to the contracting communities for the services TROC is authorized to perform;
- Receive grants from the Municipal Solid Waste Recycling Trust Fund and other state, federal and private grants assigned to TROC by the contracting communities;
- Establish rules and regulations relating to delivery and receipt of recyclable materials, the form of the material and time of delivery;
- Bind the contracting communities by its duly authorized decisions;
- Contract on behalf of some or all of the contracting communities with private persons or firms, or consortia of such persons or firms, to perform all or part of the services reasonably necessary for the collection and disposal of household hazardous waste and activities related thereto.

All decisions made are pursuant to the vote of a majority-in-interest at a duly called meeting of TROC. There are 100 voting units that are allocated among the contracting communities based upon each community's proportionate share of total population from all contracting communities and the number of towns in TROC. The allocation of these votes is as follows: Berlin - 7; Bristol - 13; Burlington - 5; New Britain - 16; Plainville - 7; Plymouth - 6; Prospect - 5; Southington - 10; Wolcott - 6; Warren - 4; Washington - 4; Meriden - 13; and Morris - 4.

**TUNXIS RECYCLING OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

B. 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 activities of TROC. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by tipping fees and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The various funds included in the financial statements are described below:

Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

General Fund is the the primary operating fund of TROC. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from tipping fees, state and federal grants, licenses, permits, charges for service and interest income.

Special Revenue Funds account for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities.

Capital Project Funds account for all financial resources used for the acquisition or construction of major capital facilities not being financed by proprietary funds.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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.

**TUNXIS RECYCLING OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

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, TROC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Charges for services, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received.

TROC reports the following major governmental funds:

The General Fund is TROC's primary operating fund. It accounts for all financial resources of TROC, except those required to be accounted for in another fund.

The Capital Nonrecurring Expenditure Fund (capital projects fund) is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Regional Household Hazardous Waste Fund (special revenue fund) is used to account for the financial resources of the Regional Household Hazardous Waste Program.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. TROC has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between certain of TROC's functions because the elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

**TUNXIS RECYCLING OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

D. Deposits and Investments

TROC'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.

State statutes authorize TROC to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and certain other investments as described in Note 3.

E. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All receivables are shown net of an allowance for uncollectibles.

F. Capital Assets

Capital assets, which include equipment, furniture and fixtures, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by TROC as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Equipment, furniture and fixtures are depreciated using the straight-line method over an estimated five-year useful life.

G. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**TUNXIS RECYCLING OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

A proposed annual operating budget is prepared by the Executive Director of TROC on the modified accrual basis and presented to the budget committee, which consists of several members of the Governing Board. The budget is then presented to the entire Operating Committee for approval.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a “qualified public depository” as defined by Statute or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit, in an “out of state bank,” as defined by the Statutes, which is not a “qualified public depository.”

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) 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 or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF) and the State Tax Exempt Proceeds Fund (TEPF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer’s Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

**TUNXIS RECYCLING OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

Deposits

Deposit Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, TROC's deposit will not be returned. TROC does not have a deposit policy for custodial credit risk. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the State of Connecticut. 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. The entire bank balance of \$97,468 at June 30, 2010 was covered by federal depository insurance.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 day of maturity. At June 30, 2010, TROC's cash equivalents amounted to \$1,533,575. The following table provides a summary of TROC's cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than one year.

	Standard & Poor's
Cutwater Asset Management - Cooperative Liquid Assets Security System (CLASS), Connecticut CLASS Plus	AAA/m

4. RECEIVABLES

Intergovernmental Receivable

Presented below is a summary of tipping fees receivable at June 30, 2010:

Berlin	\$	7,599
Bristol		18,353
Burlington		1,907
Meriden		9,949
Morris		1,106
New Britain		6,396
Plainville		2,754
Plymouth		1,430
Prospect		1,556
Southington		9,519
Warren		300
Washington		1,350
Wolcott		1,850
Total	\$	64,069

**TUNXIS RECYCLING OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

5. CAPITAL PROJECT APPROPRIATIONS

A summary of Capital Project appropriations as of June 30, 2010 is presented below:

<u>Project</u>	<u>Appropriation</u>	<u>Expenditures and Encumbrances</u>	<u>Uncommitted Balance</u>
Recycling equipment	\$ 328,650	\$ 317,658	\$ 10,992
Electronics	15,000		15,000
Source reduction	58,624	52,931	5,693
Restructuring	59,944	34,944	25,000
Service agreement	244,139	181,912	62,227
Total	\$ <u>706,357</u>	\$ <u>587,445</u>	\$ <u>118,912</u>

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2010, interfund receivables and payables were comprised of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Regional Household Hazardous Waste	General	\$ 93,824
Capital Nonrecurring Expenditure	General	<u>370,052</u>
		\$ <u>463,876</u>

7. FUND BALANCE RESERVED AND UNRESERVED

A detail of fund balance reported in Exhibit III as of June 30, 2010 is presented below:

	<u>General Fund</u>	<u>Capital and Nonrecurring</u>	<u>Regional Household Hazardous Waste</u>	<u>Total</u>
Fund balance:				
Reserved for encumbrances	\$	\$ 13,186	\$	\$ 13,186
Unreserved:				
Designated for specific purpose		118,913		118,913
Undesignated	<u>1,123,940</u>	<u>237,953</u>	<u>97,702</u>	<u>1,459,595</u>
Total	\$ <u>1,123,940</u>	\$ <u>370,052</u>	\$ <u>97,702</u>	\$ <u>1,591,694</u>

**TUNXIS RECYCLING OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

8. SUBSEQUENT EVENTS

A. Murphy Road Recycling

Pursuant to Section 6.02 (b) of the Second Amended Contract (Agreement) between TROC and Murphy Road Recycling (MRR), discussions commenced on October 23, 2009 that were intended to adjust tip fees based on processing costs, shared revenues, performance, guarantees, changes in law and significant changes in technology. On January 15, 2010, MRR was requested to provide suggested arbitrators in the event the parties failed to conclude the negotiations. On April 8, 2010, TROC issued notice to MRR of Failure to Perform under Section 7.10 (a) of the Agreement, to which MRR responded, in part, on April 27, 2010. On May 20, 2010, TROC and MRR reached agreement on selection of the arbitrator.

On July 22, 2010, a Letter of Understanding was executed to establish specific terms, conditions, formulas and parameters associated with the contract amendment. Discussions between MRR and TROC on the proposed amendment are ongoing. Neither party has waived any rights to proceed with Arbitration under Section 7.08(e) of the Agreement. Absent an agreement on the proposed contract amendment, the matter will proceed to Arbitration.

Due to economic and other factors beyond the control of TROC, tonnage deliveries to the Berlin recycling facility continued to decline during the past year. Section 5.01(b) stipulates that TROC provide a minimum of 16,900 tons of Recyclables per Contract Year, and TROC deliveries for the year ended June 30, 2010 were 16,300. Therefore, in the absence of reaching a settlement on the pending Third Amendment to the Agreement, TROC may incur liabilities associated with the failure to deliver the minimum commitment. These liabilities are not material for Fiscal Year 2010. It is noted that the Letter of Understanding incorporates a retroactive reduction to the Section 5.01(b) minimum commitment.

B. Legislative and Regulatory

Public Act 10-87, An Act Concerning Private and Municipal Recycling, Zoning Ordinances and Solid Waste Collection Contracts, was enacted by the Connecticut General Assembly in the 2010 Legislative session. The Act includes new recycling requirements for municipalities and haulers, including broadening the list of mandatory recyclable items effective October 1, 2011. While there appears to be no material impact on TROC and its operations, the Act is intended to increase the amount of recyclable materials collected and remove barriers to recycling by changing reporting requirements and local zoning ordinances, and adding provisions for recycling at public venues.

On June 1, 2010 regulations were promulgated by CTDEP for the Recycling of Covered Electronic Devices.¹ A number of provisions of the new regulation, and associated state statutes, pertain to management of municipal solid waste by the Contracting Communities and BRRFOC: 1) the regulations require that municipalities submit a plan to the Commissioner for approval explaining how the municipality will provide convenience and accessibility for

¹ Sections 22a-638-1 and 22a-630(d)-1 of the R.C.S.A.

**TUNXIS RECYCLING OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

collecting and recycling “Covered electronic devices” to their residents,² and 2) commencing January 1, 2011, covered electronic devices, or any of the components or subassemblies of such devices, shall not knowingly be disposed in any solid waste facility. A solid waste facility, such as the Bristol Resource Recovery Facility, shall not be found in violation of this section if such owner or operator has (a) made a good faith effort to comply with this section, (b) posted, in a conspicuous location at the facility, a sign stating that covered electronic devices or any components thereof shall not be accepted at such facility, and (c) notified, in writing, all collectors registered to haul solid waste to such facility that such devices or components shall not be accepted at the facility.³

² Desktop or personal computer, computer monitor, portable computer, printer, CRT-based television and non-CRT-based television sold to consumers, not including: (A) an electronic device that is a part of a motor vehicle; (B) an electronic device that is functionally or physically a part of a larger piece of equipment designed and intended for use in an industrial, commercial or medical setting, including diagnostic, monitoring or control equipment; (C) an electronic device that is contained within an appliance; (D) a telephone of any type unless it contains a video display area greater than four inches measured diagonally; or (E) any handheld device used to access commercial mobile radio service.

³ Public Act 07-189.

TUNXIS RECYCLING OPERATING COMMITTEE

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

	General Fund				Special Revenue Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final			Original	Final		
Tipping fees	\$ 634,864	\$ 634,864	\$ 538,401	\$ (96,463)	\$ 191,565	\$ 191,565	\$ 151,143	\$ (40,422)
Interest income	18,100	18,100	2,928	(15,172)	750	750	257	(493)
Commodities	74,325	74,325	173,238	98,913				-
Other	7,230	7,230	5,474	(1,756)	53,000	53,000	53,000	-
Total	\$ 734,519	\$ 734,519	\$ 720,041	\$ (14,478)	\$ 245,315	\$ 245,315	\$ 204,400	\$ (40,915)

TUNXIS RECYCLING OPERATING COMMITTEE

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

	General Fund				Special Revenue Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final			Original	Final		
Expenditures:								
Current:								
Professional services	\$ 10,000	\$ 10,000	\$ 5,378	\$ 4,622	\$	\$	\$	-
Management fee	161,981	161,981	150,094	11,887				-
Recycling contract	609,182	609,182	492,483	116,699				-
Berlin host fees	9,742	9,742	8,358	1,384				-
Regional Public Education	100,000	100,000	62,611	37,389				-
New material recycling	5,000	5,000		5,000				-
Advertising				-	11,184	11,184	10,705	479
Supplies				-	2,500	2,500	614	1,886
Disposal costs				-	153,129	153,129	118,167	34,962
Host fees				-	16,175	16,175	7,047	9,128
Administrative				-	23,706	23,706	16,091	7,615
Electronics				-	27,883	27,883	24,528	3,355
Total	\$ 895,905	\$ 895,905	\$ 718,924	\$ 176,981	\$ 234,577	\$ 234,577	\$ 177,152	\$ 57,425