

**BRISTOL RESOURCE RECOVERY
FACILITY OPERATING COMMITTEE**

FINANCIAL STATEMENTS

JUNE 30, 2010

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE

JUNE 30, 2010

CONTENTS

| Financial Section | | Page |
|--|--|-------------|
| Independent Auditors' Report | | 1-2 |
| Management's Discussion and Analysis | | 3-11 |
| <u>Exhibit</u> | | |
| Basic Financial Statements: | | |
| Government-Wide Financial Statements: | | |
| I | Statement of Net Assets | 12 |
| II | Statement of Activities | 13 |
| Fund Financial Statements: | | |
| Governmental Funds: | | |
| III | Balance Sheet | 14-15 |
| IV | Statement of Revenues, Expenditures and Changes in Fund Balances | 16-17 |
| Notes to Financial Statements | | 18-35 |
| Required Supplementary Information: | | |
| General Fund: | | |
| RSI-1 | Schedule of Revenues and Other Financing Sources - Budget to Actual | 36 |
| RSI-2 | Schedule of Expenditures and Other Financing Uses - Budget to Actual | 37-39 |
| Supplemental Schedules: | | |
| A-1 | Comparative Schedule of Covanta Bristol, Inc. Expenditures (Including Pass-Through Costs) and Bypass | 40 |
| Capital and Nonrecurring Expenditure Fund: | | |
| A-2 | Schedule of Expenditures and Encumbrances Compared with Appropriations | 41 |
| A-3 | Comparative Schedule of Expenditures - Capital Projects | 42 |
| Statistical Section | | |
| <u>Table</u> | | |
| 1 | Contracting Communities - 2011 Committed Tons | 43 |
| 2 | Waste Delivery Source | 44 |
| 3 | Facility Performance Data | 45 |



Accounting | Tax | Business Consulting

Independent Auditors' Report

Board of Directors
Bristol Resource Recovery Facility
Operating Committee
Bristol, Connecticut

We have audited the accompanying financial statements of the governmental activities and each major fund of the Bristol Resource Recovery Facility Operating Committee (BRRFOC) as of and for the year ended June 30, 2010, which collectively comprise BRRFOC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of BRRFOC'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 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 BRRFOC'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 financial statements, assessing the accounting principles used and the 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 respective financial position of the governmental activities and each major fund of BRRFOC as of June 30, 2010 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2010 on our consideration of BRRFOC'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.

Management's discussion and analysis on pages 3 through 11 and budgetary comparison information on pages 36 through 39 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise BRRFOC's basic financial statements. The supplemental schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Blum, Shapiro & Company, P.C.

October 5, 2010

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- Net assets of all governmental activities decreased by \$583,841 or nearly 2.51%.
- Total cost of all of BRRFOC's programs was \$23,199,708.
- The General Fund reported a fund balance this year of \$12,050,502.
- The resources available for appropriation were \$762,175 less than budgeted for the General Fund.
- Expenditures were \$1,997,292 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 BRRFOC as a whole and present a longer-term view of BRRFOC'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 BRRFOC's operations in more detail than the government-wide statements by providing information about BRRFOC's most significant funds.

Government-Wide Financial Statements

The analysis of BRRFOC as a whole begins on Exhibits I and II. The statement of net assets and the statement of activities report information about BRRFOC as a whole and about its activities for the current year. 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 BRRFOC's net assets and changes in them. BRRFOC's net assets, the difference between assets and liabilities, is one way to measure BRRFOC's financial health, or financial position. Over time, increases or decreases in BRRFOC's net assets is one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other nonfinancial factors, however, such as changes in state and federal laws and regulations.

In the statement of net assets and the statement of activities, BRRFOC reports its activities as follows:

- Governmental Activities* - BRRFOC's basic services are reported here, including waste disposal and general administration. Charges for services 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 BRRFOC as a whole. The Board of Directors establishes funds to help control and manage financial activities for particular purposes (like the Capital and Nonrecurring Fund) or to show that it is meeting legal responsibilities for using grants and other money.

- ***Governmental Funds (Exhibits III and IV)*** - BRRFOC'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 BRRFOC'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 BRRFOC'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 with the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

BRRFOC's combined net assets decreased from \$ 23,278,635 to \$ 22,694,794. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of BRRFOC's governmental activities.

Table 1 - Net Assets

| | Governmental Activities | |
|---|--------------------------------|----------------------|
| | 2010 | 2009 |
| Current and other assets | \$ 55,044,515 | \$ 60,203,694 |
| Capital assets, net | 29,915 | 14,869 |
| Total assets | <u>55,074,430</u> | <u>60,218,563</u> |
| Long-term debt outstanding | 25,690,000 | 30,140,000 |
| Other liabilities | 6,689,636 | 6,799,928 |
| Total liabilities | <u>32,379,636</u> | <u>36,939,928</u> |
| Net assets: | | |
| Invested in capital assets, net of debt | 29,915 | 14,869 |
| Restricted for: | | |
| Fee stabilization and debt service | 11,290,092 | 10,875,111 |
| Unrestricted | <u>11,374,787</u> | <u>12,388,655</u> |
| Total Net Assets | <u>\$ 22,694,794</u> | <u>\$ 23,278,635</u> |

Table 2 - Change in Net Assets

| | Governmental Activities | |
|----------------------------------|--------------------------------|---------------------|
| | 2010 | 2009 |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 20,675,746 | \$ 21,389,985 |
| General revenues: | | |
| Unrestricted investment earnings | 608,877 | 681,356 |
| Other general revenues | 1,331,244 | 1,427,594 |
| Total revenues | <u>22,615,867</u> | <u>23,498,935</u> |
| | | |
| Program expenses: | | |
| Waste disposal | <u>23,199,708</u> | <u>23,757,694</u> |
| | | |
| Decrease in Net Assets | \$ <u>(583,841)</u> | \$ <u>(258,759)</u> |

BRRFOC's total revenues were \$22,615,867. The total cost of all programs and services was \$23,199,708.

BRRFOC FUNDS FINANCIAL ANALYSIS

Governmental Funds

As BRRFOC completed the year, its governmental funds (as presented in the balance sheet - Exhibit III) reported a combined fund balance of \$ 16,900,520, which is a decrease from last year's total of \$17,771,168. Included in this year's total change in fund balance is a decrease of \$765,064 in BRRFOC's General Fund (Exhibit IV).

General Fund Budgetary Highlights

BRRFOC's General Fund Balance decreased by \$765,064; net assets of all activities decreased by \$583,841. Compared to the prior Fiscal Year, General Fund expenses dropped by 1.6%, and revenues decreased by 3.6%.

BRRFOC's use of fund balance for the year ended June 30, 2010 was significantly less than budgeted. BRRFOC's reserves remain at comfortable levels and the organization is well positioned financially to address issues that may arise during the next four years as we approach contract expiration in 2014. The reason for the decrease in Fund Balance of \$765,064 is almost entirely due to the shortfall in General Fund revenues, \$762,175. Cost control on expenses resulted in a favorable budget variance of \$1,997,292. If revenues received were as budgeted, there would have been no decrease in General Fund Balance in Fiscal Year 2010.

The following trends were key factors in the fiscal performance of BRRFOC during the past year:

- I. Revenues were under budget by \$762,175 and \$791,494 less than the prior fiscal year:
 - a. Tipping fee revenues were \$585,637 below budget as member deliveries, while still in excess of all guarantees, continued to decline due to a drop in waste generation and structural changes in the regional marketplace. Spot market waste revenues mitigated the tipping fee revenue loss from lower member waste deliveries. See Tipping Fee discussion below.
 - b. Electric revenues were \$288,513 below budget due to lower electrical generation efficiency, a matter being monitored by the BRRFOC and its Consulting Engineer.
 - c. Sale of Emission Reduction Credits resulted in \$113,300 of unbudgeted income.

- II. Expenses were \$348,312 lower than prior fiscal year and under budget by \$1,997,292. This is the second consecutive year that expenditures dropped. The following are the five largest contributors to the favorable expenditure variance:
 - a. \$584,232 due to lower than budgeted bypass expenses;
 - b. \$456,309 due to lower than budgeted inflation indexed contractual payments;
 - c. \$238,118 due to lower ash disposal and conditioning costs;
 - d. \$191,590 due to cost containment on overhead and professional services;
 - e. \$150,084 due to favorable ferrous metals markets in the first part of the year.

- III. BRRFOC member waste deliveries dropped for the fifth consecutive year, but the rate of decrease has slowed (1%) and deliveries remain well in excess of minimum guaranteed tonnages. Spot market tonnage was obtained when plant capacity was available. Total BRRFOC deliveries dropped by 1.9% from the prior year and were 97% of budgeted. Covanta processed 198,077 tons of waste during the fiscal year, down 2% from the prior year but well in excess of their contractual guarantee. The decline in municipal solid waste deliveries from the contracting communities resulted in the smallest amount of bypassed/diverted trash since 1992.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, BRRFOC had \$29,915 invested in a broad range of capital assets, including machinery, equipment, furniture and fixtures - Table 3. This amount represents a net increase (including additions and deductions) of \$15,046, or 101.2%, over last year.

Table 3 - Capital Assets at End of Year (Net of Depreciation)

| | Governmental Activities | |
|-------------------------|--------------------------------|------------------|
| | 2010 | 2009 |
| Machinery and equipment | \$ 28,107 | \$ 12,773 |
| Furniture and fixtures | 1,808 | 2,096 |
| Totals | <u>\$ 29,915</u> | <u>\$ 14,869</u> |

More detailed information about BRRFOC's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2010, BRRFOC had \$25,690,000 in bonds outstanding versus \$30,140,000 last year - a decrease of 14.8% as shown in Table 4.

Table 4 - Outstanding Debt at End of Year

| | <u>Governmental Activities</u> | |
|---------------|--------------------------------|----------------------|
| | <u>2010</u> | <u>2009</u> |
| Revenue bonds | \$ <u>25,690,000</u> | \$ <u>30,140,000</u> |

BRRFOC's revenue bonds are rated by Moody's and Standard & Poor's, as described in Note 9 to the financial statements. The State limits the amount of debt that BRRFOC can issue. BRRFOC's outstanding revenue bonds debt is significantly below the \$100,000,000 state-imposed limit. More detailed information about BRRFOC's long-term liabilities is presented in Note 1 and Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

BRRFOC officials considered many factors when setting the Fiscal Year 2011 tipping fee and associated budget. The tipping fee adopted for Fiscal Year 2011 decreased by \$1 per ton to \$64.50 per ton. Revenues and expenditures are both budgeted to decrease by \$591,321 in Fiscal Year 2011 compared to prior year.

REVENUE DISCUSSION (for Fiscal Year 2011)

REVENUES AS % OF TOTAL

| | <u>FY10</u> | <u>FY11</u> |
|-------------|-------------|-------------|
| ENERGY | 34 | 34 |
| TIP FEE | 57 | 55 |
| INVESTMENTS | 1 | 1 |
| RESERVES | 8 | 9 |
| OTHER | <1 | 1 |

REVENUE HIGHLIGHTS

- Lower tipping fee revenues due to lower member tonnage and an overall small reduction in budgeted tonnage
- Slightly lower electric revenue
- Lower investment income reflecting prevailing interest rates
- Continued use of reserves as necessary

Tipping Fees

For the third consecutive year, tipping fee revenue is budgeted to decrease by a little over 5% as a result of a projected decrease in BRRFOC member waste. As you can see from the above table, tipping fees will comprise 55% of the revenues in Fiscal Year 2011. Tipping fees have declined each year from a high of \$14.3 Million in Fiscal Year 2006. The budgeted tip fees of \$12.7 Million for Fiscal Year 2011 represent a reduction of 12% over the past five years. In addition, the budget assumes that a portion of the waste generated in the Contracting Communities will be obtained at a discount. Specifically, the two largest commercial haulers will receive a reduced tip fee provided a guaranteed amount of tonnage is delivered. Total commercial tonnage from these two haulers is expected to exceed 64,000 tons and the discount could exceed \$250,000. During outage periods, member deliveries will still exceed plant capacity, although at reduced quantities. Part of the reduction in revenue from lower member waste deliveries is offset by lower Bypass costs (see Expense discussion below). Declining BRRFOC member deliveries result in higher estimates for spot waste. Spot waste is budgeted to increase from 10,830 tons to 16,270 tons and is projected to bring in \$50/ton on average. The State is undergoing a significant transition with respect to the movement and disposal of MSW. Please also see Note 16a. The assumption that BRRFOC staff will be able to obtain enough spot MSW which is not otherwise committed under contract to other projects will have to be revisited annually or more frequently as necessary, and the rate charged (for such waste) will obviously determine whether sufficient waste will be available to keep the plant running during periods of low member deliveries.

Energy

Electric revenue depends on plant operations, outages, and utility issues. The turbine generator overhaul took place in March 2008. Electric revenues did improve after the overhaul but recently have decreased due to air-in leakage and other issues that are impacting electrical generating efficiency. For Fiscal Year 2011, we have budgeted a slight decrease in electric revenue.

We expect to continue to sell power at the current contract rate of 8.3 cents per KWh. Due to the uncertainty regarding energy prices and the indices for the electric contract, we have not budgeted any electric sales in excess of the floor rate for Fiscal Year 2011. BRRFOC will continue to monitor energy and climate change legislation to ensure our interests are protected. Please see Note 16.

Interest Rates/Investment Income

Interest rates affect the revenue stream from BRRFOC's fund balance and various reserve accounts being held by the Trustee. The budget assumes \$300,015 in interest income during the 2011 Fiscal Year, a 10% reduction due to falling interest rates, reflecting our assumption that short-term interest rates will yield 0.25%. Over 40% of BRRFOC's cash is invested in money markets. The Finance Subcommittee continues to meet with the Investment Advisor quarterly to review the status of BRRFOC's investments.

Reserves/Undesignated Fund Balance

The recommended Fiscal Year 2011 budget assumes, in the most conservative case, that a significant drawdown (\$1,739,237) from undesignated fund balance will occur. However, even with a significant drawdown, the projected undesignated fund balance at the end of Fiscal Year 2011 will still be healthy. The use of reserves is budgeted to maintain a competitive tipping fee and BRRFOC's tipping fee has been remarkably stable for the past 15 years. In the past, conservative budgets have been adopted with use of retained earnings (fund balance). Prudent management, close

monitoring of expenses and better than anticipated revenues have resulted in substantially eliminating the need to draw upon the reserves. For the foreseeable future, BRRFOC will continue to budget significant use of undesignated and designated fund balances to balance the budget. As part of our strategic planning efforts, we will re-examine all BRRFOC reserve funds, their uses and appropriate funding levels.

EXPENSE DISCUSSION (FOR FISCAL YEAR 2011)

| EXPENSES AS % TOTAL | | |
|---------------------|-------------|-------------|
| | <u>FY10</u> | <u>FY11</u> |
| DEBT SERVICE | 27 | 26 |
| COVANTA O&M | 39 | 38 |
| UTILITY/TAX/INS. | 10 | 11 |
| ASH and BYPASS | 14 | 15 |
| OTHER | 10 | 10 |

EXPENSE HIGHLIGHTS

- Covanta’s fees go up \$1.50/ton due to inflation indexed contracts but still less than this year’s budget due to negative inflation index of June 2009
- Ash and Bypass costs continue to drop
- Increase in utility costs and chemical reagents
- Favorable ferrous metals market results in additional net income
- Debt Service stable
- Increase in Covanta’s incentive payment is included
- No change in BRRFOC’s general office budget

The following major changes are budgeted for Fiscal Year 2011:

| <u>OPERATING EXPENSE COSTS</u> | |
|---|-----------------------|
| Year-to-Year Budgeted Increase (Decrease) | |
| Utilities/Reagents | \$ 245,000 |
| Incentives | 87,000 |
| Bypass | (540,000) |
| Ash Disposal | (91,000) |
| Scrap Sales, Insurance | (146,000) |
| Basic O & M (CPI) | <u>(134,000)</u> |
| | \$(579,000) 2.5% |

Debt Service

The refinancing project was completed in 2005. Net debt service expense is at a historically low 25% of total BRRFOC expenses. Ten years ago, debt service comprised 35% of the agency's expenditures; in 1989, debt service obligations were 44% of total expenditures.

In order to levelize the savings from the refinancing, BRRFOC entered into a Repurchase Agreement at a fixed rate of 3.82 percent. For the first three years of the remaining bonds, savings exceed the targeted amount of \$650,000/annum. During these years, BRRFOC deposited funds into the Bank of America account. In subsequent years, including Fiscal Year 2011, BRRFOC withdraws from the Bank of America account so that the budgeted net savings are approximately \$650,000/year each year through 2014.

Covanta O&M

The fees BRRFOC pays Covanta to operate and maintain the plant pursuant to the Service Agreement are our largest single expense. BRRFOC pays Covanta a fixed O&M fee which is indexed with inflation. The CPI for Fiscal Year 2011 was assumed to increase by 3.5% for all contract parameters. The inflation index for June 2010, which is used to adjust contract payments, was 1.4%. As a result, BRRFOC will realize a savings versus budget of over \$200,000 in Fiscal Year 2011.

Bypass Disposal

For Fiscal Year 2011, we are budgeting a significant drop in Bypass tonnage as a result of declining member waste. "Bypass" tonnage includes waste delivered to the Covanta facility and re-loaded for disposal elsewhere and waste diverted directly from Contracting communities to alternate disposal sites. For the second consecutive year, the budgeted Bypass tonnage has been reduced by almost 50%, from 11,920 in Fiscal Year 2010 to 6,490 in Fiscal Year 2011.

Bypass expenditures could be significantly higher than budgeted if:

- Member waste trends reverse and start increasing again; or
- Covanta's processing throughput decreases; or
- Fuel price surcharges increase; or

Bypass expenditures could be lower if:

- Member waste trends continue and tonnage drops further; or
- Covanta's processing throughput increases; or
- Fuel price surcharges decrease

The amount of tonnage Bypassed depends greatly on member deliveries and Covanta plant operations. We believe the budgeted figures are somewhat aggressive, but justified based on recent and historical performance.

Ash Disposal

A new three-year ash disposal contract was entered into by the Company, effective July 1, 2010. For Fiscal Year 2011, ash disposal expenses will be under budget due to cost savings resulting from the new contract. BRRFOC expects to see savings in excess of \$200,000 from budgeted amounts during the Fiscal Year.

Covanta Incentives

Based on Covanta's recent representations regarding steaming rates and throughput, BRRFOC budgeted a payment of \$586,000. Covanta receives incentives for improved performance benchmarked against values negotiated in 1998. Under the incentives program negotiated as part of Amendment #5 in 1998, Covanta is eligible for payments for reduced boiler downtime and either lower bypass or higher throughput, compared to the 1998 benchmark levels.

Ferrous Metals Disposal/Recycling

Ferrous recycling markets have improved recently. Based on current contract pricing, BRRFOC is budgeting an increase in net revenue for ferrous next year and a reduction in the cost to dispose of scrap metal ash (ash that adheres to the scrap).

Household Hazardous Waste

BRRFOC's sister agency, TROC, continues to plan for regional household hazardous waste and consumer electronics collections. BRRFOC appropriated \$43,000 for Fiscal Year 2011 collections, recognizing safety and environmental benefits to municipal employees and garbage haulers, Phase II storm water protection and the fact that residents are already illegally leaving household chemicals at Public Works facilities.

CONTACTING BRRFOC'S FINANCIAL MANAGEMENT

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

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE

STATEMENT OF NET ASSETS

JUNE 30, 2010

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 5,860,800 |
| Investments | 9,697,577 |
| Assets held by Bond Fund Trustee | 11,465,300 |
| Accounts receivable, net | 708,945 |
| Due from other agencies: | |
| Municipalities | 1,348,849 |
| Bond Fund Trustee | 181,908 |
| Prepaid expenses and other assets | 91,136 |
| Mortgage note receivable | 25,690,000 |
| Capital assets being depreciated, net | 29,915 |
| Total assets | <u>55,074,430</u> |
| Liabilities: | |
| Accounts and other payables | 1,345,811 |
| Unearned revenue | 5,343,825 |
| Noncurrent liabilities: | |
| Due within one year | 4,735,000 |
| Due in more than one year | 20,955,000 |
| Total liabilities | <u>32,379,636</u> |
| Net Assets: | |
| Invested in capital assets, net of related debt | 29,915 |
| Restricted for: | |
| Fee stabilization and debt service with Trustee | 11,290,092 |
| Unrestricted | <u>11,374,787</u> |
| Total Net Assets | <u>\$ 22,694,794</u> |

The accompanying notes are an integral part of the financial statements

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

| Functions/Programs | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net Revenue (Expense) and Changes in Net Assets</u> |
|----------------------------------|----------------------|---------------------------------|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | |
| Governmental activities: | | | | |
| Waste disposal | \$ <u>23,199,708</u> | \$ <u>20,675,746</u> | \$ <u>-</u> | \$ <u>(2,523,962)</u> |
| General revenues: | | | | |
| Unrestricted investment earnings | | | | 608,877 |
| Other | | | | 1,331,244 |
| Total general revenues | | | | <u>1,940,121</u> |
| Change in net assets | | | | (583,841) |
| Net Assets - Beginning of Year | | | | <u>23,278,635</u> |
| Net Assets - End of Year | | | | \$ <u>22,694,794</u> |

The accompanying notes are an integral part of the financial statements

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2010

| | <u>General</u> | <u>Capital Projects</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|----------------------|-----------------------------|---|
| ASSETS | | | |
| Cash and cash equivalents | \$ 5,852,894 | \$ 7,906 | \$ 5,860,800 |
| Investments | 8,226,650 | 1,470,927 | 9,697,577 |
| Assets held by Bond Fund Trustee | 5,343,825 | | 5,343,825 |
| Accounts receivable, net | 100,120 | | 100,120 |
| Due from other agencies: | | | |
| Municipalities | 1,348,849 | | 1,348,849 |
| Bond Fund Trustee | 181,908 | | 181,908 |
| Prepaid expenses and other assets | 91,136 | | 91,136 |
| Due from other funds | | 3,371,185 | 3,371,185 |
| | <u>21,145,382</u> | <u>4,850,018</u> | <u>25,995,400</u> |
| Total Assets | \$ <u>21,145,382</u> | \$ <u>4,850,018</u> | \$ <u>25,995,400</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts and other payables | \$ 379,870 | \$ | \$ 379,870 |
| Due to other funds | 3,371,185 | | 3,371,185 |
| Deferred revenue | 5,343,825 | | 5,343,825 |
| Total liabilities | <u>9,094,880</u> | <u>-</u> | <u>9,094,880</u> |
| Fund balances: | | | |
| Reserved | | 289,027 | 289,027 |
| Unreserved, reported in: | | | |
| General Fund | 12,050,502 | | 12,050,502 |
| Capital Projects Fund | | 4,560,991 | 4,560,991 |
| Total fund balances | <u>12,050,502</u> | <u>4,850,018</u> | <u>16,900,520</u> |
| Total Liabilities and Fund Balances | \$ <u>21,145,382</u> | \$ <u>4,850,018</u> | \$ <u>25,995,400</u> |

(Continued on next page)

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2010

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets (Exhibit I) are different because of the following:

| | |
|--|---------------|
| Fund balances - total governmental funds (Exhibit III) | \$ 16,900,520 |
|--|---------------|

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

| | | |
|-------------------------------|-----------------|--------|
| Governmental capital assets | \$ 118,918 | |
| Less accumulated depreciation | <u>(89,003)</u> | |
| Net capital assets | | 29,915 |

Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds:

| | |
|--|------------|
| Assets held by Bond Fund Trustee | 6,121,475 |
| Mortgage receivable | 25,690,000 |
| Interest receivable on mortgage receivable | 608,825 |

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

| | |
|--|------------------|
| Bonds payable | (25,690,000) |
| Interest payable on bonds | (608,825) |
| Other liabilities - revenue funds due to other parties | <u>(357,116)</u> |

| | |
|---|-----------------------------|
| Net Assets of Governmental Activities (Exhibit I) | <u><u>\$ 22,694,794</u></u> |
|---|-----------------------------|

The accompanying notes are an integral part of the financial statements

BRISTOL RESOURCE RECOVERY FACILITY 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 Projects</u> | <u>Total Governmental Funds</u> |
|--|----------------------|-----------------------------|---|
| Revenues: | | | |
| Tipping fees | \$ 12,847,685 | \$ | \$ 12,847,685 |
| Investment income | 324,460 | 12,656 | 337,116 |
| Electric revenue | 7,659,433 | | 7,659,433 |
| Management fees | 168,628 | | 168,628 |
| Other | 113,593 | | 113,593 |
| Total revenues | <u>21,113,799</u> | <u>12,656</u> | <u>21,126,455</u> |
| Expenditures: | | | |
| Current: | | | |
| Personnel | 550,304 | | 550,304 |
| Administrative expenses | 162,120 | | 162,120 |
| Professional services | 320,088 | | 320,088 |
| Covanta Bristol, Inc. service fees (including pass-through costs) | 20,545,965 | | 20,545,965 |
| Bypass | 252,649 | | 252,649 |
| Other | 43,000 | 82,152 | 125,152 |
| Capital outlay | 4,737 | 36,088 | 40,825 |
| Total expenditures | <u>21,878,863</u> | <u>118,240</u> | <u>21,997,103</u> |
| Net Change in Fund Balances | (765,064) | (105,584) | (870,648) |
| Fund Balance - Beginning of Year | <u>12,815,566</u> | <u>4,955,602</u> | <u>17,771,168</u> |
| Fund Balance - End of Year | <u>\$ 12,050,502</u> | <u>\$ 4,850,018</u> | <u>\$ 16,900,520</u> |

(Continued on next page)

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)****FOR THE YEAR ENDED JUNE 30, 2010**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are
different because of the following:

| | |
|---|--------------|
| Net change in fund balances - total governmental funds (Exhibit IV) | \$ (870,648) |
|---|--------------|

Governmental funds report capital outlays as expenditures. However, in the statement
of activities the cost of those assets is allocated over their estimated useful lives and
reported as depreciation expense.

| | |
|----------------------|---------|
| Capital outlay | 22,191 |
| Depreciation expense | (7,145) |

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds.

| | |
|---|-----------|
| Mortgage interest revenue | 1,322,338 |
| Accrued mortgage interest receivable | (104,687) |
| Investment earnings on assets held by Bond Fund Trustee | 271,761 |

Some expenses reported in the statement of activities do not require the use of
current financial resources and, therefore, are not reported as expenditures in
governmental funds.

| | |
|-----------------------------------|----------------|
| Debt service interest payment | (1,322,338) |
| Accrued interest payable on bonds | <u>104,687</u> |

| | |
|--|---------------------|
| Change in Net Assets of Governmental Activities (Exhibit II) | <u>\$ (583,841)</u> |
|--|---------------------|

The accompanying notes are integral part of the financial statements

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Bristol Resource Recovery Facility Operating Committee (BRRFOC) 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 BRRFOC are described below.

A. Reporting Entity

BRRFOC was created on August 1, 1985 as a joint venture by several communities under contract with the waste-to-energy plant built by Ogden Martin Systems (the Company) now known as Covanta Bristol, Inc. (Covanta) in Bristol, Connecticut. BRRFOC was created pursuant to an Inter-Community Agreement (the Agreement), as authorized by the Connecticut General Statutes, to exercise certain rights on behalf of the contracting communities. The communities presently consist of Berlin, Branford, Bristol, Burlington, Hartland, New Britain, Plainville, Plymouth, Prospect, Seymour, Southington, Warren, Washington and Wolcott. The Governing Board consists of BRRFOC officials appointed by each of the participating municipalities and assumes all the management decisions. BRRFOC is a joint venture as defined by the GASB Statement No. 14.

BRRFOC is vested with the following powers and authority:

- Act as agent for and on behalf of the contracting communities as provided in the Agreement and the agreements with Covanta;
- Provide advice, recommendations and information to the contracting communities concerning the financing and operations of the facility;
- Perform functions as delegated by the Project and Service Agreements which were executed with Covanta;
- Bind the contracting communities by its duly authorized decisions.

All decisions made are pursuant to the vote of a majority-in-interest at a duly called meeting of BRRFOC. There are 100 voting units which are allocated among the contracting communities based upon each community's proportionate share of the annual guaranteed tonnage to be delivered to the facility.

The contracting communities, under the terms of the Agreement, have committed to deliver to the waste-to-energy facility minimum tonnages of acceptable waste on an annualized basis and a gross minimum tonnage.

**BRISTOL RESOURCE RECOVERY FACILITY 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 of the nonfiduciary activities of BRRFOC. 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 primary operating fund of BRRFOC. 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, sales of electricity, state and federal grants, charges for service and interest income.

Capital Projects Fund accounts 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.

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

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

current period. For this purpose, BRRFOC 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, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

BRRFOC reports the following major governmental funds:

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

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the 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. BRRFOC has elected not to follow subsequent private-sector guidance.

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.

D. Deposits and Investments

BRRFOC'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 BRRFOC to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and certain other investments.

Investments for BRRFOC are reported at fair value.

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.

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

F. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

G. 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 BRRFOC as assets with an initial, individual cost of more than \$1,000 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 of BRRFOC are depreciated using the straight-line method over the following estimated useful lives:

| | |
|------------------------|-----------|
| Office equipment | 5-7 years |
| Furniture and fixtures | 10 years |

H. Compensated Absences

Employees are paid by prescribed formula for absence due to vacation or sickness. Accumulated vacation and sick pay earned and not paid as of June 30, 2010 is not material and, therefore, is not reflected in the accompanying financial statements. It is BRRFOC's policy to recognize vacation and sick leave costs at the time payments are made.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

J. 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.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is prepared by the Executive Director of BRFFOC on the modified accrual basis and presented to the Finance subcommittee, which consists of several members of the Governing Board, for approval. 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

Cash and investments are 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

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

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.

Deposits

Deposit Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, BRRFOC's deposit will not be returned. BRRFOC 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 \$109,352 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 days of maturity. At June 30, 2010, BRRFOC's cash equivalents amounted to \$5,751,311. The following table provides a summary of BRRFOC's cash equivalents (excluding U.S. Government guaranteed obligations) as rated by nationally recognized statistical rating organizations.

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

Investments

Investments as of June 30, 2010 in all funds are as follows:

| <u>Investment Type</u> | <u>Credit Rating</u> | <u>Fair Value</u> | <u>Investment Maturities (Years)</u> | | |
|-------------------------------|--------------------------|-----------------------|--------------------------------------|---------------------|--------------------------------|
| | | | <u>Less Than 1</u> | <u>1 - 10</u> | <u>More Than 10</u> |
| Interest-bearing investments: | | | | | |
| U.S. Treasury bonds | N/A | \$ 8,616,087 | \$ 6,066,231 | \$ 2,549,856 | \$ |
| Repurchase agreement | N/A | <u>1,081,490</u> | <u> </u> | <u>1,081,490</u> | <u> </u> |
| Total Investments | | \$ <u>9,697,577</u> | \$ <u>6,066,231</u> | \$ <u>3,631,346</u> | \$ <u> </u> |

N/A Not applicable

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

Interest Rate Risk - BRRFOC limits their maximum final stated maturities to fifteen years, unless specific authority is given to exceed. To the extent possible, BRRFOC will attempt to match its investments with anticipated cash flow requirements.

Credit Risk - Investments - As indicated above, State Statutes limit the investment options of cities and towns. BRRFOC has an investment policy that allows the same type of investments as State Statutes.

Concentration of Credit Risk - BRRFOC has no policy limiting an investment in any one issuer that is in excess of 5% of BRRFOC's total investments.

Custodial Credit Risk - Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to BRRFOC or that sells investments to or buys them for BRRFOC), BRRFOC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. BRRFOC does not have a policy for custodial credit risk. At June 30, 2010, BRRFOC did not have any uninsured and unregistered securities held by the counterparty, or by its trust department or agent that were not in BRRFOC's name.

4. RECEIVABLES

Receivables as of June 30, 2010 for BRRFOC's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

| | | <u>General Fund</u> |
|-----------------------------------|----|--------------------------------|
| Receivables: | | |
| Accounts | \$ | 100,120 |
| Less allowance for uncollectibles | | <u>-</u> |
| Net Total Receivables | \$ | <u><u>100,120</u></u> |

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

Intergovernmental Receivable

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

| <u>Town</u> | <u>Amount</u> |
|-------------|---------------------|
| Berlin | \$ 127,895 |
| Branford | 82,641 |
| Bristol | 261,378 |
| Burlington | 36,837 |
| Hartland | 4,482 |
| New Britain | 278,453 |
| Plainville | 74,729 |
| Plymouth | 34,910 |
| Prospect | 32,640 |
| Seymour | 80,195 |
| Southington | 175,053 |
| Warren | 3,780 |
| Washington | 14,530 |
| Wolcott | 49,511 |
| Other | <u>91,815</u> |
| Total | <u>\$ 1,348,849</u> |

Mortgage Note Receivable

The mortgage note was granted to BRRFOC pursuant to an open-end mortgage deed dated as of April 15, 2005 to further secure the payment of Covanta's obligations under the loan agreement. The mortgage note shall have principal and interest payments at the rate of principal and interest borne by the bonds reflected in Note 9.

The following schedule represents the mortgage note receivable as of June 30, 2010:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|---------------------|----------------------|
| 2011 | 4,735,000 | 1,100,550 | 5,835,550 |
| 2012 | 5,045,000 | 858,263 | 5,903,263 |
| 2013 | 5,375,000 | 598,700 | 5,973,700 |
| 2014 | 5,725,000 | 350,013 | 6,075,013 |
| 2015 | <u>4,810,000</u> | <u>117,850</u> | <u>4,927,850</u> |
| Total | <u>\$ 25,690,000</u> | <u>\$ 3,025,376</u> | <u>\$ 28,715,376</u> |

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

Deferred Revenues

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the unearned revenue reported in the governmental funds of \$5,343,825 represents the amount of assets held by the Bond Fund Trustee for payment of principal and interest on the bonds on July 1, 2010.

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

| | <u>Beginning Balance</u> | | <u>Increases</u> | | <u>Decreases</u> | | <u>Ending Balance</u> |
|--|------------------------------|----|------------------|----|------------------|----|---------------------------|
| Governmental activities: | | | | | | | |
| Capital assets being depreciated: | | | | | | | |
| Machinery and equipment | \$ 98,437 | \$ | 22,191 | \$ | (16,206) | \$ | 104,422 |
| Furniture and fixtures | 14,496 | | | | | | 14,496 |
| Total capital assets being depreciated | <u>112,933</u> | | <u>22,191</u> | | <u>(16,206)</u> | | <u>118,918</u> |
| Less accumulated depreciation for: | | | | | | | |
| Machinery and equipment | (85,664) | | (6,857) | | 16,206 | | (76,315) |
| Furniture and fixtures | (12,400) | | (288) | | | | (12,688) |
| Total accumulated depreciation | <u>(98,064)</u> | | <u>(7,145)</u> | | <u>16,206</u> | | <u>(89,003)</u> |
| Total Capital Assets Being Depreciated, Net | <u>\$ 14,869</u> | \$ | <u>15,046</u> | \$ | <u>-</u> | \$ | <u>29,915</u> |

6. INTERFUND RECEIVABLES AND PAYABLES

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

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|---------------------|
| Capital Projects Fund | General Fund | \$ <u>3,371,185</u> |

Interfund receivables and payables generally represent temporary balances arising from reimbursement-type transactions.

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

7. ACCOUNTS AND OTHER PAYABLES

A schedule of accounts payable and accrued liabilities for the governmental funds as of June 30, 2010 is presented below:

| | | <u>General Fund</u> |
|------------------------------------|--------|---------------------------|
| Amounts due vendors | \$ | 369,260 |
| Amount in lieu of letter of credit | | <u>10,610</u> |
| Total | \$ | <u><u>379,870</u></u> |

8. LEASES

Operating Leases - BRRFOC entered into an operating lease agreement for the facilities at 43 Enterprise Drive, Bristol, Connecticut. The existing lease was updated for an additional five-year term beginning on January 1, 2011 and ending on December 31, 2015. BRRFOC reserves the right to terminate the lease at any time between January 1, 2014 and December 31, 2014, provided it will give written notice to Lessor not less than six (6) months prior to the effective date of termination. BRRFOC may only exercise such right of termination if (a) it ceases to exist as an entity effective as of or about the date of termination; or (b) it restructures its corporate structure so that its staffing requirements is less that 1,500 square feet of net usable area and Lessor is unable or unwilling to accommodate the reduced space requirement. A schedule of minimum future lease payments is as follows:

| <u>Year Ending June 30</u> | | <u>Amount</u> |
|----------------------------|----|---------------|
| 2011 | \$ | 76,160 |
| 2012 | | 76,160 |
| 2013 | | 76,160 |
| 2014 | | 76,160 |
| 2015 | | 76,160 |
| 2016 | | 38,080 |

Rent expense for the above lease was \$76,160 for the year ended June 30, 2010.

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

9. LONG-TERM DEBT

Solid Waste Revenue Refunding Bonds

In April 2005, BRRFOC issued \$41,920,000 Solid Waste Revenue Refunding Bonds (Covanta Bristol, Inc. Project - 2005 Series) (the Bonds) with interest rates varying from 3% to 5%. The proceeds of the Bonds were used to current refund \$46,670,000 in outstanding revenue bonds of BRRFOC with an interest rate of 6.5%. The current refunding was undertaken to reduce total debt service costs over the period of fiscal 2005 through 2015 by approximately \$4,300,000 and to obtain a present value savings of approximately \$4,000,000.

In accordance with the bond indenture, BRRFOC has set aside with the Bond Fund Trustee a Debt Service Reserve Fund (the Fund) an amount which is to be available to meet future debt service obligations if such obligations cannot be met with current available revenues of BRRFOC. At June 30, 2010, the market value of the investment in the Fund was \$5,263,330.

The annual requirements to amortize the Bonds as of June 30, 2010 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|---------------------|----------------------|
| 2011 | \$ 4,735,000 | \$ 1,100,550 | \$ 5,835,550 |
| 2012 | 5,045,000 | 858,263 | 5,903,263 |
| 2013 | 5,375,000 | 598,700 | 5,973,700 |
| 2014 | 5,725,000 | 350,013 | 6,075,013 |
| 2015 | <u>4,810,000</u> | <u>117,850</u> | <u>4,927,850</u> |
| Total | <u>\$ 25,690,000</u> | <u>\$ 3,025,376</u> | <u>\$ 28,715,376</u> |

In addition to the pledge of revenues provided by BRRFOC to the Bondholders, the payments of principal and interest on the above Bonds are guaranteed by Ambac Assurance Corporation (Ambac). Pursuant to the indenture of trust, BRRFOC transfers monthly one-twelfth of the principal balance due in the subsequent year to the Trustee and one-sixth of the semiannual interest payment. The Bonds mature on July 1 of each fiscal year and bear interest payable semiannually on the first day of January and July of each year.

The Bonds are currently rated A1 by Moody's Investors Service (Moody's). Subsequent to the end of fiscal year 2010, Standard & Poor's upgraded BRRFOC's bond rating to AA Stable on September 28, 2010 from A+. In addition, the Bonds insured by Ambac were rated Caa2 (on review for upgrade) by Moody's and R (under regulatory supervision) by S&P.

By special legislation enacted in 2001, Special Act No. 01-10 "An Act to Permit the Bristol Resource Recovery Facility Operating Committee to Finance Projects and Refund Previously Issued Bonds," BRRFOC is permitted to finance projects including additions, renovations or improvements to the Facility, recycling facility and similar activities required to provide solid

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

waste and recycling services to the contracting communities. The total amount of bonds issued by BRRFOC and outstanding at any time cannot exceed \$100,000,000.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--------------------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Governmental activities: | | | | | |
| Bonds payable: | | | | | |
| Revenue Bonds | \$ <u>30,140,000</u> | \$ <u>-</u> | \$ <u>4,450,000</u> | \$ <u>25,690,000</u> | \$ <u>4,735,000</u> |

10. 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 Projects Fund</u> | <u>Total</u> |
|--|-------------------------|--------------------------------------|----------------------|
| Fund balance: | | | |
| Reserved for encumbrances | \$ | \$ 289,027 | \$ 289,027 |
| Unreserved: | | | |
| Designated for subsequent year's budget | 2,039,237 | | 2,039,237 |
| Designated for specific purposes | 2,085,386 | 2,611,744 | 4,697,130 |
| Undesignated | <u>7,925,879</u> | <u>1,949,247</u> | <u>9,875,126</u> |
| Total | \$ <u>12,050,502</u> | \$ <u>4,850,018</u> | \$ <u>16,900,520</u> |

11. TIPPING FEE REVENUES

BRRFOC establishes a tipping fee, which represents the price per ton to be charged for acceptable waste delivered to the plant. At the end of each month, Covanta sends BRRFOC a summary of tonnage delivered by each contracting community. This monthly tonnage total is multiplied by the preestablished price per ton and billed to each contracting community. During the fiscal year ended June 30, 2010, the price per ton assessed to the contracting communities was \$65.50.

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

The tipping fees charged for spot market waste vary depending upon market conditions. Total revenues related to spot market deliveries (by sources other than the contracting communities) for the year ended June 30, 2010 amounted to \$537,458. Additional revenue was generated from recycling plant residue of \$121,501 for tonnage delivered by a single hauler on behalf of several contracting communities pursuant to an agreement with BRRFOC. The following table presents the committed and actual tonnage for contracting communities for the contract year ended June 30, 2010:

| <u>Town</u> | <u>Yearly Committed Percentage</u> | <u>Yearly Committed Tonnage</u> | <u>Actual Tonnage</u> |
|-------------------------|--|---|---------------------------|
| Berlin | 5.04% | 9,890 | 10,482 |
| Branford | 6.58 | 12,910 | 13,309 |
| Bristol | 22.53 | 44,215 | 42,097 |
| Burlington | 2.15 | 4,223 | 3,826 |
| Hartland | 0.37 | 732 | 698 |
| New Britain | 24.71 | 48,500 | 45,994 |
| Plainville | 6.57 | 12,900 | 13,136 |
| Plymouth | 3.37 | 6,616 | 6,113 |
| Prospect | 2.66 | 5,225 | 4,785 |
| Seymour | 4.17 | 8,180 | 7,323 |
| Southington | 15.80 | 31,000 | 29,035 |
| Warren | 0.33 | 642 | 656 |
| Washington | 1.31 | 2,565 | 2,294 |
| Wolcott | 4.41 | 8,659 | 8,183 |
| Recycling plant residue | | | 2,351 |
| Spot market | | | 11,587 |
| Total | <u><u>100.00%</u></u> | <u><u>196,257</u></u> | <u><u>201,869</u></u> |

12. SERVICE AGREEMENT

Under the Service Agreement, Covanta charges the contracting communities a service fee that includes debt service amortization, pass-through costs and a fixed amount for operation and maintenance expense as defined by the Service Agreement. The communities receive credit for 90% of the energy revenues generated by the facility. The Service Agreement also contains provisions for handling credits or costs associated with recovered materials. The expenditure for the service fee is made by BRRFOC and is financed from revenues generated from the tipping fees. It is a function of the Operating Committee to monitor energy revenues and pass-through costs.

13. ELECTRICITY AGREEMENT

Electricity generated through the operation of the Facility is sold by Covanta Bristol, Inc. (Covanta), formerly Ogden Martin Systems of Bristol, Inc., to The Connecticut Light and

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

Power Company (CL&P) under an Electricity Purchase Agreement (EPA). While BRRFOC is a primary beneficiary of the EPA, the EPA is between Covanta and CL&P.

In 1998, Public Act 98-28, An Act Concerning Electric Restructuring, was enacted providing for utilities to separate their generation, transmission and distribution facilities into separate entities. As part of restructuring, the Connecticut Department of Public Utility Control (DPUC) approved, over the objection of BRRFOC and other independent power producers, a divestiture plan for CL&P, which included divestiture of the EPA through an auction.

Although that plan was never implemented, it remains possible that CL&P will seek an alternate means of divesting itself of its remaining power contracts, including the EPA.

BRRFOC and Covanta will continue to monitor and, to the extent necessary, participate in legislative and regulatory activities related to electric utility restructuring.

14. SERVICE FEE STABILIZATION FUND

The Indenture Agreement associated with the issuance of the Bonds utilized to finance the project provides for a Service Fee Stabilization Fund. The fund is under the control of a trustee and is to be utilized to make up any deficiency in the payment of the service fee to Covanta caused by the default of one or more of the contracting communities. The fund was established with a \$500,000 deposit at the time of closing. If the defaulting community fails to make restitution to the Service Fee Stabilization Fund, the deficiency then becomes the obligation of the contracting communities who have not defaulted. As of June 30, 2010, the fund has never been utilized to make up for any deficiencies.

15. TAXES

Schedule 6, Pass Through Costs During Operation, a part of the Service Agreement dated as of August 1, 1985 among Covanta and the Contracting Communities, provides that any sales and use tax shall be payable by the Contracting Communities. The 1997 General Assembly adopted subsection (95) of Sec. 12-412 of the Connecticut General Statutes, which exempted from sales and use tax any services or tangible personal property to be incorporated into and used or otherwise consumed in the operation of a waste-to-energy facility certified by Department of Environmental Protection, whether such purchases are made directly by an authority or an operating committee, or are reimbursed by an authority or operating committee to the lessee or operator of such facility. Adoption of Subsection (95) in 1997 has resulted in savings to BRRFOC in excess of \$100,000 per year.

During the regular session of the 2010 General Assembly, its Finance, Revenue and Bonding Committee, in deliberating on the tax position of the State's budget, considered the repeal of over 100 tax exemptions, including subsection (95) of Sec. 12-412. However, no action was taken by the committee or the General Assembly during its regular session to repeal the exemptions.

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

16. SUBSEQUENT EVENTS

A. Flow Control

The U.S. Supreme Court, on April 30, 2007, decided *United Hauler's Association v. Oneida-Herkimer*, finding that flow control ordinances for public solid waste projects do not violate the Commerce Clause of the U.S. Constitution by discriminating against interstate commerce. The *Oneida-Herkimer* decision reduced the potential for challenging flow control ordinances based on per se discrimination claims, although its application to the existing BRRFOC - Covanta relationship is uncertain. The opponents to flow control ordinances argue the holding in *Oneida-Herkimer* should be limited to waste projects that have both public ownership and public operation. This issue is now being litigated in *C. & A. Carbone, Inc. v. County of Rockland, et al.* The outcome of this case could decide on whether the prerequisite for *Oneida-Herkimer's* "safe labor" is that the designated facility or project must be publicly owned as well as publicly operated, or a narrower prerequisite of public ownership is sufficient.

Connecticut has experienced reduced waste generation rates during the past years. In addition to the economy, changing contractual arrangements at other disposal facilities in the region have resulted in additional capacity being marketed as "spot" at relatively low prices. Despite the fact that member deliveries to the Facility remained relatively stable and well in excess of minimum commitments, BRRFOC is concerned that the factors contributing to the past years' reductions in tonnage are not short-term anomalies. As a result, BRRFOC directed its staff to negotiate contracts with the two largest haulers delivering commercial solid waste collected in the Contracting Communities to the Facility. The contracts, in effect through June 30, 2011, provide for a reduced tip fee provided a guaranteed amount of tonnage is delivered to the Facility.

B. Environmental Permits

US EPA - On December 19, 2005, EPA published a notice for new source performance standards (NSPS) and emission guidelines for large municipal waste combustion (MWC) units¹. The relevant provision of the Clean Air Act Amendments of 1990, Section 129(a)(5), requires EPA to review the NSPS and emission guidelines every five years. EPA gathered information on performance levels achieved by large MWC units, and issued proposed amendments to revise the NSPS and emission guidelines based on emissions and controls actually achieved by large MWC units.

On May 10, 2006, EPA published notice of amendments to the air emission standards for existing and new large units, pursuant to the December 2005 notice of rulemaking. On July 7, 2006, Earthjustice petitioned EPA to reconsider the standards, and EPA agreed to reconsider three of the four issues raised in the petition. On March 20, 2007, EPA announced three aspects of the final rule would be reconsidered: operator stand-in provisions, data requirements for continuous monitors, and the status of operating parameters during the two weeks prior to mercury and dioxin/furan testing.²

¹ Federal Register Volume 70, Number 242, pp. 75347-75369.

² Federal Register, Volume 72, Number 53, pp. 13016-13023.

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

On November 7, 2007 in a suit brought against EPA by Sierra Club, EPA submitted a motion to the Court to voluntarily remand the Maximum Achievable Control Technology (MACT) standards incorporated in the May 2006 final rule.³ The schedule for EPA's review and further action on the revised MACT standards is not known at this time.

On May 6, 2009, EPA proposed amendments to the current National Emission Standards for Hazardous Air Pollutants (NESHAP) from the Portland Cement Manufacturing Industry, including emission limits for mercury and other pollutants.⁴ On September 14, 2009, EPA promulgated NSPS for Hospital/Medical/Infectious Waste Incinerators, which established MACT requirements and eliminated exemptions for exceedances during startup, shutdown, and malfunctions.

In challenging EPA's rulemaking, on December 7, 2009 the Medical Waste Institute and the Energy Recovery Council, a trade association to which BRRFOC belongs as a municipal member, petitioned the U.S. Court of Appeals, D. C. Circuit challenging the hospital, medical, and infectious waste incineration final rule (Case No. 09-1297), including the requirement that the facilities meet emissions standards without exception during startup, shutdown, and malfunctions (SSM).

In a related rulemaking effort, the Energy Recovery Council participated in a trade association coalition to comment on the June 4, 2010 EPA proposed MACT rules for industrial boilers and commercial and industrial solid waste incinerators (CISWI).

On July 6, 2010, EPA issued a Notice of Rulemaking for the Clean Air Transport Rule (CATR), applicable to fossil fuel-fired Electric Generating Units (EGU) with nameplate capacity greater than 25 MW. EPA also invited interested parties to submit comments during the public review period for regulating smaller units (less than 25 MW) during the ozone season. Since the Bristol Resource Recovery Facility is not, by definition, an EGU, the proposed CATR is not expected to impact emissions limitations; however, secondary effects may develop in regard to utility efforts to maintain electric reliability standards if older, less efficient EGUs are retired or derated as a result of CATR.

On October 30, 2009, EPA published the Mandatory Reporting of Greenhouse Gases (GHG) rule, pertaining to recordkeeping for emissions of pollutants associated with trapping heat within the earth's atmosphere.⁵ The Energy Recovery Council filed a petition for review of the rule, resulting in a Settlement Agreement, which requires EPA to publish a notice of proposed rulemaking to reconsider the reporting threshold for affected sources such as Municipal Waste Combustors.⁶ As a result of this Settlement Agreement, Covanta and BRRFOC have postponed discussions as to whether or not the GHG reporting rule constitutes an Uncontrollable Circumstance, as defined in the Amended and Restated Service Agreement between the parties.

³ *Sierra Club v. EPA*, Administrative Petition No. 06-1250, D.C. Cir. July 7, 2006.

⁴ Federal Register, Volume 74, Number 86, pp. 21136-21192.

⁵ Federal Register, Volume 74, Number 86, p. 56374 (40 CFR 98).

⁶ *Energy Recovery Council, petitioner v. EPA*, No. 09-1326, D.C. Cir. July 15, 2010.

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

CT DEP - The current Title V Operating Permit issued pursuant to R.C.S.A. §22a-174-33 and the Code of Federal Regulations Title 40, Part 70, was issued in June 2010. The newly issued permit incorporates lower emissions limits for NOx (Unit #1 only), particulate matter, cadmium and lead, and minor changes to the data averaging periods. No material impacts are anticipated on facility operations at this time resulting from the application submittal.

On June 1, 2010, regulations were promulgated by CTDEP for the Recycling of Covered Electronic Devices.⁷ 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 collecting and recycling “Covered electronic devices” to their residents,⁸ 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.⁹

C. City of New Britain Transfer Station

On June 2, 2004, the City of New Britain and the BRRFOC, on behalf of the contracting communities, entered into an agreement for the procurement, construction, fabrication, operation and other matters relating to a transfer station located on City property and available for use by contracting communities for the transfer of solid waste. The agreement provides for review and comment by BRRFOC of design, procurement and construction of the improvements necessary to insure a fully operable and permitted facility. The agreement provides for a per-ton waste fee paid to the City, indexed annually for inflation. The agreement is for ten years following the commercial operation date and a five-year extension of the agreement at the option of BRRFOC. For various reasons, the City has requested extensions of the agreement, the most recent of which extends the commercial operation date to July 1, 2011. The City is committed to the project. It has been awarded grant funds from the State, engaged consultants, is diligently pursuing all necessary permits and has entered into contracts for preliminary work on the project.

⁷ Sections 22a-638-1 and 22a-630(d)-1 of the R.C.S.A.

⁸ 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.

⁹ Public Act 07-189.

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
NOTES TO FINANCIAL STATEMENTS**

D. Long Range/Strategic Planning

The Amended and Restated Service Agreement (the Service Agreement) between the Contracting Communities and Covanta expires on June 20, 2014, unless extended pursuant to the Service Agreement's terms. Likewise, the Service Agreement between Tunxis Recycling Operating Committee (TROC) and Murphy Road Recycling, LLC, expires on the same date. In preparation for the expiration of the Service Agreement and to explore options for continued waste management and disposal services, BRRFOC and TROC embarked on a joint long-term strategic planning initiative to help determine the most efficient, effective and safe ways to manage the region's recycling and solid waste stream for the next 20-plus years. Issues under consideration include ownership and operation of facilities after contracts with the member communities expire in 2014, waste collection, the make-up of the BRRFOC/TROC region after 2014 and the best ways to achieve the ambitious recycling goals set forth in the DEP's new solid waste management plan. BRRFOC/TROC have engaged professionals representing the engineering, solid waste, financial, property appraisal and legal fields to assist the Contracting Communities in making informed decisions concerning the numerous approaches available.

E. Federal Legislation

Last June the U.S. House of Representatives approved H.R. 2454, the "American Clean Energy and Security Act of 2009," which would establish a national Renewable Energy Standard (RES) for electric utilities. H.R. 2454's RES provisions include WTE as a source of renewable electricity and marketable "Renewable Energy Credits" that utilities purchase to satisfy their RES obligations. The bill also addresses climate change greenhouse gas (GHG) emissions but exempts WTE as a regulated GHG source. Following that action by the House, in July 2009 the Senate Energy and Natural Resources Committee approved a broad energy bill, S. 1462, the "American Clean Energy Leadership Act of 2009," which also includes WTE in its RES (S. 1462's RES provisions offer advantages for WTE beyond those in H.R. 2454). Senate progress on climate change has been quite slow, however. Although several proposals are pending in the Senate (these proposals exclude WTE from GHG regulation), consideration by the full Senate has been deferred to this fall, or perhaps a post-election session of Congress. Senate delay with regard to climate change legislation is also delaying consideration of energy legislation, including S. 1462's favorable RES provisions. Eventual Senate action on energy and climate change would be followed by a joint House-Senate conference to agree to uniform legislation acceptable to both chambers.

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2010

| | General Fund | | | |
|------------------|-------------------------|----------------------|----------------------|------------------------------------|
| | Budgeted Amounts | | Actual | Variance |
| | Original | Final | | Favorable (Unfavorable) |
| Tipping fees | \$ 13,433,322 | \$ 13,433,322 | \$ 12,847,685 | \$ (585,637) |
| Interest income | 331,724 | 331,724 | 324,460 | (7,264) |
| Electric revenue | 7,947,947 | 7,947,947 | 7,659,433 | (288,514) |
| Management fee | 161,981 | 161,981 | 168,628 | 6,647 |
| Other | 1,000 | 1,000 | 113,593 | 112,593 |
| Total | \$ 21,875,974 | \$ 21,875,974 | \$ 21,113,799 | \$ (762,175) |

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

| | General Fund | | | |
|---------------------------------|-------------------------|----------------|----------------|--|
| | Budgeted Amounts | | Actual | Variance |
| | Original | Final | | Favorable (Unfavorable) |
| Personnel: | | | | |
| Executive Director | \$ 125,029 | \$ 125,029 | \$ 124,729 | \$ 300 |
| Assistant Director | 89,481 | 89,481 | 89,082 | 399 |
| Taxes | 29,409 | 29,409 | 25,637 | 3,772 |
| Bookkeeper | 50,577 | 50,577 | 46,256 | 4,321 |
| Benefits | 156,763 | 156,763 | 142,965 | 13,798 |
| Unemployment compensation | 2,520 | 2,520 | 1,692 | 828 |
| Paralegal | 1,000 | 1,250 | 1,129 | 121 |
| Garbage Inspector/Detective | 19,362 | 22,500 | 22,291 | 209 |
| Workman's compensation | 2,644 | 2,644 | 1,879 | 765 |
| Analyst | 55,466 | 55,466 | 55,066 | 400 |
| Administrative Secretary | 43,096 | 43,096 | 39,578 | 3,518 |
| Contingency | 12,500 | 9,112 | | 9,112 |
| Total personnel | <u>587,847</u> | <u>587,847</u> | <u>550,304</u> | <u>37,543</u> |
| Administrative: | | | | |
| Rent | 76,210 | 76,210 | 76,160 | 50 |
| Cleaning, taxes and utilities | 24,727 | 24,727 | 20,497 | 4,230 |
| Telephone monthly | 9,200 | 9,500 | 8,613 | 887 |
| Telephone equipment and service | 2,300 | 2,450 | 2,368 | 82 |
| Liability insurance | 4,580 | 4,580 | 3,506 | 1,074 |
| Office furniture | 1,500 | 1,500 | 1,430 | 70 |
| Copier | 1,800 | 1,800 | 449 | 1,351 |
| Supplies | 6,500 | 6,500 | 6,021 | 479 |
| Office computers | 4,987 | 4,987 | 3,602 | 1,385 |
| Office equipment | 1,000 | 1,000 | 130 | 870 |
| Off-site storage | 2,600 | 3,600 | 3,362 | 238 |
| Mailing | 6,620 | 6,620 | 3,469 | 3,151 |
| Printing | 1,000 | 1,000 | 730 | 270 |
| Subscriptions | 10,400 | 10,400 | 8,217 | 2,183 |
| Automobile | 13,000 | 13,000 | 11,841 | 1,159 |
| Travel | 5,108 | 5,108 | 2,712 | 2,396 |
| Professional | 4,942 | 4,942 | 3,592 | 1,350 |
| Advertising | 1,541 | 1,541 | 454 | 1,087 |
| Executive Director expenses | 1,000 | 1,000 | 540 | 460 |
| Assistant Director expenses | 887 | 887 | 796 | 91 |
| Executive Committee expenses | 2,800 | 2,800 | 2,393 | 407 |
| Detective support expenses | 200 | 200 | | 200 |
| Staff expense | 400 | 400 | 199 | 201 |
| Transaction charges | 1,250 | 1,250 | 1,039 | 211 |
| Contingencies | 4,692 | 3,242 | | 3,242 |
| Total administrative | <u>189,244</u> | <u>189,244</u> | <u>162,120</u> | <u>27,124</u> |

(Continued on next page)

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

| | General Fund | | | |
|--|-------------------------|-------------------|-------------------|------------------------------------|
| | Budgeted Amounts | | Actual | Variance |
| | Original | Final | | Favorable (Unfavorable) |
| Professional services: | | | | |
| Legal | \$ 95,000 | \$ 95,000 | \$ 52,095 | \$ 42,905 |
| Accounting | 14,400 | 14,400 | 14,400 | - |
| Plant engineering | 140,000 | 140,000 | 117,948 | 22,052 |
| Energy consultant | | 6,200 | 5,665 | 535 |
| Computer consultant | 17,160 | 17,160 | 12,220 | 4,940 |
| Lobbyist | 44,000 | 44,000 | 42,750 | 1,250 |
| Human resources | 5,000 | 5,000 | | 5,000 |
| Assistant Treasurer | 10,020 | 10,020 | 9,509 | 511 |
| Public education | 38,268 | 38,268 | 34,846 | 3,422 |
| Financial Advisor | 40,000 | 40,000 | 19,055 | 20,945 |
| Rebate calculation | 2,500 | 2,500 | 2,000 | 500 |
| Insurance consultant | 10,000 | 11,000 | 9,600 | 1,400 |
| Contingencies | 20,000 | 12,800 | | 12,800 |
| Total professional services | <u>436,348</u> | <u>436,348</u> | <u>320,088</u> | <u>116,260</u> |
| Covanta Bristol, Inc. (including pass-through costs): | | | | |
| Debt service | 5,952,650 | 5,952,650 | 5,952,650 | - |
| Operation and maintenance | 9,191,539 | 9,191,539 | 8,735,230 | 456,309 |
| Electricity | 305,000 | 305,000 | 255,003 | 49,997 |
| Gas | 154,872 | 210,000 | 195,596 | 14,404 |
| Water and sewer | 96,000 | 126,000 | 106,769 | 19,231 |
| Insurance | 300,087 | 300,087 | 221,587 | 78,500 |
| Trustee fees | 10,000 | 10,000 | 6,807 | 3,193 |
| Property tax | 1,156,293 | 1,156,293 | 1,112,082 | 44,211 |
| NOx reagent | 122,704 | 122,704 | 104,104 | 18,600 |
| Carbon reagent | 97,965 | 180,000 | 171,272 | 8,728 |
| Other retrofit reagent | 84,161 | 110,000 | 106,168 | 3,832 |
| Ash conditioning/testing | 75,000 | 75,000 | 43,983 | 31,017 |
| Ash handling | 2,913,652 | 2,913,652 | 2,706,551 | 207,101 |
| Incentives payment | 499,156 | 499,156 | 496,101 | 3,055 |
| Dioxin test fee | 328,377 | 328,377 | 290,313 | 38,064 |
| CEM, SW/HW and CGA | 39,028 | 39,028 | 37,143 | 1,885 |
| Permit fees/confined space | 38,112 | 38,112 | 27,283 | 10,829 |
| CAA permit fees and testing | 81,442 | 81,442 | 60,926 | 20,516 |
| Host fee | 120,298 | 120,298 | 98,314 | 21,984 |
| Recovered material adjustment | (38,938) | (38,938) | (189,022) | 150,084 |
| Administration | 37,035 | 37,035 | 7,105 | 29,930 |
| Total Covanta Bristol, Inc. | <u>21,564,433</u> | <u>21,757,435</u> | <u>20,545,965</u> | <u>1,211,470</u> |

(Continued on next page)

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

| | General Fund | | | |
|------------------|-------------------------|----------------------|----------------------|------------------------------------|
| | Budgeted Amounts | | Actual | Variance |
| | Original | Final | | Favorable (Unfavorable) |
| Other | \$ 53,000 | \$ 53,000 | \$ 43,000 | \$ 10,000 |
| Alternate bypass | 1,029,883 | 836,881 | 252,649 | 584,232 |
| Capital outlay | 15,400 | 15,400 | 4,737 | 10,663 |
| Total | <u>\$ 23,876,155</u> | <u>\$ 23,876,155</u> | <u>\$ 21,878,863</u> | <u>\$ 1,997,292</u> |

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE

COMPARATIVE SCHEDULE OF COVANTA BRISTOL, INC. EXPENDITURES
(INCLUDING PASS-THROUGH COSTS) AND BYPASS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| Debt service | \$ 5,952,650 | \$ 5,877,025 |
| Operation and maintenance | 8,735,230 | 8,887,819 |
| Electricity | 255,003 | 217,415 |
| Gas | 195,596 | 188,490 |
| Water and sewer | 106,769 | 128,103 |
| Insurance | 221,587 | 261,817 |
| Property tax | 1,112,082 | 1,111,820 |
| Ash handling | 2,706,551 | 2,863,043 |
| Administration | 7,105 | 2,471 |
| Recovered material adjustment | (189,022) | (129,289) |
| Dioxin test fee | 290,313 | 266,111 |
| CEM, SW/HW and CGA | 37,143 | 37,891 |
| Trustee fees/permit fees/confined space | 34,090 | 34,411 |
| CAA permit fees | 60,926 | 68,612 |
| Host fee | 98,314 | 102,392 |
| Ash conditioning/testing | 43,983 | 25,607 |
| NOx reagent | 104,104 | 120,977 |
| Carbon reagent | 171,272 | 138,683 |
| Other retrofit reagent | 106,168 | 86,510 |
| Incentive payment | 496,101 | 562,356 |
| Subtotal | <u>20,545,965</u> | <u>20,852,264</u> |
| Bypass | <u>252,649</u> | <u>296,863</u> |
| Total | <u>\$ 20,798,614</u> | <u>\$ 21,149,127</u> |

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
CAPITAL AND NONRECURRING EXPENDITURE FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH APPROPRIATIONS
AS OF JUNE 30, 2010

| <u>Year</u> | <u>Project</u> | <u>Appropriations</u> | <u>Expenditures and Encumbrances</u> | <u>Uncommitted Balance</u> |
|-------------|--------------------------------------|-----------------------|--|--------------------------------|
| 1991-92 | BTU | \$ 61,440 | \$ 61,438 | \$ 2 |
| 1991-92 | Implement change in law | 1,857,438 | 1,782,438 | 75,000 |
| 1991-92 | O&M settlement on electric equipment | 137,865 | 137,865 | - |
| 1991-92 | Cooling tower blow-down | 26,800 | 26,800 | - |
| 1991-92 | Ash disposal | 826,059 | 826,059 | - |
| 1991-92 | Refinancing/refunding of debt | 1,551,282 | 1,551,282 | - |
| 1995-96 | Service Agreement revisions | 1,100,039 | 734,037 | 366,002 |
| 1996-97 | Landfill closure | 4,541,396 | 4,541,396 | - |
| 2000-01 | Scrubber baghouse | 1,500,000 | 1,500,000 | - |
| 2001-02 | Plant improvements | 170,000 | 152,200 | 17,800 |
| 2001-02 | Transfer station | 1,175,000 | 169,677 | 1,005,323 |
| 2003-04 | Office technology | 96,093 | 74,781 | 21,312 |
| 2006-07 | Self insurance | 1,100,000 | | 1,100,000 |
| 2007-08 | Trustee fees | 10,000 | 10,000 | - |
| 2009-10 | Utility reserve | 100,000 | 73,695 | 26,305 |
| | Total | <u>\$ 14,253,412</u> | <u>\$ 11,641,668</u> | <u>\$ 2,611,744</u> |

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
COMPARATIVE SCHEDULE OF EXPENDITURES - CAPITAL PROJECTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|--------------------|-------------------|------------------|
| Plant improvements | \$ 25,000 | \$ 191 |
| Office technology | 11,088 | - |
| Service agreement | 81,586 | 99,100 |
| Other | <u>566</u> | <u>551</u> |
| Total | <u>\$ 118,240</u> | <u>\$ 99,842</u> |

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE

CONTRACTING COMMUNITIES - 2011 COMMITTED TONS

JUNE 30, 2010

| Municipality | 2011 Contract Year | Percent of Total |
|---------------------|------------------------------------|------------------------------------|
| | <u> </u> | <u> </u> |
| New Britain | 46,075 | 24.41% |
| Bristol | 42,004 | 22.25% |
| Southington | 29,450 | 15.60% |
| Branford | 13,100 | 6.94% |
| Plainville | 12,800 | 6.78% |
| Berlin | 10,080 | 5.34% |
| Wolcott | 8,226 | 4.36% |
| Seymour | 7,855 | 4.16% |
| Plymouth | 6,285 | 3.33% |
| Prospect | 5,099 | 2.70% |
| Burlington | 4,012 | 2.13% |
| Washington | 2,437 | 1.29% |
| Hartland | 705 | 0.37% |
| Warren | 628 | 0.33% |
| | <u> </u> | <u> </u> |
| Total | <u> 188,756 </u> | <u> 100.00% </u> |

SOURCE: Adopted by the Committee for 2010-2011 Fiscal Year on February 26, 2010

TABLE 2

BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE

WASTE DELIVERY SOURCE

FISCAL YEAR ENDED JUNE 30

| Town | FISCAL YEAR | | | | | | | | | |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| New Britain | 48,211 | 44,097 | 47,944 | 51,813 | 51,173 | 50,077 | 48,132 | 48,243 | 46,204 | 45,994 |
| Bristol | 41,131 | 44,338 | 44,341 | 45,642 | 46,610 | 47,159 | 46,507 | 44,011 | 41,969 | 42,098 |
| Southington | 34,334 | 30,620 | 32,899 | 35,420 | 34,991 | 37,662 | 36,819 | 35,049 | 31,502 | 29,035 |
| Branford | 12,443 | 12,403 | 13,798 | 15,835 | 14,946 | 13,408 | 12,866 | 13,209 | 12,822 | 13,309 |
| Plainville | 13,663 | 13,856 | 14,794 | 15,426 | 14,189 | 13,728 | 12,944 | 13,363 | 12,717 | 13,137 |
| Berlin | 7,733 | 7,768 | 8,153 | 8,604 | 8,659 | 9,522 | 9,711 | 9,622 | 9,667 | 10,483 |
| Wolcott | 6,717 | 6,962 | 7,350 | 8,360 | 8,738 | 9,196 | 9,063 | 8,945 | 8,287 | 8,183 |
| Seymour | 8,663 | 8,788 | 8,395 | 8,581 | 9,157 | 9,198 | 8,484 | 7,778 | 7,201 | 7,323 |
| Plymouth | 6,214 | 5,785 | 6,072 | 6,548 | 7,218 | 7,522 | 7,222 | 7,052 | 6,405 | 6,113 |
| Prospect | 5,132 | 4,800 | 5,246 | 5,606 | 6,350 | 6,255 | 5,451 | 5,394 | 5,104 | 4,785 |
| Burlington | 3,778 | 3,910 | 4,043 | 4,386 | 4,624 | 4,542 | 4,222 | 4,229 | 4,018 | 3,826 |
| Washington | 2,664 | 2,679 | 2,754 | 2,844 | 2,869 | 2,805 | 2,639 | 2,559 | 2,368 | 2,294 |
| Hartland | 782 | 708 | 739 | 767 | 761 | 771 | 768 | 765 | 702 | 698 |
| Warren | 665 | 579 | 592 | 650 | 662 | 680 | 661 | 593 | 600 | 656 |
| Subtotal towns | 192,130 | 187,293 | 197,120 | 210,482 | 210,947 | 212,525 | 205,489 | 200,812 | 189,566 | 187,934 |
| Recycling plant residue | 2,400 | 18 | 2,197 | 710 | 98 | 512 | 273 | 489 | 2,665 | 2,349 |
| Spot market | 3,867 | 10,185 | 13,214 | 6,420 | 4,013 | 6,081 | 3,231 | 3,781 | 13,629 | 11,587 |
| Total | 198,397 | 197,496 | 212,531 | 217,612 | 215,058 | 219,118 | 208,993 | 205,082 | 205,860 | 201,870 |

TABLE 3

**BRISTOL RESOURCE RECOVERY FACILITY OPERATING COMMITTEE
FACILITY PERFORMANCE DATA
JUNE 30, 2010**

| Contract Year (1) | Waste Received (2) (Tons) | Capacity Guarantee (3) (Tons) | Waste Processed (4) (Tons) | Residue Generated (9) (Tons) | % Residue | Ferrous Recycled (10) (Tons) | % Boiler Availability (5) | MWh Electricity Sold (6) | Max Electrical Usage (7, 8) (kWh/ton) |
|--------------------------|--------------------------------------|--|---------------------------------------|---|------------------|---|----------------------------------|---------------------------------|--|
| 2001 | 198,429 | 167,898 | 187,597 | 44,607 | 23.78 | 4,467 | 93.2 | 103,877 | 0.67 |
| 2002 | 197,528 | 166,510 | 194,241 | 45,665 | 23.51 | 5,191 | 92.9 | 112,186 | 0.97 |
| 2003 | 212,574 | 169,277 | 205,406 | 47,425 | 23.09 | 5,731 | 93.7 | 112,485 | 0.84 |
| 2004 | 215,893 | 167,684 | 206,724 | 47,836 | 23.14 | 6,160 | 93.3 | 116,492 | 0.52 |
| 2005 | 213,723 | 163,852 | 199,311 | 46,448 | 23.30 | 5,827 | 94.2 | 112,948 | 0.37 |
| 2006 | 218,007 | 169,009 | 200,220 | 46,491 | 23.20 | 5,611 | 92.5 | 110,162 | 0.53 |
| 2007 | 207,103 | 168,086 | 194,180 | 44,715 | 23.03 | 5,354 | 92.9 | 107,807 | 1.55 |
| 2008 | 202,679 | 169,732 | 185,196 | 42,318 | 22.90 | 4,281 | 91.7 | 94,212 | 4.84 |
| 2009 | 204,783 | 170,373 | 202,298 | 47,207 | 23.34 | 4,584 | 95.3 | 109,940 | 0.58 |
| 2010 | 200,640 | 167,606 | 198,086 | 46,075 | 23.26 | 4,621 | 93.4 | 106,622 | 1.01 |
| Average | 207,136 | 168,003 | 197,326 | 45,879 | 23.26 | 5,183 | 93.3 | 108,673 | 1.19 |

SOURCE: Covanta Bristol, Inc., Committee provided data and HDR Annual Reports.

- (1) The Contract Year (CY) occurs from July 1st through June 30th of the given year.
- (2) Waste Received is comprised of all waste delivered to the Facility.
- (3) The Capacity Guarantee requires that the Facility shall be capable of processing not less than the Yearly Adjusted Guaranteed Facility Capacity (YAGFC). The YAGFC, per Section 11 of Amendment No. 6 to the Service Agreement, is defined as 201,600 tons of waste per year adjusted by the Contract Year Average HHV.
- (4) Waste Processed is comprised of all Waste Received at the Facility minus waste bypassed as excess waste and waste that is characterized as "unprocessible".
- (5) The Boiler Availability is the actual hours that the boiler was on-line producing steam compared to the total hours during the Contract Year. The % Boiler Availability given is the average availability of both units. (HDR Annual Report)
- (6) Electricity generated by the Facility net of the in-house usage (amount sold to CL&P is less than this due to transmission line losses).
- (7) The Maximum Electrical Usage allowed for the Facility in accordance with Table 6-1 in Schedule 6 of the Service Agreement, is 1.7 kWh/ton for periods when there is no scheduled turbine-generator maintenance, and 86 kWh/ton during periods when there is turbine-generator maintenance.
- (8) During Contract Year 2008, the Facility experienced a scheduled turbine-generator outage, which caused the higher maximum electrical usage. However, the electricity purchased was below the Maximum Electrical Usage allowed per the Service Agreement.
- (9) Excludes ferrous recovered
- (10) Contract Year 2009 includes 35 tons of scrap metal sold directly by Covanta
Contract Year 2010 includes 58 tons of scrap metal sold directly by Covanta