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EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2016

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
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Independent Auditors' Report

Eastern Connecticut Resource Recovery Authority
Middletown, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Connecticut Resource Recovery Authority, a component unit of the City of Middletown, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Eastern Connecticut Resource Recovery Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Eastern Connecticut Resource Recovery Authority as of June 30, 2016 and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Eastern Connecticut Resource Recovery Authority, as of and for the year ended June 30, 2015 (not presented herein), and have issued our report thereon dated December 29, 2015, which contained unmodified opinions on the respective financial statements of the Eastern Connecticut Resource Recovery Authority. The accompanying Enterprise Fund statements of net position; revenues, expenses and changes in net position; and cash flows as of and for the year ended June 30, 2015 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the 2015 financial statements. The accompanying Enterprise Fund statements of net position; revenues, expenses and changes in net position; and cash flows have been subjected to the auditing procedures applied in the audit of the 2015 basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Enterprise Fund statements of net position; revenues, expenses and changes in net position; and cash flows are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2015.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016 on our consideration of the Eastern Connecticut Resource Recovery Authority'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Eastern Connecticut Resource Recovery Authority's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 30, 2016

**EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

This discussion and analysis of the Eastern Connecticut Resource Recovery Authority's (the Authority) financial performance is provided by management to provide an overview of the Authority's financial activities for the fiscal year ended June 30, 2016. Please read this MD&A in conjunction with the Authority's financial statements, Exhibits I to III.

FINANCIAL HIGHLIGHTS

- The Authority's net position increased by \$7,023 thousand, or nearly 83.5%.
- Operating revenues increased by \$485 thousand, while total expenses decreased by \$449 thousand or 1.9%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is a component unit of the City of Middletown, Connecticut. All financial activity is reported through an enterprise fund, which is a component of proprietary funds within governmental accounting principles. Proprietary funds are used to account for a government's business-type activities. They use the economic resources measurement focus and accrual basis of accounting. These are the same measurement focus and basis of accounting used for private-sector business enterprise.

As a municipal enterprise financed with project revenue bonds, all major project revenues and expenses are provided for through long-term contracts. Furthermore, such contracts require that tip fees be set at levels that cause total revenues to always equal total costs, including principal debt payments and excluding depreciation and amortization. Since the tip fees payable for Middletown waste are limited to a fixed schedule as adjusted by annual CPI changes, any additional required tip fee increases are borne by Wheelabrator Lisbon, Inc., as the majority waste supplier.

This annual report consists of three financial statements (Exhibits I to III), the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows. These statements present the financial position and results of operations in accordance with accounting principles generally accepted in the United States of America.

The Authority's net position increased from \$7 million to \$15.4 million. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Authority's business-type activities.

Table 1 - Net Position
(In Thousands)

	Business-Type Activities	
	2016	2015
Current and other assets	\$ 26,062	\$ 25,881
Capital and noncurrent assets	45,572	48,715
Total assets	<u>71,634</u>	<u>74,596</u>
Long-term debt outstanding	49,252	58,942
Other liabilities	6,950	7,245
Total liabilities	<u>56,202</u>	<u>66,187</u>
Net position:		
Net investment in capital assets	7,454	907
Restricted	9,387	7,399
Unrestricted	<u>(1,409)</u>	<u>103</u>
Total Net Position	<u>\$ 15,432</u>	<u>\$ 8,409</u>

Table 2 - Change in Net Position
(In Thousands)

	Business-Type Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 17,468	\$ 17,535
Sale of electricity	12,724	12,173
General revenues:		
Unrestricted investment earnings	624	623
Total revenues	<u>30,816</u>	<u>30,331</u>
Program expenses:		
Operations and maintenance	17,314	17,207
Administration	79	106
Depreciation	3,143	3,143
Amortization	131	131
Interest on long-term debt	3,126	3,655
Total program expenses	<u>23,793</u>	<u>24,242</u>
Increase in Net Position	<u>\$ 7,023</u>	<u>\$ 6,089</u>

Business-Type Activities

Revenues of the Authority's business-type activities (see Table 2) increased by 1.6% (\$30.8 million in 2016 compared to \$30.3 million in 2015) and expenses decreased by 1.9%. Since tip fees are always set at levels that allow revenues to equal total costs, including principal debt payments and excluding depreciation and amortization, the factors influencing these results are primarily the contractual annual CPI adjustments applicable to the operation and maintenance fee, site lease and other costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the Authority had \$45.6 million in the utility plant in service, net of accumulated depreciation.

Depreciation expense amounted to \$3.1 million during 2015-2016, and at June 30, 2016, accumulated depreciation was \$64.3 million.

Long-Term Debt

At June 30, 2016, the Authority had \$49.3 million in revenue bonds outstanding versus \$58.9 million last year, a decrease of 16.4%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As indicated above, tip fees are always set at a rate level that allows revenues to equal all expenses. Annual CPI adjusted operation and maintenance fee, site lease and other costs are contractually determined.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority through the Mayor's Office, City of Middletown, 245 deKoven Drive, Middletown, Connecticut 06457.

**EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
 PROPRIETARY FUNDS - ENTERPRISE FUND
 COMPARATIVE STATEMENT OF NET POSITION
 JUNE 30, 2016 AND 2015
 (In Thousands)**

	Business-Type Activities	
	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,687	\$ 3,022
Accounts receivable	2,547	4,016
Accrued interest	307	310
Total current assets	<u>5,541</u>	<u>7,348</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	9,387	7,399
Investments	11,134	11,134
Capital assets, net	<u>45,572</u>	<u>48,715</u>
Total noncurrent assets	<u>66,093</u>	<u>67,248</u>
Total assets	<u>71,634</u>	<u>74,596</u>
Liabilities:		
Current liabilities:		
Accounts and other payables	5,538	5,558
Accrued interest	1,412	1,687
Bonds payable	<u>10,649</u>	<u>9,689</u>
Total current liabilities	17,599	16,934
Noncurrent liabilities:		
Bonds payable, net of unamortized discounts	<u>38,603</u>	<u>49,253</u>
Total liabilities	<u>56,202</u>	<u>66,187</u>
Net Position:		
Net investment in capital assets	7,454	907
Restricted for debt service	9,387	7,399
Unrestricted	<u>(1,409)</u>	<u>103</u>
Total Net Position	<u>\$ 15,432</u>	<u>\$ 8,409</u>

The accompanying notes are an integral part of the financial statements

**EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
 PROPRIETARY FUNDS - ENTERPRISE FUND
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
 (In Thousands)**

	Business-Type Activities	
	2016	2015
Operating Revenues:		
Disposal fees:		
City of Middletown	\$ 1,938	\$ 1,889
Wheelabrator Connecticut, Inc.	15,459	15,504
Electricity sales	12,724	12,173
Other	71	142
Total operating revenues	<u>30,192</u>	<u>29,708</u>
Operating Expenses:		
Cost of service contract - operations and maintenance	17,314	17,207
Administration	79	106
Depreciation	3,143	3,143
Total operating expenses	<u>20,536</u>	<u>20,456</u>
Operating Income	<u>9,656</u>	<u>9,252</u>
Nonoperating Revenues (Expenses):		
Interest revenue	624	623
Interest expense	(3,126)	(3,655)
Amortization	(131)	(131)
Total nonoperating expenses	<u>(2,633)</u>	<u>(3,163)</u>
Change in Net Position	7,023	6,089
Total Net Position at Beginning of Year	<u>8,409</u>	<u>2,320</u>
Total Net Position at End of Year	<u>\$ 15,432</u>	<u>\$ 8,409</u>

The accompanying notes are an integral part of the financial statements

**EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
 PROPRIETARY FUNDS - ENTERPRISE FUND
 COMPARATIVE STATEMENT OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
 (In Thousands)**

	Business-Type Activities	
	2016	2015
Cash Flows from Operating Activities:		
Cash received from charges for services	\$ 31,661	\$ 28,138
Cash paid to vendors and others	(17,413)	(14,585)
Net cash provided by (used in) operating activities	<u>14,248</u>	<u>13,553</u>
Cash Flows from Capital and Related Financing Activities:		
Payments of bond interest	(3,399)	(3,908)
Payments of bond principal	(9,820)	(8,910)
Net cash provided by (used in) capital and related financing activities	<u>(13,219)</u>	<u>(12,818)</u>
Cash Flows from Investing Activities:		
Interest on investments	<u>624</u>	<u>623</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,653	1,358
Cash and Cash Equivalents at Beginning of Year	<u>10,421</u>	<u>9,063</u>
Cash and Cash Equivalents at End of Year	<u>\$ 12,074</u>	<u>\$ 10,421</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating income (loss)	\$ 9,656	\$ 9,252
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	3,143	3,143
(Increase) decrease in accounts receivable	1,469	(1,570)
Increase (decrease) in accounts payable	(20)	2,728
Net Cash Provided by (Used in) Operating Activities	<u>\$ 14,248</u>	<u>\$ 13,553</u>

The accompanying notes are an integral part of the financial statements

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(In Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Eastern Connecticut Resource Recovery Authority (the Authority) 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 the Authority are described below.

A. Reporting Entity

In December 1990, the Authority was formed. The Authority is a public body politic and corporate of the State of Connecticut, organized and existing pursuant to the Connecticut General Statutes and an Ordinance adopted by the Common Council of the City of Middletown (the City). The Authority was created for the purpose of developing and implementing a solid waste disposal system, including the acquisition and ownership of a solid waste resource recovery system. At June 30, 2016, the City is the only member and the Authority is considered a component unit of the City for financial reporting purposes. The Authority is empowered to issue bonds and use the proceeds to acquire and construct such systems. On June 17, 1993, the Common Council of the City approved the issuance of \$150,000 of bonds for the cost of a solid waste facility and associated landfill. In October 1993, revenue bonds amounting to \$128,150 were issued by the Authority.

The Authority entered into an agreement with an indirect, wholly owned subsidiary of Wheelabrator Technologies, Inc. (the Company), for design, installation and equipage of a 500-ton per day solid waste disposal, electric power generation and resource recovery facility (the Facility) in Lisbon, Connecticut. Under a Municipal Waste Disposal Agreement, the City is required to provide minimum amounts of acceptable waste to the project and to pay disposal fees to the Authority. The City and Wheelabrator Lisbon, Inc., as the users of the facility, are obligated to make monthly disposal fee payments that together equal the Authority's net cost of operations, including debt service. The cost per ton payable by the City is limited by provisions of the service agreement.

The solid waste required to satisfy the throughput capacity of the Facility is delivered pursuant to three waste delivery contracts. The Authority has executed a Municipal Solid Waste Disposal Agreement dated as of July 1, 1993 and as amended on September 15, 1993 (the Municipal Waste Disposal Agreement) with the City, pursuant to which the City has agreed to deliver, or cause to be delivered, all acceptable waste not recycled and that is collected within its jurisdiction for disposal at the Facility in each year throughout the term of the Series 1993 Bonds and to pay annual service fees (the Municipal Disposal Fees). The City of Middletown initially contracted to deliver 32,850 tons of Acceptable Waste per year to the Facility (the Guaranteed Annual Tonnage). The Authority and the Company have agreed that, so long as the City delivers at least 6,718 tons per year, the Company and Wheelabrator Lisbon, Inc., shall deliver waste on behalf of the City during each contract year in an amount equal to any City delivery shortfall below 23,273 tons. Thus, the City's and the Authority's effective guaranteed annual tonnage is 6,718. The Company has also executed a Host Community Agreement with Lisbon, obligating the Authority to dispose of Lisbon's solid waste at no charge, up to a maximum of 2,050 tons per year. In addition, the Authority has executed a waste disposal agreement with Wheelabrator Lisbon, Inc., which requires: 1) the annual delivery by Wheelabrator Lisbon, Inc., a guaranteed minimum amount that amount will generally be equal to the difference between the tonnage from the City plus Lisbon and the total capacity of the facility, and 2) the payment of fees for the disposal of such waste. Wheelabrator Lisbon, Inc., is an indirect, wholly owned subsidiary of the Company. The Wheelabrator Lisbon, Inc., tonnage commitment will be guaranteed by the Company under the Company's waste disposal guarantee.

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(In Thousands)

The net electrical output of the Facility is sold to The Connecticut Light & Power Company (CL&P) pursuant to an electricity purchase agreement dated June 30, 1991 (the Electricity Agreement).

The City has pledged its full faith and credit to the payment of all service payments due under the agreements and shall appropriate funds and levy taxes in an amount sufficient, together with other available revenues, to make such payments. The agreement is not a debt of the City and does not obligate the City to pay the principal of or interest on the revenue bonds.

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

The Authority uses 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.

Business-type activities distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The Authority derives revenues principally from: 1) fees paid by the City and Wheelabrator Lisbon, Inc., for the disposal of solid waste at the Facility, 2) the sale of electricity, and 3) to a lesser extent, interest earnings on certain funds under bond indenture and sale of recyclables. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Deposits and Investments

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

State statutes authorize the Authority to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and certain other investments as described in Note 2.

Investments for the Authority are reported at fair value.

D. Receivables and Payables

All receivables are shown net of an allowance for uncollectibles.

E. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. 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.

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(In Thousands)

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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Utility plant in service is being depreciated using the straight-line method over the estimated useful life of 35 years.

The financial statements of the Authority do not reflect the capital assets that have been added to the plant by Wheelabrator Lisbon, Inc., as such assets are recorded and depreciated on the Company's records.

F. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any significant applicable bond premium or discount. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditure.

2. 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). 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.

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(In Thousands)

A. Cash and Cash Equivalents and Investments

The following is a summary of cash and cash equivalents and investments at June 30, 2016:

	<u>MBIA 5.6%</u>	<u>First America Treasury Obligation</u>	<u>Total</u>	<u>Weighted Average Maturity (Years)</u>
Series A:				
Construction Fund:				
Authority Subaccount	\$	\$ 23	\$ 23	
Debt Service Reserve Fund	11,134		11,134	4.51
Interest Fund		1,376	1,376	
Sinking Fund		5,860	5,860	
Series B:				
Construction Fund:				
Company Subaccount		410	410	
Special Reserve Fund		819	819	
Interest Fund		224	224	
Sinking Fund		674	674	
Revenue Fund		2,688	2,688	
Total	<u>11,134</u>	<u>12,074</u>	<u>23,208</u>	
Long-term interest bearing accounts classified as investments	<u>(11,134)</u>		<u>(11,134)</u>	
Total Cash and Cash Equivalents	<u>\$ -</u>	<u>\$ 12,074</u>	<u>\$ 12,074</u>	

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, 2016, the Authority's cash equivalents amounted to \$12,074. The Authority's cash equivalents are primarily bank and government instruments that are not rated by nationally recognized statistical rating organizations.

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(In Thousands)

B. Investments

Investments as of June 30, 2016 in all funds are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Interest-bearing investments:		
Certificates of deposit and time deposits*	\$ <u>11,134</u>	4.51

* Subject to coverage by federal depository insurance and collateralization as described under "Deposits" above.

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Investments

As indicated above, State Statutes limit the investment options of cities and towns. The Authority has no investment policy that would further limit its investment choices. The Authority's investments are primarily bank and government instruments that are not rated by nationally recognized statistical rating organizations.

Concentration of Credit Risk

The Authority's investment policy does limit for an investment in any one issuer that is in excess of five percent of the Authority'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 the Authority or that sells investments to or buys them for the Authority), the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2016, the Authority did not have any uninsured and unregistered securities held by the counterparty or by its trust department or agent that were not in the Authority's name.

3. RECEIVABLES AND PAYABLES

Accounts receivable at June 30, 2016 are summarized below:

Electric Revenue	\$ 1,190
Wheelabrator CT	1,245
City of Middletown	107
Other	<u>5</u>
Total	<u>\$ 2,547</u>

Accounts payable at June 30, 2016 represented \$5,538 due to Wheelabrator CT.

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(In Thousands)

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets being depreciated:				
Buildings and systems	\$ 109,901	\$	\$	\$ 109,901
Less accumulated depreciation for:				
Buildings and systems	<u>(61,186)</u>	<u>(3,143)</u>	<u></u>	<u>(64,329)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 48,715</u>	<u>\$ (3,143)</u>	<u>\$ -</u>	<u>\$ 45,572</u>

Depreciation expense of \$3,143 was charged to operations.

5. LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Bonds payable	\$ 59,529	\$	\$ 9,820	\$ 49,709	\$ 10,780
Less deferred amounts for issuance discounts	<u>(587)</u>	<u></u>	<u>(130)</u>	<u>(457)</u>	<u>(131)</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 58,942</u>	<u>\$ -</u>	<u>\$ 9,690</u>	<u>\$ 49,252</u>	<u>\$ 10,649</u>

Bonded debt at June 30, 2016 amounted to \$49,709. The following schedule reflects debt service requirements for each 12-month period ending June 30:

<u>Due Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 10,780	\$ 2,839	\$ 13,619
2018	11,825	2,224	14,049
2019	12,935	1,549	14,484
2020	<u>14,169</u>	<u>810</u>	<u>14,979</u>
Total	<u>\$ 49,709</u>	<u>\$ 7,422</u>	<u>\$ 57,131</u>

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
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6. PROJECT FINANCING - INDENTURE OF TRUST

The cost of acquiring, constructing and equipping the Facility is being financed from the proceeds of \$114,110 tax-exempt Solid Waste Revenue Bonds (Wheelabrator Lisbon Project) with interest rates of 5.5%-7.50%, Series 1993A (the Series 1993A Bonds) and \$14,040 taxable Solid Waste Revenue Bonds (Wheelabrator Lisbon Project), Series 1993B issued by the Authority with interest rate of 4.7%-5.0%. The Series 1993 Bonds were issued pursuant to Sections 7-273aa to 7-273oo, inclusive, of the Connecticut General Statutes, as amended (the Act) and an Indenture of Trust, dated as of September 15, 1993 (the Indenture), between the Authority and Ameritrust Texas National Association as trustee (the Trustee).

Creation of Funds and Accounts

The following funds and accounts are created by the Indenture: Revenue Fund, Operating Fund, Insurance and Condemnation Award Fund (including Net Proceeds Account and Business Interruption Insurance Proceeds Account) and Project Fund. In addition, for each Series of Bonds, the Indenture creates the following separate funds and accounts: Construction Fund (including a Construction Account and a Capitalized Interest Account), Debt Service Fund (including an Interest Account, Principal Account, Sinking Fund Account and Redemption Account) and a Rebate Fund. The Indenture also establishes a Debt Service Reserve Fund for the Series 1993A Bonds and provides that additional Debt Service Reserve Funds may be created for additional bonds issued under the Indenture.

A summary of available balances at June 30, 2016 is presented below:

Series A & B:		
Construction Funds	\$	433
Debt Service Reserve Fund		11,134
Revenue Fund		2,687
Interest Funds		1,601
Sinking Fund		6,534
Special Reserve Fund		<u>819</u>
Total	\$	<u><u>23,208</u></u>

Debt Service Reserve Fund for Series 1993A Bonds

Upon the delivery of the Series 1993A Bonds, the Trustee deposited an amount equal to 10% of the proceeds of the Series 1993A Bonds in the Debt Service Reserve Fund maintained for the Series 1993A Bonds.

The Indenture provides for valuation of amounts on deposit in the Debt Service Reserve Fund by the Trustee from time to time. If the amount on deposit in the Debt Service Reserve Fund for the Series 1993A Bonds is less than 90% of the 1993A Debt Service Reserve Fund Requirement, the Indenture requires the Authority to make equal monthly payments in such amounts as will cure the deficiency within six months.

No Debt Service Reserve Fund was created for the Series 1993B Bonds, and the Series 1993B Bonds will not be secured by the Debt Service Reserve Fund created for the Series 1993A Bonds.

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
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Additional Debt

The Act provides that the Authority may not issue bonds unless the governing body of each member jurisdiction has approved such issuance by resolution. On June 17, 1993, the Common Council of the City of Middletown adopted a resolution approving the issuance of \$150,000 of bonds for the Project and the cost of the landfill.

Trustee

US Bank, formerly State Street Bank and Trust Company, has assumed the responsibilities of Trustee as defined by the Indenture of Trust.

7. TAXES

The Authority is a Connecticut Political Subdivision as defined by the Connecticut General Statutes and as such is exempt from income taxes. Sales to a Connecticut political subdivision or any agency thereof are exempt from the sales and use tax under Section 12-412(l) of the Connecticut General Statutes.

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
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8. LONG-TERM CONTRACTS AND AGREEMENTS

Listed below are the significant long-term contracts and agreements (amounts not rounded) related to the Authority and the operation of the Facility:

Host Community Fee

- | | |
|--------------------------|---|
| 1. Description - | Host community royalties paid to the Town of Lisbon. |
| 2. Term - | Agreement is in effect for as long as the Facility is operated under the Service Agreement. |
| 3. Determinable Amount - | Fee = \$1,000,000/yr. with no escalation
Royalty = \$.50/ton of non-Lisbon MSW processed at the Facility, with CPI escalation. |
| 4. CPI Escalation - | Yes |

Wheelabrator Lisbon, Inc. O & M Charge

- | | |
|--------------------------|--|
| 1. Description - | Fee paid to Wheelabrator Lisbon, Inc. (formerly Riley Energy System) Eastern Connecticut Resource Recovery Authority (ECRRA) to compensate Wheelabrator Lisbon for operating the Facility. |
| 2. Term - | January 1, 1996 - December 31, 2020 |
| 3. Determinable Amount - | \$4,450,300 + \$12,000 escalated annually |
| 4. CPI Escalation - | Yes |

DEP Charge

- | | |
|--------------------------|----------------------------|
| 1. Description - | Solid Waste Assessment Fee |
| 2. Term - | N/A |
| 3. Determinable Amount - | \$1.50 per ton |
| 4. CPI Escalation - | N/A |

Site Lease

- | | |
|--------------------------|---|
| 1. Description - | Lease of Project Site |
| 2. Term - | October 1993 - December 31, 2020 |
| 3. Determinable Amount - | Basic Rent of \$224,900 for the facility site |
| 4. CPI Escalation - | Yes |

EASTERN CONNECTICUT RESOURCE RECOVERY AUTHORITY
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9. ELECTRIC DEREGULATION

The Authority's electric purchase agreement with CL&P was executed in June 1991. The Authority's rights in this contract were assigned to the trustee on behalf of the bondholders on October 14, 1993. Accordingly, CL&P cannot assign or transfer the Authority's electric purchase agreement without the consent of the bond trustee and the Authority. Such consent cannot be unreasonably withheld. To date, the Authority has received no such request.

In management's opinion, the Authority cannot be forced to relinquish its rights under the existing electric contract without sufficient monetary and credit compensation as to make its refusal to consent unreasonable.