

TUNXIS RECYCLING OPERATING COMMITTEE

FINANCIAL STATEMENTS

JUNE 30, 2011

TUNXIS RECYCLING OPERATING COMMITTEE

JUNE 30, 2011

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tunxis Recycling Operating Committee (TROC) as of and for the year ended June 30, 2011, which collectively comprise TROC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TROC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TROC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of TROC as of June 30, 2011 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 8 and budgetary comparison information on pages 22 through 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2011 on our consideration of TROC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Blum, Shapiro & Company, P.C.

October 8, 2011

TUNXIS RECYCLING OPERATING COMMITTEE MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Tunxis Recycling Operating Committee's (TROC) financial performance is provided by management to provide an overview of TROC's financial activities for the fiscal year ended June 30, 2011. Please read this MD&A in conjunction with TROC's financial statements, Exhibits I to IV.

FINANCIAL HIGHLIGHTS

- Net assets of all governmental activities increased by \$252,892 or 15.8%.
- Total cost of all TROC's programs was \$754,755, a decrease of 22.2%.
- The General Fund reported a fund balance this year of \$1,320,369.
- The resources available for appropriation were \$153,241 more than budgeted for the General Fund.
- Expenditures were \$245,238 below spending limits for the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (Exhibits I and II, respectively) provide information about the activities of TROC as a whole and present a longer-term view of TROC's finances. Fund financial statements are presented in Exhibits III and IV. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report TROC's operations in more detail than the government-wide statements by providing information about TROC's most significant funds.

Government-Wide Financial Statements

The analysis of TROC as a whole begins on Exhibits I and II. The statement of net assets and the statement of activities report information about TROC as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

TROC's combined net assets increased by \$252,892 or 15.8% over the past year from \$1,591,694 to \$1,844,586. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of TROC's governmental activities.

Table 1 - Net Assets

	Governmental Activities	
	2011	2010
Current and other assets	\$ 1,856,074	\$ 1,691,869
Other liabilities	<u>11,488</u>	<u>100,175</u>
Net Assets:		
Unrestricted	<u>\$ 1,844,586</u>	<u>\$ 1,591,694</u>

Table 2 - Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues:		
Charges for services	\$ 957,281	\$ 862,782
General revenues:		
Unrestricted investment earnings	2,366	4,170
Other general revenues	48,000	58,474
Total revenues	<u>1,007,647</u>	<u>925,426</u>
Program expenses:		
Solid waste recycling	<u>754,755</u>	<u>970,800</u>
Increase (Decrease) in Net Assets	\$ <u>252,892</u>	\$ <u>(45,374)</u>

Our analysis below separately considers the operations of governmental activities.

TROC FUNDS FINANCIAL ANALYSIS

Governmental Funds

As TROC completed the year, its governmental funds (as presented in the balance sheet - Exhibit III) reported combined fund balance of \$1,844,586 which is an increase from last year's total of \$1,591,694. Included in this year's total change in fund balance is a net increase of \$196,429 in TROC's General Fund (Exhibit IV).

General Fund Budgetary Highlights

Revenues in the General Fund increased in Fiscal Year 2011 from the prior year due to higher tonnage deliveries and higher commodities revenues. Expenses in the General Fund decreased in Fiscal Year 2011 from the prior year due to lower vendor payments and lower public education expenditures. There was also a transfer of \$62,500 from the General Fund to the CNR Fund to assist Contracting Communities with public education expenditures related to implementation of single stream collection.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

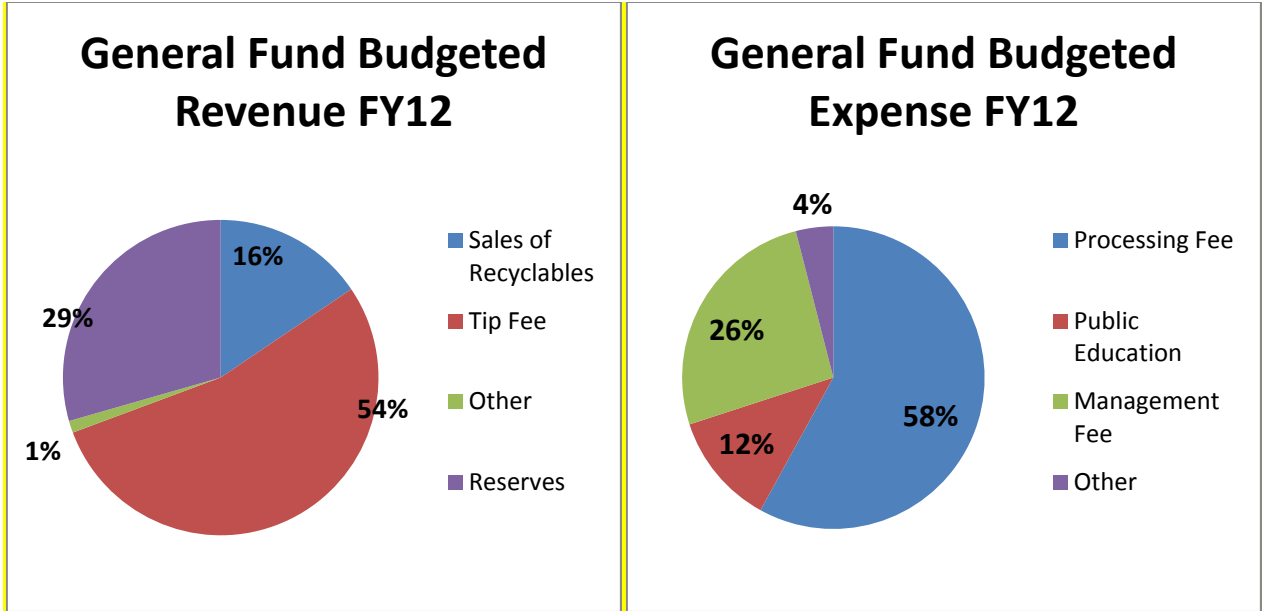
Summary

When the Fiscal Year 2011 General Fund budget was under development in winter 2010, TROC and its recycling vendor, Murphy Road Recycling (MMR), were in the midst of contractually stipulated five-year negotiations. The negotiations concluded in September 2010 and resulted in generally favorable financial terms for TROC (see Murphy Road Recycling Service Agreement below). Given the fact that the fiscal year was underway and the adopted budget was deemed conservative, the Board of Directors, upon conclusion of the MRR negotiations, decided not to modify the Fiscal Year 2011 General Fund

budget. As a result of the new vendor contract, increasing tonnage deliveries and higher commodities revenues, there were significant favorable budget variances as shown in supplemental exhibits RSI-1 and RSI-2. The Board had budgeted a use of Fund Balance of \$139,550 (if necessary) for Fiscal Year 2011. Significant benefits to TROC accrued as a result of the contract amendment, resulting in a net increase of \$196,429 in TROC’s General Fund (Exhibit IV).

Given the current Fund Balance, favorable recent trends in tonnage and paper markets and stable vendor fees, the TROC Board adopted a budget for Fiscal Year 2012 that included a reduction in tip fees of \$10.00 per ton (33.3%) to \$20.00 and a use of fund balance of \$180,147 (if necessary). This is the second consecutive year the Board has reduced the tipping fees.

TROC Contracting Communities delivered 18,762 tons to the recycling center in Fiscal Year 2011, an all-time record and an increase of 2,688 tons (16.7%) compared to the prior year. This increase is primarily due to the addition of “single stream” recycling collection in the region. As of June 30, 2011, approximately 93% of TROC materials are being delivered as single stream. This percentage will continue to grow as additional TROC municipalities phase in single stream collection during Fiscal Year 2012. TROC’s budget projection of 16,459 tons for Fiscal Year 2012 is conservative. Increased tonnage will result in higher tip fee revenues and, most likely, additional paper revenues. Based on recent deliveries and the lower annual put/pay commitment, the Board of Directors waived the annual put/pay commitment for Fiscal Years 2011 and 2012.



Comments on General Fund

Murphy Road Recycling (MRR) Service Agreement

As discussed in the Subsequent Events Note 8, the Third Amendment to the Second Amended Contract between TROC and MRR was approved by TROC on September 17, 2010, retroactive to July 1, 2010. Key financial provisions of the Third Amendment include:

- Fixed tip fee of \$20.00 per ton for all tons delivered until June 30, 2014;
- TROC revenue share remains on fiber deliveries only, with a higher revenue share threshold;

- Reduced annual put/pay commitment;
- Additional financial incentive to TROC for deliveries in excess of 17,000 tons annually;
- Additional acceptable materials including plastics #1 through #7

Despite significantly higher deliveries to the recycling center, compared to the prior year, TROC expenditures for processing recyclables at MRR decreased by \$118,174 (24%) due to the reduction in per ton payments to MRR.

Public Education

Compared to the prior year, regional public education expenditures decreased from \$62,611 to \$33,712. For Fiscal Year 2012, TROC adopted a public education appropriation of \$72,000. As of June 30, 2011, there is additional funding in the amount of \$42,501 (Note 5) available in the CNR Fund dedicated to local single stream recycling public education efforts.

Sales of Recyclables

The TROC/Murphy Road Recycling Service Agreement contains a provision for a revenue share when the newspaper price per ton exceeds a threshold level. In exchange for a lower per ton tipping fee, the Third Amendment raised the revenue share threshold. Despite this increase in the revenue share threshold, higher tonnage deliveries and more favorable paper markets resulted in \$259,814 of commodities revenues, an increase from the prior year of \$86,576. Fiber payments to TROC over the past six years have averaged \$257,426. In recognition of the higher paper sharing threshold, for Fiscal Year 2012, \$95,000 has been budgeted for commodities revenue, a conservative estimate.

Special Revenue Fund Discussion

Regional HHW Program

Participating communities are Berlin, Bristol, Burlington, Meriden, New Britain, Plainville, Plymouth, Prospect, Southington and Wolcott. The TROC Board has established an HHW Subcommittee that is charged with oversight of activities related to this regional program. However, since the Household Hazardous Waste (HHW) program is a subset of TROC, the TROC Board of Directors must approve the HHW budget. TROC's Special Revenue Fund, which accounts for all revenues and expenditures related to the regional HHW and e-waste collections program showed an excess of revenues over expenditures for Fiscal Year 2011 of \$18,032, resulting in a fund balance of \$115,734. This favorable result is due primarily to lower expenses across the board.

The Bristol Resource Recovery Facility Operating Committee (BRRFOC) contributed \$43,000 towards TROC programs in Fiscal Year 2011 and will contribute \$25,000 in Fiscal Year 2012. TROC's per vehicle fee for Fiscal Year 2012 will remain at \$80.00. Without the financial support of BRRFOC for Fiscal Year 2012, the Special Revenue Fund would have operated at a deficit.

TROC continues to plan and budget for one regional consumer electronics collection. However, due to the implementation of regulations pursuant to Public Act 07-129, *An Act Concerning the Collection and Recycling of Covered Electronic Devices* (Note 8), TROC's vendor expenses for the one day collection were reduced by \$14,554 (100%).

Capital and Nonrecurring Fund Discussion

Net assets of the Capital and Nonrecurring Fund increased by \$38,431 primarily due to the fact that the Contracting Communities did not utilize in Fiscal Year 2011 the entirety of the funds available for single stream public education. There was a General Fund transfer into this Fund during the Fiscal Year 2011 of \$62,500. As of June 30, 2011, funding in the amount of \$42,501 (Note 5) is available in the CNR Fund dedicated to local single stream recycling public education efforts. The Capital and Nonrecurring Fund Balance exceeds \$408,000 as of June 30, 2011 (Note 7).

CONTACTING TROC'S FINANCIAL MANAGEMENT

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

TUNXIS RECYCLING OPERATING COMMITTEE

STATEMENT OF NET ASSETS

JUNE 30, 2011

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 1,705,005
Accounts receivable	44,117
Due from other municipalities	106,952
Total assets	<u>1,856,074</u>
Liabilities:	
Accounts and accrued liabilities	<u>11,488</u>
Net Assets:	
Unrestricted	<u>\$ 1,844,586</u>

The accompanying notes are an integral part of the financial statements

TUNXIS RECYCLING OPERATING COMMITTEE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

Function/Program Activities	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets	
		Charges for Services	Capital Grants and Contributions		Operating Grants and Contributions
				Governmental Activities	
Governmental activities:					
Solid waste recycling	\$ <u>754,755</u>	\$ <u>957,281</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>202,526</u>
General revenues:					
Unrestricted investment earnings					2,366
Other					48,000
Total general revenues					<u>50,366</u>
Change in net assets					252,892
Net Assets - Beginning of Year					<u>1,591,694</u>
Net Assets - End of Year					\$ <u>1,844,586</u>

The accompanying notes are an integral part of the financial statements

TUNXIS RECYCLING OPERATING COMMITTEE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

	<u>General</u>	<u>Capital and Nonrecurring</u>	<u>Regional Household Hazardous Waste</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,705,005	\$	\$	\$ 1,705,005
Due from other funds		408,483	94,214	502,697
Accounts receivable	44,117			44,117
Due from other municipalities	85,432		21,520	106,952
Total Assets	<u>\$ 1,834,554</u>	<u>\$ 408,483</u>	<u>\$ 115,734</u>	<u>\$ 2,358,771</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and accrued liabilities	\$ 11,488	\$	\$	\$ 11,488
Due to other funds	502,697			502,697
Total liabilities	<u>514,185</u>	<u>-</u>	<u>-</u>	<u>514,185</u>
Fund balances:				
Committed		170,009		170,009
Assigned	180,147	238,474	115,734	534,355
Unassigned	1,140,222			1,140,222
Total fund balances	<u>1,320,369</u>	<u>408,483</u>	<u>115,734</u>	<u>1,844,586</u>
Total Liabilities and Fund Balances	<u>\$ 1,834,554</u>	<u>\$ 408,483</u>	<u>\$ 115,734</u>	<u>\$ 2,358,771</u>

The accompanying notes are an integral part of the financial statements

TUNXIS RECYCLING OPERATING COMMITTEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Capital and Nonrecurring</u>	<u>Regional Household Hazardous Waste</u>	<u>Total Governmental Funds</u>
Revenues:				
Tipping fees	\$ 562,747	\$	\$ 134,720	\$ 697,467
Interest income	1,696	521	149	2,366
Commodities	259,814			259,814
Other	5,000		43,000	48,000
Total revenues	<u>829,257</u>	<u>521</u>	<u>177,869</u>	<u>1,007,647</u>
Expenditures:				
Current:				
Professional services	4,958			4,958
Management fee	147,967			147,967
Recycling contract	374,309			374,309
Berlin host fees	9,382			9,382
Regional Public Education	33,712			33,712
Advertising			10,771	10,771
Supplies			5	5
Disposal costs			117,651	117,651
Host fees			6,610	6,610
Administrative			15,785	15,785
Electronics			9,015	9,015
Capital outlay		24,590		24,590
Total expenditures	<u>570,328</u>	<u>24,590</u>	<u>159,837</u>	<u>754,755</u>
Excess (Deficiency) of Revenues over Expenditures	<u>258,929</u>	<u>(24,069)</u>	<u>18,032</u>	<u>252,892</u>
Other Financing Sources (Uses):				
Transfers in		62,500		62,500
Transfers out	(62,500)			(62,500)
Total other financing sources (uses)	<u>(62,500)</u>	<u>62,500</u>	<u>-</u>	<u>-</u>
Net Changes in Fund Balances	196,429	38,431	18,032	252,892
Fund Balance - Beginning of Year	<u>1,123,940</u>	<u>370,052</u>	<u>97,702</u>	<u>1,591,694</u>
Fund Balance - End of Year	<u>\$ 1,320,369</u>	<u>\$ 408,483</u>	<u>\$ 115,734</u>	<u>\$ 1,844,586</u>

The accompanying notes are an integral part of the financial statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

TROC is vested with the following powers and authority:

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

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

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of TROC. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by tipping fees and intergovernmental revenues.

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

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

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

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

TROC reports the following major governmental funds:

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

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

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

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

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

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

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

D. Deposits and Investments

TROC's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

E. Receivables and Payables

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

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

F. Capital Assets

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

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

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

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

G. Fund Equity

The equity of the fund financial statements is defined as “fund balance” and is classified in the following categories:

Nonspendable Fund Balance - This represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

Restricted Fund Balance - This represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributors or laws and regulations of their governments.

Committed Fund Balance - This represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority, Board of Directors.

Assigned Fund Balance - For all governmental funds other than the General Fund, any remaining positive amounts not classified as nonspendable. For the General Fund, this includes amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts by the Board of Directors.

Unassigned Fund Balance - This represents fund balance in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

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

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

Deposits

Deposit Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, TROC's deposit will not be returned. TROC does not have a deposit policy for custodial credit risk. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the State of Connecticut. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk-based capital ratio. The entire bank balance of \$208,984 at June 30, 2011 was covered by federal depository insurance.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 day of maturity. At June 30, 2011, TROC's cash equivalents amounted to \$1,535,722. The following table provides a summary of TROC's cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than one year.

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

4. RECEIVABLES

Intergovernmental Receivable

Presented below is a summary of tipping fees receivable at June 30, 2011:

Berlin	\$	3,763
Bristol		11,908
Burlington		3,317
Meriden		14,872
Morris		1,228
New Britain		23,620
Plainville		3,274
Plymouth		1,448
Prospect		1,262
Southington		17,333
Warren		394
Washington		1,521
Wolcott		1,492
 Total	 \$	 <u><u>85,432</u></u>

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

5. CAPITAL PROJECT APPROPRIATIONS

A summary of Capital Project appropriations as of June 30, 2011 is presented below:

<u>Project</u>	<u>Appropriation</u>	<u>Expenditures and Encumbrances</u>	<u>Remaining Balance</u>
Recycling equipment	\$ 328,650	\$ 317,658	\$ 10,992
Electronics	15,000		15,000
Source reduction	58,624	52,931	5,693
Restructuring	59,944	34,944	25,000
Service agreement	244,139	186,516	57,623
Single stream startup	62,500	19,999	42,501
 Total	 \$ <u>768,857</u>	 \$ <u>612,048</u>	 \$ <u>156,809</u>

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2011, interfund receivables and payables were comprised of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Regional Household Hazardous Waste	General	\$ 94,214
Capital Nonrecurring Expenditure	General	<u>408,483</u>
		 \$ <u>502,697</u>

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

7. FUND BALANCE

A detail of fund balance reported in Exhibit III as of June 30, 2011 is presented below:

	<u>General Fund</u>	<u>Capital and Nonrecurring</u>	<u>Regional Household Hazardous Waste</u>	<u>Total</u>
Fund balances:				
Committed to:				
Recycling equipment	\$	\$	11,134	\$ 11,134
Electronics		15,000		15,000
Source reduction		5,693		5,693
Restructuring		29,062		29,062
Service agreement		62,419		62,419
Single Stream Startup		46,701		46,701
Assigned to:				
Subsequent year's budget	180,147			180,147
Capital and Nonrecurring		238,474		238,474
Household Hazardous Waste			115,734	115,734
Unassigned	<u>1,140,222</u>			<u>1,140,222</u>
Total Fund Balances	<u>\$ 1,320,369</u>	<u>\$ 408,483</u>	<u>\$ 115,734</u>	<u>\$ 1,844,586</u>

8. SUBSEQUENT EVENTS

A. Murphy Road Recycling

Pursuant to Section 6.02 (b) of the Second Amended Contract (Agreement) between TROC and Murphy Road Recycling (MRR), discussions commenced on October 23, 2009 that were intended to adjust tip fees based on processing costs, shared revenues, performance, guarantees, changes in law and significant changes in technology.

Subsequently, a Letter of Understanding was executed on July 22, 2010 to establish specific terms and conditions proposed to be incorporated as a contract amendment, specifically with regard to fees paid to MRR, the formula for revenue sharing and the put-or-pay tonnage commitment. The Third Amendment to the Second Amended Contract was approved by TROC on September 17, 2010 and has generally resulted in favorable financial terms for the organization (see Management's Discussion and Analysis above). Since the Service Agreement between TROC and MMR expires on June 30, 2014, the terms of the Third Amendment to the Second Amended Contract will remain in effect until contract expiry.

TUNXIS RECYCLING OPERATING COMMITTEE NOTES TO FINANCIAL STATEMENTS

B. Legislative and Regulatory

Public Act 10-87, An Act Concerning Private and Municipal Recycling, Zoning Ordinances and Solid Waste Collection Contracts, was enacted by the Connecticut General Assembly in the 2010 Legislative session. The Act included a new recycling requirement for municipalities and haulers effective October 1, 2011, which added certain materials to the list of mandatory recyclable items. The region experienced a record tonnage level in the past Fiscal Year, and the Act may have been a contributing factor. Commencing July 2011, commercial haulers providing service for municipal solid waste must also provide collection for recyclables. Residential subscription collection services for recyclables exist in two TROC communities: portions of Meriden and all of Southington. Both municipalities experienced high tonnage levels in the past Fiscal Year (including an all-time high for Southington).

On June 1, 2010 regulations were promulgated by DEEP (formerly DEP) for the Recycling of Covered Electronic Devices.¹ A key provision of the new regulation and associated state statutes (“disposal ban”) went into effect on January 1, 2011, which stipulated that covered electronic devices, or any of the components or subassemblies of such devices, shall not knowingly be disposed in any solid waste facility. Member communities are responsible for submitting the management plans required pursuant to the regulations and establishing a convenient and accessible option for local recycling of Covered Electronic Devices².

C. Long Range/Strategic Planning

The Amended and Restated Service Agreement (the Service Agreement) between the Contracting Communities and Covanta expires on June 30, 2014, unless extended pursuant to the Service Agreement’s terms. Likewise, the Service Agreement between TROC and MMR expires on the same date. In preparation for the expiration of the Service Agreements and to explore options for continued waste management and disposal services, Bristol Resource Recovery Facility Operating Committee (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 DEEP’s solid waste management plan.

¹ Sections 22a-638-1 and 22a-630(d)-1 of the R.C.S.A. and Public Acts 07-189 and 08-35.
² Public Acts 07-189 and 08-35.

TUNXIS RECYCLING OPERATING COMMITTEE

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2011

	General Fund				Special Revenue Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final			Original	Final		
Tipping fees	\$ 532,066	\$ 532,066	\$ 562,747	\$ 30,681	\$ 143,600	\$ 143,600	\$ 134,720	\$ (8,880)
Interest income	3,950	3,950	1,696	(2,254)	375	375	149	(226)
Commodities	135,000	135,000	259,814	124,814				-
Other	5,000	5,000	5,000	-	43,000	43,000	43,000	-
Total	<u>\$ 676,016</u>	<u>\$ 676,016</u>	<u>\$ 829,257</u>	<u>\$ 153,241</u>	<u>\$ 186,975</u>	<u>\$ 186,975</u>	<u>\$ 177,869</u>	<u>\$ (9,106)</u>

TUNXIS RECYCLING OPERATING COMMITTEE

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2011

	General Fund				Special Revenue Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final			Original	Final		
Expenditures:								
Current:								
Professional services	\$ 10,000	\$ 10,000	\$ 4,958	\$ 5,042	\$	\$	\$	\$ -
Management fee	161,981	161,981	147,967	14,014				-
Recycling contract	557,466	556,716	374,309	182,407				-
Berlin host fees	9,119	9,869	9,382	487				-
Regional Public Education	72,000	72,000	33,712	38,288				-
New material recycling	5,000	5,000		5,000				-
Advertising				-	11,184	11,184	10,771	413
Supplies				-	2,500	2,500	5	2,495
Disposal costs				-	126,799	126,799	117,651	9,148
Host fees				-	16,175	16,175	6,610	9,565
Administrative				-	23,706	23,706	15,785	7,921
Electronics				-	27,883	27,883	9,015	18,868
Total expenditures	<u>815,566</u>	<u>815,566</u>	<u>570,328</u>	<u>245,238</u>	<u>208,247</u>	<u>208,247</u>	<u>159,837</u>	<u>48,410</u>
Other financing uses:								
Transfers out		62,500	62,500	-				-
Total	<u>\$ 815,566</u>	<u>\$ 878,066</u>	<u>\$ 632,828</u>	<u>\$ 245,238</u>	<u>\$ 208,247</u>	<u>\$ 208,247</u>	<u>\$ 159,837</u>	<u>\$ 48,410</u>