



**MATERIALS INNOVATION AND
RECYCLING AUTHORITY**
A Component Unit of the State of Connecticut

ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

Materials Innovation and Recycling Authority
A Component Unit of the State of Connecticut

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE YEARS ENDED
JUNE 30, 2014 AND 2013**

| <u>TABLE OF CONTENTS</u> | <u>PAGE(S)</u> | <u>EXHIBIT</u> |
|--|-----------------------|-----------------------|
| Independent Auditor's Report | 1 - 2 | -- |
| Management's Discussion and Analysis | 3 - 19 | -- |
| Basic Financial Statements: | | |
| Balance Sheets | 20-21 | I |
| Statements of Revenues, Expenses and Changes in Net Position | 22 | II |
| Statements of Cash Flows | 23 | III |
| Notes to the Financial Statements | 24-42 | -- |
| Supplementary Information: | | |
| Combining Schedule of Balance Sheets | 43-45 | A |
| Combining Schedule of Revenues, Expenses and Changes in Net Position | 46 | B |
| Combining Schedule of Cash Flows | 47-48 | C |
| Combining Schedule of Net Position | 49-50 | D |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 51-52 | |

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Materials Innovation and Recycling Authority
A Component Unit of the State of Connecticut

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Materials Innovation and Recycling Authority
Hartford, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the Materials Innovation and Recycling (Authority), a component unit of the State of Connecticut, which comprise the statement of net position as of June 30, 2014 and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 from 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 auditor's 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 auditor considers 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014, and the 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

Prior Year Financial Statements

The financial statements of the Authority, as of and for the year ended June 30, 2013, were audited by Bollam, Sheedy, Torani & Co. LLP, which merged with Sax Macy Fromm & Co., PC to form SaxBST LLP as of January 1, 2014. Bollam, Sheedy, Torani & Co. LLP's report dated October 1, 2013, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages X through XX be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 obtained during our audits 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements. The combining schedules on pages XX through XX 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

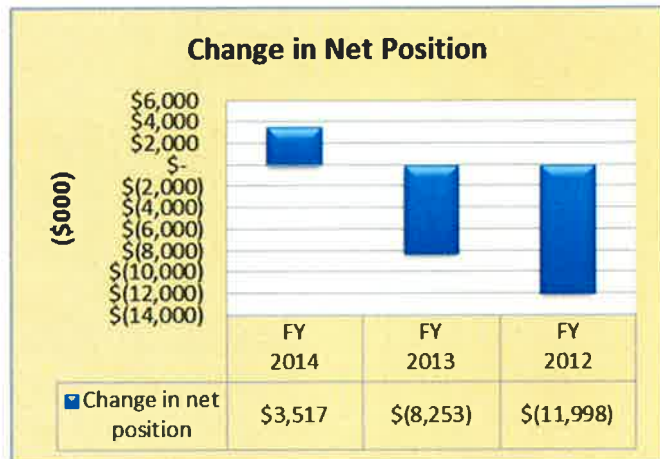
In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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 Authority's internal control over financial reporting and compliance.

New York, New York
, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following Management’s Discussion and Analysis (MD&A) of the Materials Innovation and Recycling Authority’s (the “Authority”) financial performance provides an overview of the Authority’s financial activities for the year ended June 30, 2014. Please read it in conjunction with the Authority’s financial statements that follow this section. The MD&A is intended to provide meaningful information to the reader for the current year, and in comparison to prior years, thereby enhancing the reader’s understanding of the Authority’s financial position and the results of its operations. Effective June 6, 2014 the State of Connecticut designated the Authority as successor to the Connecticut Resources Recovery Authority (CRRA). Considering the nature and scope of the Authority’s designation as CRRA’s successor, described fully in Note 1.A, the Authority’s financial statements reflect all operating and non-operating revenues and expenses for the full fiscal year ending June 30, 2014, and all assets, liabilities, deferred inflows and the net position of the Authority as of June 30, 2014, including all financial activities of CRRA during this period prior to assumption by the Authority.

In FY 2014, the Authority generated total operating revenue of \$123.4 million, and incurred \$106.1 million in operating expenses before depreciation, resulting in operating income before depreciation of \$17.3 million. After \$16.1 million in depreciation and amortization expenses, the Authority generated \$1.2 million in operating income. The Authority also generated net non-operating revenue of \$2.3 million resulting in a total increase in the Authority’s net position of \$3.5 million. Total operating revenues increased by



2.9%, while total operating expenses before depreciation decreased by 5.4%, from fiscal year 2013 to fiscal year 2014. The Authority out-performed budget expectations by generating operating revenues that were 4.6% above budget, incurring operating expenses before depreciation that were 6.3% below budget, and operating each of its projects and divisions on a financially self-sufficient basis according to budget. While the Authority’s total assets decreased by \$47.2 million (19.5%), its total liabilities decreased by \$50.7 million (68.4%).

The most significant economic factor with the potential to adversely affect the Authority is its reliance on wholesale energy revenue to keep solid waste disposal fees for its Connecticut Solid Waste System (CSWS) below the levels that trigger customer contract termination provisions, the limited options available to the Authority through its other divisions to relieve this pressure on tip fees when energy revenues are low, and an anticipated redevelopment of the CSWS in the context of this business model. Management’s response to this challenge, discussed further under the Economic Factors and Outlook section of this MD&A, has been to create a “Tip Fee Stabilization Fund”, undertake certain initiatives necessary to sustain this fund over the long term by strengthening the Authority’s existing project and division structure, and to position the

Authority administratively to hedge against wholesale energy price volatility dependent on market circumstances.

Using This Report

The Authority is an enterprise fund of the State of Connecticut. Enterprise funds are used in governmental accounting to present activities where fees are charged to external customers for goods that are sold or services that are rendered. Usually these activities are financed by debt that is secured solely by a pledge of the operating revenues of that activity.

The Authority's financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The financial statements utilize the economic resources measurement focus and the accrual basis of accounting in conformity with generally accepted accounting principles as applied to governmental entities. This means that all assets and liabilities associated with the operation of the Authority are included on its Statement of Net Position, and that all revenues and expenses are recognized when earned and incurred, respectively, on its Statement of Revenues, Expenses and Changes in Net Position.

The Authority's Net Position is presented in three components (i) invested in capital assets, net of related debt, (ii) restricted, and (iii) unrestricted. Net position presented as invested in capital assets, net of related debt, consists of all significant capital assets owned by the Authority, net of accumulated depreciation, and reduced by any outstanding balances of bonds or other debt related to the acquisition, construction, or improvement of those assets. Capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that are used in operations that have an initial useful life beyond one year. Capital assets are depreciated over their useful lives and periodic depreciation expense is reported in the Statement of Revenues, Expenses and Changes in Net Position. Net Position is presented as restricted when constraints are placed on the Authority's assets by creditors, grantors, laws or imposed by law through constitutional provisions or enabling legislation.

The Statement of Revenues, Expenses and Changes in Net Position reflect the operating revenues and expenses and non-operating revenue and expenses of the Authority for the fiscal year with the difference representing the change in net position. That change, combined with the prior year-end net position total, reconciles to the net position total at the end of the current fiscal year.

The Statement of Cash Flows reports cash activities for the fiscal year resulting from operating activities, investing activities, capital and related financing activities, and non-capital financing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash balance at the end of the current fiscal year.

Unless otherwise stated, all values presented in this M,D&A are in thousands.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is important to understanding the information included in the financial statements. They are presented following this M,D&A and the Authority's financial statements.

Supplemental Information

Supplemental information includes a Combining Schedule of Net Position (summary), a Combining Schedule of Revenues, Expenses and Changes in Net Position, a Combining Schedule of Cash Flows, and a Combining Schedule of Net Position (detail). These schedules segment the Authority's financial activities for the year ended June 30, 2014 between the various operating divisions and waste to energy facilities (projects) comprising the Authority. This segmentation reflects the terms and conditions of facility operating contracts, service agreements, related documents and statutes generally providing for the financial self-sufficiency of such projects and divisions as described further in Note 1 A to the Financial Statements (Entity and Services). For FY 2014, these projects and divisions include:

- Authority's General Fund
- Connecticut Solid Waste System
- Mid Connecticut Project
- Southeast Project
- Southwest Division
- Authority's Property Division
- Authority's Landfill Division
- Recycling Division

Required Additional Reports

Required additional reports include a report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.

Statement of Net Position

The net position of the Authority is summarized in Table 1. Net position is a measurement of the financial condition of the Authority at one point in time. As indicated in Table 1, the Authority's net position as of June 30, 2014 (total assets less total liabilities) was \$171,766 which represents a \$3,518 (2.1%) increase from the prior year. The \$3,518 increase in Net Position is the result of a decrease in total assets of \$47,221 offset by a larger reduction in total liabilities of \$50,739.

TABLE 1
STATEMENT OF NET POSITION
As of June 30,
(Dollars in Thousands)

| | 2014 | 2013 | 2012 |
|---|-------------------|-------------------|-------------------|
| ASSETS | | | |
| Current unrestricted assets | \$ 81,282 | \$ 111,531 | \$ 101,160 |
| Current restricted assets | 2,694 | 6,705 | 22,875 |
| Total current assets | <u>83,976</u> | <u>118,236</u> | <u>124,035</u> |
| Non-current assets: | | | |
| Restricted investments | - | 8,184 | 8,177 |
| Capital assets, net | 110,475 | 114,859 | 119,385 |
| Development costs, net | 784 | 1,177 | 1,576 |
| Total non-current assets | <u>111,259</u> | <u>124,220</u> | <u>129,138</u> |
| TOTAL ASSETS | <u>\$ 195,235</u> | <u>\$ 242,456</u> | <u>\$ 253,173</u> |
| LIABILITIES AND NET POSITION | | | |
| LIABILITIES | | | |
| Current unrestricted liabilities | \$ 13,281 | \$ 29,955 | \$ 7,792 |
| Current restricted liabilities | 4,096 | 2,870 | 16,413 |
| Total current liabilities | <u>17,377</u> | <u>32,825</u> | <u>24,205</u> |
| Long-term unrestricted liabilities | 3,500 | 31,195 | 42,713 |
| Long-term restricted liabilities | - | 8,083 | 8,183 |
| Total long-term liabilities | <u>3,500</u> | <u>39,278</u> | <u>50,896</u> |
| TOTAL LIABILITIES | <u>20,877</u> | <u>72,103</u> | <u>75,101</u> |
| Deferred inflows | 2,592 | 2,105 | 1,571 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS | <u>23,469</u> | <u>74,208</u> | <u>76,672</u> |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 110,476 | 114,859 | 116,348 |
| Restricted | 548 | 5,058 | 11,050 |
| Unrestricted | 60,742 | 48,331 | 49,103 |
| TOTAL NET POSITION | <u>171,766</u> | <u>168,248</u> | <u>176,501</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 195,235</u> | <u>\$ 242,456</u> | <u>\$ 253,173</u> |

Assets

The Authority's total current and non-current assets are further summarized on Table 2. The \$47,221 reduction in total assets is primarily attributable to the expenditure of reserves held within the Authority's Mid Connecticut Project and its Landfill Division, which are reflected as cash and equivalents and restricted investments in Table 2. The expenditure of reserves from the Mid Connecticut Project relate to landfill closure work at the Hartford Landfill, as well as other

project closeout activities including settlements and defense of claims discussed further in Note 12. The Mid Connecticut Project's total assets declined by \$16,232 during fiscal year 2014. The expenditure of reserves from the Authority's Landfill Division relate primarily to a transfer of funds to the state as required by state legislation and discussed further in Notes 4 and 11, coupled with the advance of initial working capital to the Connecticut Solid Waste System reclassified as a contribution in FY 2014. The Landfill Division's total assets declined by \$41,032 during fiscal year 2014. These reductions were offset partially by a large increase in the Authority's prepaid expenses. The increase in prepaid expenses reflects recognition of operating funds advanced to the Authority's contract operator of the Hartford (South Meadows) waste to energy facility and the Authority's jet turbine – powered electric generating peaking units.

TABLE 2
SUMMARY OF CURRENT AND NON-CURRENT ASSETS
Fiscal Years Ended June 30,
(Dollars in Thousands)

| | 2014 | 2013 | 2014 Increase/ (Decrease) from 2013 | 2014 Percent Increase/ (Decrease) | 2012 | 2013 Increase/ (Decrease) from 2012 | 2013 Percent Increase/ (Decrease) |
|--|-------------------|-------------------|--|--|-------------------|--|--|
| CURRENT ASSETS | | | | | | | |
| Unrestricted Assets: | | | | | | | |
| Cash and cash equivalents | \$ 58,827 | \$ 87,559 | \$ (28,732) | (32.8%) | \$ 76,331 | \$ 11,228 | 14.7% |
| Accounts receivable, net of allowances | 14,058 | 17,073 | (3,015) | (17.7%) | 14,009 | 3,064 | 21.9% |
| Inventory | 6,069 | 6,544 | (475) | (7.3%) | 6,370 | 174 | 2.7% |
| Prepaid expenses | 2,328 | 355 | 1,973 | 555.8% | 4,450 | (4,095) | (92.0%) |
| Total Unrestricted Assets | 81,282 | 111,531 | (30,249) | (27.1%) | 101,160 | 10,371 | 10.3% |
| Restricted Assets: | | | | | | | |
| Cash and cash equivalents | 2,694 | 6,705 | (4,011) | (59.8%) | 22,875 | (16,170) | (70.7%) |
| TOTAL CURRENT ASSETS | 83,976 | 118,236 | (34,260) | (29.0%) | 124,035 | (5,799) | (4.7%) |
| NON-CURRENT ASSETS | | | | | | | |
| Restricted investments | - | 8,184 | (8,184) | (100.0%) | 8,177 | 7 | 0.1% |
| Capital Assets: | | | | | | | |
| Depreciable, net | 79,068 | 84,517 | (5,449) | (6.4%) | 85,262 | (745) | (0.9%) |
| Nondepreciable | 31,407 | 30,342 | 1,065 | 3.5% | 34,123 | (3,781) | (11.1%) |
| Development costs, net | 784 | 1,177 | (393) | (33.4%) | 1,576 | (399) | (25.3%) |
| TOTAL NON-CURRENT ASSETS | 111,259 | 124,220 | (12,961) | (10.4%) | 129,138 | (4,918) | (3.8%) |
| TOTAL ASSETS | \$ 195,235 | \$ 242,456 | \$ (47,221) | (19.5%) | \$ 253,173 | (10,717) | (4.2%) |

Liabilities

The Authority's total current and long term liabilities are further summarized on Table 3. The \$50,739 reduction in total liabilities is primarily attributable to reductions in the current and long term portion of liabilities associated with the closure and post closure care of the Authority's landfills. The current liability declined by \$15,448 largely due to the progress of work necessary to close the Hartford Landfill. The long term portion declined by \$35,778 largely due to the transfer of the Authority's landfill post closure obligations to the state Department of Energy and Environmental Protection discussed further in Notes 4 and 11. An additional contributing factor to the reduction in total liabilities is a \$2,932 (25.7%) reduction in accrued payables. This is largely due to the Authority's payment of a contractor's unamortized investment in recycling

facility equipment, which was accrued in fiscal year 2013, and required as part of an early termination of this contract.

TABLE 3
SUMMARY OF CURRENT AND LONG-TERM LIABILITIES
Fiscal Years Ended June 30,
(Dollars in Thousands)

| | 2014 | 2013 | 2014 Increase/ (Decrease) from 2013 | 2014 Percent Increase/ (Decrease) | 2012 | 2013 Increase/ (Decrease) from 2011 | 2012 Percent Increase/ (Decrease) |
|--|------------------|------------------|--|--|------------------|--|--|
| CURRENT LIABILITIES | | | | | | | |
| Payable from unrestricted assets: | | | | | | | |
| Closure and post-closure care of landfills | \$ 43 | \$ 14,214 | \$ (14,171) | (99.7%) | \$ 1,330 | \$ 12,884 | 968.7% |
| Accounts payable | 4,740 | 4,311 | 429 | 10.0% | 1,658 | 2,653 | 160.0% |
| Accrued expenses and other current liabilities | 8,498 | 11,430 | (2,932) | (25.7%) | 4,804 | 6,626 | 137.9% |
| Total payable from unrestricted assets | 13,281 | 29,955 | (16,674) | (55.7%) | 7,792 | 22,163 | 284.4% |
| Payable from restricted assets: | | | | | | | |
| Bonds Payable, net | - | - | - | - | 4,134 | (4,134) | (100.0%) |
| Closure and post-closure care of landfills | - | - | - | - | 1,298 | (1,298) | (100.0%) |
| Accounts payable | - | 33 | (33) | (100.0%) | 850 | (817) | (96.1%) |
| Accrued expenses and other current liabilities | 4,096 | 2,837 | 1,259 | 44.4% | 10,185 | (7,348) | (72.1%) |
| Total payable from restricted assets | 4,096 | 2,870 | 1,226 | 42.7% | 16,467 | (8,165) | (49.6%) |
| TOTAL CURRENT LIABILITIES | 17,377 | 32,825 | (15,448) | (47.1%) | 24,259 | 13,998 | 57.7% |
| LONG-TERM LIABILITIES | | | | | | | |
| Payable from unrestricted assets: | | | | | | | |
| Closure and post-closure care of landfills | - | 27,695 | (27,695) | (100.0%) | 39,213 | (11,518) | (29.4%) |
| Other liabilities | 3,500 | 3,500 | - | 0.0% | 3,500 | - | 0.0% |
| Total payable from unrestricted assets | 3,500 | 31,195 | (27,695) | (88.8%) | 42,713 | (11,518) | (27.0%) |
| Payable from restricted assets: | | | | | | | |
| Closure and post-closure care of landfills | - | 7,367 | (7,367) | (100.0%) | 7,359 | 8 | 0.1% |
| Other liabilities | - | 716 | (716) | (100.0%) | 824 | (108) | (13.1%) |
| Total payable from restricted assets | - | 8,083 | (8,083) | (100.0%) | 8,183 | (100) | (1.2%) |
| TOTAL LONG-TERM LIABILITIES | 3,500 | 39,278 | (35,778) | (91.1%) | 50,896 | (11,618) | (22.8%) |
| TOTAL LIABILITIES | \$ 20,877 | \$ 72,103 | \$ (51,226) | (71.0%) | \$ 75,155 | (3,052) | (4.1%) |
| Deferred Inflows | 2,592 | 2,105 | 487 | 23.1% | 1,517 | 588 | 38.8% |
| TOTAL LIABILITIES AND DEFERRED INFLOWS | \$ 23,469 | \$ 74,208 | \$ (50,739) | (68.4%) | \$ 76,672 | \$ (2,464) | (3.2%) |

Statement of Revenues, Expenses and Changes in Net Position

The increase in net position shown on Table 1 was generated from the change in net position shown on Table 4, Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2014. Changes in net position represent the results of operations of the Authority (i.e. its net income). The increase in net position for fiscal year 2014 of \$3,518 represents a 142.6% increase from the prior year when the Authority's net position declined by \$8,253.

The increase in net position was achieved through a 2.9% increase in total operating revenue, coupled with a 5.4% decrease in total operating expenses, producing income before depreciation of \$17,280. Operating income (after depreciation) was \$1,179 in fiscal year 2014 which represents a \$8,511 (116.1%) increase from fiscal year 2013. The Authority's operating income of \$1,179 and its net non-operating revenue of \$2,339 combine to produce the \$3,518 increase in net position.

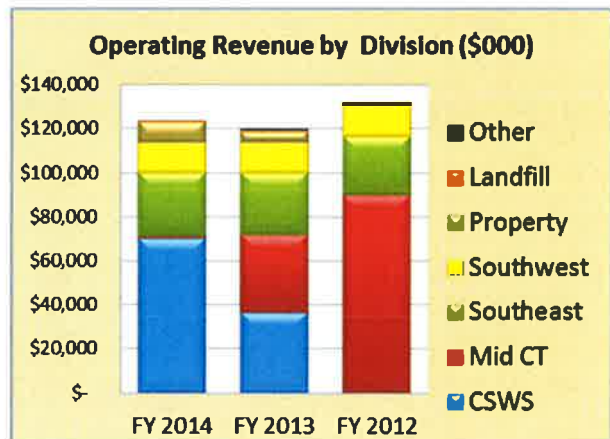
TABLE 4
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Fiscal Years Ended June 30,
(Dollars in Thousands)

| | 2014 | 2013 | 2012 |
|--|------------|------------|------------|
| Operating revenues | \$ 123,362 | \$ 119,866 | \$ 132,043 |
| Operating expenses | 106,082 | 112,113 | 127,799 |
| Income (loss) before depreciation and amortization and other non-operating revenues and (expenses) | 17,280 | 7,753 | 4,244 |
| Depreciation and amortization | 16,101 | 15,085 | 16,242 |
| Income (loss) before other non-operating revenues and (expenses), net | 1,179 | (7,332) | (11,998) |
| Non-operating revenues (expenses), net | 2,339 | (921) | - |
| Change in net position | 3,518 | (8,253) | (11,998) |
| Total net position, beginning of year | 168,248 | 176,501 | 188,499 |
| Total net position, end of year | \$ 171,766 | \$ 168,248 | \$ 176,501 |

Revenues

Table 5 summarizes total operating and non-operating revenue.

Operating revenue increased by \$3,496 (2.9%) from fiscal year 2013 to fiscal year 2014. This increase is driven by a substantial \$14,190 (33.6%) increase in revenue from the sale of energy offset by reductions in member service charges, other service charges and other revenue. The increase in revenue from the sale of energy is largely attributed to energy produced by the Authority's CSWS and sold through ISO New England's wholesale energy markets. Abnormally cold temperatures in the winter of 2013 are credited with driving up wholesale energy prices. The average wholesale price received by CSWS during fiscal year 2014 was \$.0697 per kilowatt hour compared to \$.0358 per kilowatt hour in fiscal year 2013. While the wholesale price increased significantly, the energy produced declined by 3.2%. Energy produced by the Southeast Project remained under contract in fiscal year 2014, independent of the wholesale market, at an average rate of approximately \$.257 per kilowatt hour.



The reduction in member and other service charges is directly related to the Authority's transition from the Mid Connecticut Project to the CSWS as its primary operating facility. This transition is described further in Note 1.A. The Mid Connecticut Project closed in FY 2013 with

the expiration of service agreements and retirement of debt. New service agreements were established with fees based on cost recovery formulas. Since the cost to operate the CSWS is lower than the cost to operate the Mid Connecticut Project, service fees and associated revenue declined in proportion to the lower cost base. Service fees generated through the Southeast Project and the Southwest Division remained relatively flat.

The reduction in other revenue is attributed to the acceptance of soil at the Hartford Landfill for disposal as part of the landfill's closure project. The Authority derived \$4,514 in revenue for this disposal service in FY 2013 which declined to \$1,071 in fiscal year 2014 as this aspect of the closure project was completed. Additional contributing factors are closure of the Authority's recycling operation in Stratford and reduced recycling volumes associated with the transition from the Mid Connecticut Project to the CSWS.

The increase in non-operating revenue is directly related the transfer of the Authority's landfill post closure care obligations and related reserves as detailed in Notes 4 and 11.

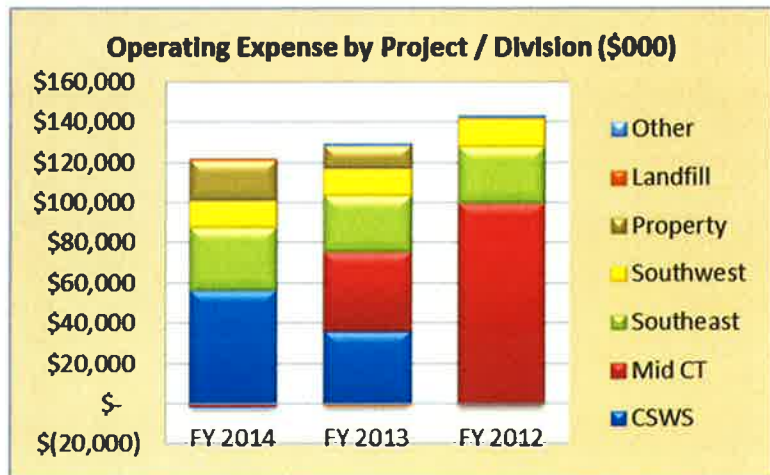
TABLE 5
SUMMARY OF OPERATING AND NON-OPERATING REVENUES
Fiscal Years Ended June 30,
(Dollars in Thousands)

| | 2014 | 2013 | 2014 Increase/ (Decrease) from 2013 | 2014 Percent Increase/ (Decrease) | 2012 | 2013 Increase/ (Decrease) from 2012 | 2013 Percent Increase/ (Decrease) |
|--|-------------------|-------------------|--|--|-------------------|--|--|
| Operating Revenues: | | | | | | | |
| Member service charges | \$ 45,588 | \$ 49,145 | \$ (3,557) | (7.2%) | \$ 55,966 | \$ (6,821) | (12.2%) |
| Other service charges | 16,513 | 18,512 | (1,999) | (10.8%) | 20,860 | (2,348) | (11.3%) |
| Energy sales | 56,451 | 42,261 | 14,190 | 33.6% | 46,547 | (4,286) | (9.2%) |
| Other operating revenues | 4,810 | 9,948 | (5,138) | (51.6%) | 8,670 | 1,278 | 14.7% |
| Total Operating Revenues | 123,362 | 119,866 | 3,496 | 2.9% | 132,043 | (12,177) | (9.2%) |
| Non-Operating Revenues: | | | | | | | |
| Investment income | 109 | 139 | (30) | (21.6%) | 192 | (53) | (27.6%) |
| Gain on write-off of postclosure liabilities | 4,751 | - | 4,751 | 100.0% | - | - | |
| Other income | 190 | 67 | 123 | 183.6% | 560 | (493) | (88.0%) |
| Total Non-Operating Revenues | 5,050 | 206 | 4,844 | 2351.5% | 752 | (546) | (72.6%) |
| Total Revenues | \$ 128,412 | \$ 120,072 | \$ 8,340 | 6.9% | \$ 132,795 | \$ (12,723) | (9.6%) |

Expenses

Table 6 summarizes total operating and non-operating expenses.

Operating expenses declined by \$6,031 (5.4%) from fiscal year 2013 to fiscal year 2014. Significant contributing factors to this reduction include reduced estimated liability for the closure of the Hartford Landfill, reversed accruals related to the resolution of contract operating charges associated with the Mid Connecticut Project and other savings associated with the transition from Mid Connecticut to CSWS.



The \$1,584 increase in non-operating expenses is related to settlement activity also with respect to the Mid Connecticut Project.

TABLE 6
SUMMARY OF OPERATING AND NON-OPERATING EXPENSES
Fiscal Years Ended June 30,
(Dollars in Thousands)

| | 2014 | 2013 | 2014 Increase/ (Decrease) from 2013 | 2014 Percent Increase/ (Decrease) | 2012 | 2013 Increase/ (Decrease) from 2012 | 2013 Percent Increase/ (Decrease) |
|---|-------------------|-------------------|--|--|-------------------|--|--|
| Operating Expenses: | | | | | | | |
| Solid waste operations | \$ 97,583 | \$ 99,194 | \$ (1,611) | (1.6%) | \$ 116,261 | \$ (17,067) | (14.7%) |
| Maintenance and utilities | 1,313 | 1,024 | 289 | 28.2% | 900 | 124 | 13.8% |
| Landfill closure and post-closure | (3,392) | 1,862 | (5,254) | (282.2%) | 415 | 1,447 | 348.7% |
| Legal services - external | 3,012 | 1,209 | 1,803 | 149.1% | 1,803 | (594) | (32.9%) |
| Administrative and operational services | 6,191 | 7,525 | (1,334) | (17.7%) | 7,019 | 506 | 7.2% |
| Distribution to: | | | | | | | |
| Member towns | - | 810 | (810) | 100.0% | - | 810 | |
| SCRRRA | 1,375 | - | 1,375 | 100.0% | 1,401 | (1,401) | 0.0% |
| SWEROC | - | 489 | (489) | 100.0% | - | 489 | 0.0% |
| Total Operating Expenses | 106,082 | 112,113 | (6,031) | (5.4%) | 127,799 | (15,686) | (12.3%) |
| Depreciation and amortization | 16,101 | 15,085 | 1,016 | 6.7% | 16,242 | (1,157) | (7.1%) |
| Non-Operating Expenses: | | | | | | | |
| Interest expense | - | 87 | (87) | (100.0%) | 317 | (230) | (72.6%) |
| Other expenses | 2,711 | 1,040 | 1,671 | 160.7% | 435 | 605 | 139.1% |
| Total Non-Operating Expenses | 2,711 | 1,127 | 1,584 | 140.6% | 752 | 375 | 49.9% |
| Total Expenses | \$ 124,894 | \$ 128,325 | (3,431) | (2.7%) | \$ 144,793 | \$ (16,468) | (11.4%) |

Budget versus Actual Performance

The Authority's total operating budget for FY 2014 was \$122,698 including operating revenue of \$117,906, interest of \$14, use of reserves totaling \$3,978 and inter-fund transfers of \$800.

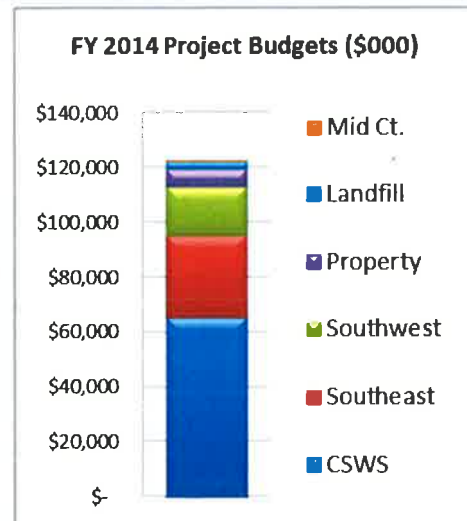
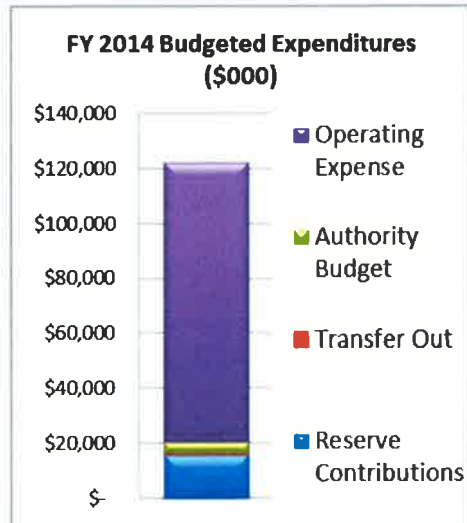
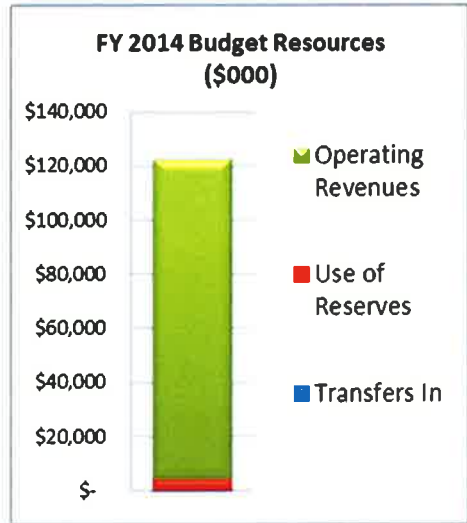
The primary source of funding for the budget is the operating revenue generated by each project and division. Operating revenue provides 96% of total budget resources and includes solid waste delivery fees, energy sales, recycling sales and other revenue. Additional sources of funding include use of previously established reserve funds, and inter-fund transfers.

The operating budget provides balanced funding for the operating expense budgets of each project and division which total \$109,334, their reserve contributions which total \$8,704, their allocated share of the Authority's general administrative budget which totals \$3,860 and transfers out totaling \$800. Operating expenses represent 83% of the total budget and include solid waste operations, maintenance and utilities, closure and post closure care of landfills, legal services and project – specific administrative and operations services. Reserve contributions funded in the FY 2014 operating budget include set asides for the CSWS risk, legal and capital reserves, the Property Division capital and future development reserves, and severance reserves.

The Authority's budget provides for the administrative oversight of all projects and divisions including salaries and benefits, and non-personnel services.

The CSWS consumes the largest portion of the total operating budget (\$65,392 or 53% including operating expenses and reserve contributions). The Southeast Project represents 24% of the total operating budget and the Southwest Project is 14%. Other divisions total 8% of the budget.

The budget structure for the waste to energy facilities (CSWS and Southeast) reflect the terms and conditions of applicable municipal service agreements and operating contracts that generally require fees for municipal waste disposal to be set at the level necessary to fund each



facility's net cost of operation. The net cost of operation represents the total operating budget less non disposal fee revenue where non disposal fee revenue primarily consists of the sale of electricity and use of the system by non-members.

The operating budget for the Southwest division funds the Authority's use of waste disposal capacity it preserved within the Bridgeport Waste to Energy facility upon expiration of the project's original development and operating contracts. The Authority contracts this capacity to municipal customers and passes through its fee disposal arrangement together with an administrative fee that supports the Authority's General Fund.

The operating budget for the Property Division is based on the estimated costs to operate the facilities assigned to the division. These costs are funded primarily through electric sales revenue from the Authority's jet turbine powered electric generating peaking units and facility lease income.

The operating budget for the Landfill Division is based primarily on long term estimates for the Authority to fulfill its landfill post closure care obligations established by federal and State laws and regulations. These costs have been pre-funded through prior project fees and set aside in reserve accounts and trust funds established for these purposes.

The budget for the Mid Connecticut Project reflects only a share of the Authority's general administrative budget. Additional spending from this division for project close out activities including settlements is approved on an as needed by the Board of Directors.

Table 7 summarizes the budget versus actual performance for each project and division. As indicated, all projects and divisions outperformed operating revenue budgets with the exception of the Southwest Division due to lower than anticipated waste processing. CSWS saw the benefit of increased wholesale electric prices due to an abnormally cold winter. The Property Division exceeded revenue budgets on the basis of reserve payments received through ISO New England for the peaking units. Mid Connecticut realized additional revenue through disposal of soils as part of the Hartford Landfill closure project. Total operating expenses were \$7,112 (6.5%) under budget in total with only the Southeast Project and Property Division exceeding initial budget estimates. Including all Net Non-Operating budget items, the Authority achieved a total budget surplus of \$8,824.

Materials Innovation and Recycling Authority
A Component Unit of the State of Connecticut

Table 7
Materials Innovation and Recycling Authority
FY 2014 Budget versus Actual Performance (\$000)

| Project / Division Budget | Total Operating Revenue | Project / Division Operating Expenses | Authority General Admin. | Total Operating Expenses | Income Before Depreciation | Non Operating (Net)* | Budget Balance |
|---------------------------|-------------------------|---------------------------------------|--------------------------|--------------------------|----------------------------|----------------------|----------------|
| Authority General Fund | \$ - | \$ - | \$ 1 | \$ 1 | \$ (1) | \$ 1 | \$ - |
| CSWS | \$ 64,582 | \$ 56,170 | \$ 2,136 | \$ 58,306 | \$ 6,276 | \$ (6,276) | \$ - |
| Southeast Project | \$ 28,914 | \$ 29,882 | \$ 132 | \$ 30,014 | \$ (1,100) | \$ 1,100 | \$ - |
| Southwest | \$ 17,688 | \$ 17,111 | \$ 577 | \$ 17,688 | \$ - | \$ - | \$ - |
| Property Division | \$ 6,722 | \$ 3,950 | \$ 354 | \$ 4,304 | \$ 2,418 | \$ (2,418) | \$ - |
| Landfill Division | \$ - | \$ 2,221 | \$ 396 | \$ 2,617 | \$ (2,617) | \$ 2,617 | \$ - |
| Mid Ct. Project | \$ - | \$ - | \$ 264 | \$ 264 | \$ (264) | \$ 264 | \$ - |
| Other | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total | \$ 117,906 | \$ 109,334 | \$ 3,860 | \$ 113,194 | \$ 4,712 | \$ (4,712) | \$ - |

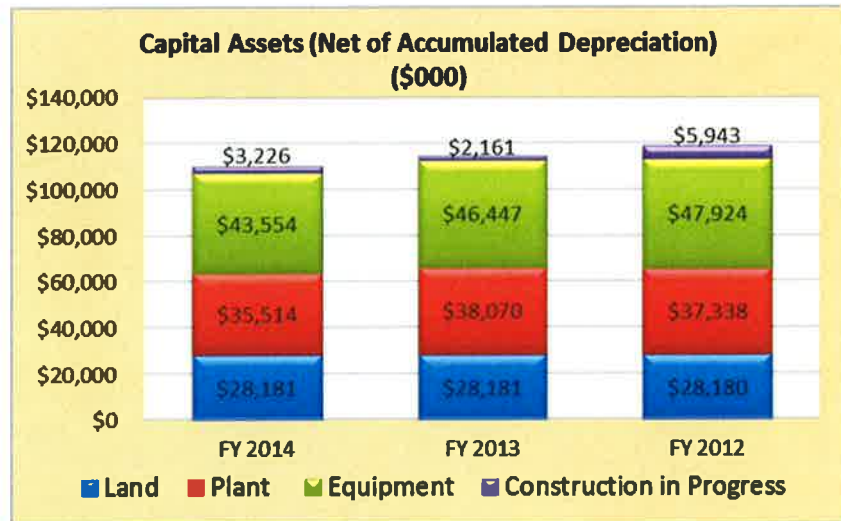
| Project / Division Actual | Operating Revenue | Operating Expenses | Authority General Admin. | Total Operating Budget | Income Before Depreciation | Non Operating (Net)* | Budget Balance |
|---------------------------|-------------------|--------------------|--------------------------|------------------------|----------------------------|----------------------|-----------------|
| Authority General Fund | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| CSWS | \$ 70,075 | \$ 54,986 | \$ 2,121 | \$ 57,107 | \$ 12,968 | \$ (6,537) | \$ 6,431 |
| Southeast Project | \$ 29,195 | \$ 30,511 | \$ 142 | \$ 30,653 | \$ (1,458) | \$ 1,039 | \$ (419) |
| Southwest | \$ 13,389 | \$ 12,907 | \$ 572 | \$ 13,479 | \$ (90) | \$ - | \$ (90) |
| Property Division | \$ 9,677 | \$ 4,449 | \$ 588 | \$ 5,037 | \$ 4,640 | \$ (4,768) | \$ (128) |
| Landfill Division | \$ 115 | \$ 464 | \$ 430 | \$ 894 | \$ (779) | \$ 1,477 | \$ 698 |
| Mid Ct. Project | \$ 1,096 | \$ (967) | \$ 56 | \$ (911) | \$ 2,007 | \$ 333 | \$ 2,340 |
| Other | \$ (185) | \$ (177) | \$ - | \$ (177) | \$ (8) | \$ - | \$ (8) |
| Total | \$ 123,362 | \$ 102,173 | \$ 3,909 | \$ 106,082 | \$ 17,280 | \$ (8,456) | \$ 8,824 |

| Variance Over (Under) Budget | Operating Revenue | Operating Expenses | Authority General Admin. | Total Operating Budget | Income Before Depreciation | Non Operating (Net)* | Budget Balance |
|------------------------------|-------------------|--------------------|--------------------------|------------------------|----------------------------|----------------------|-----------------|
| Authority General Fund | \$ - | \$ - | \$ (1) | \$ (1) | \$ 1 | \$ (1) | \$ - |
| CSWS | \$ 5,493 | \$ (1,184) | \$ (15) | \$ (1,199) | \$ 6,692 | \$ (261) | \$ 6,431 |
| Southeast Project | \$ 281 | \$ 629 | \$ 10 | \$ 639 | \$ (358) | \$ (61) | \$ (419) |
| Southwest | \$ (4,299) | \$ (4,204) | \$ (5) | \$ (4,209) | \$ (90) | \$ - | \$ (90) |
| Property Division | \$ 2,955 | \$ 499 | \$ 234 | \$ 733 | \$ 2,222 | \$ (2,350) | \$ (128) |
| Landfill Division | \$ 115 | \$ (1,757) | \$ 34 | \$ (1,723) | \$ 1,838 | \$ (1,140) | \$ 698 |
| Mid Ct. Project | \$ 1,096 | \$ (967) | \$ (208) | \$ (1,175) | \$ 2,271 | \$ 69 | \$ 2,340 |
| Other | \$ (185) | \$ (177) | \$ - | \$ (177) | \$ (8) | \$ - | \$ (8) |
| Total | \$ 5,456 | \$ (7,161) | \$ 49 | \$ (7,112) | \$ 12,568 | \$ (3,744) | \$ 8,824 |

Operating revenue budget excludes interest income budgeted for the Authority General Fund, CSWS and Southeast Project. Non operating (Net) includes interest income, use of reserve funds and transfers in as additional budget resources, and transfers out, reserve contributions and landfill post closure liability adjustments as additional budgeted expenses

Capital Assets

The Authority's investment in capital assets (net of accumulated depreciation) as of June 30, 2014 totaled \$110,475. This represents a \$4,384 (3.8%) reduction from net capital assets as of June 30, 2013 which totaled \$114,859. The Authority's investment in capital assets includes land, plant, equipment and construction in progress.



The Authority owns land used for waste management and related purposes in Bridgeport, Ellington, Hartford, Essex, Stratford, Shelton, Torrington, Waterbury and Watertown. Its plants primarily include the waste to energy facility in Hartford, four transfer stations and two recycling facilities. Equipment includes vehicles and machinery used in the Authority's waste processing and recycling operations. Construction in Progress represents ongoing work for plant and equipment improvements or additions not yet in service. As of June 30, 2014 this primarily consisted of boiler and bag house improvements in the CSWS trash to energy facility.

The reduction in net capital assets is due to the recognition of depreciation and the sale and disposal of assets for fiscal year 2014 partially offset by additions to plant, equipment and construction in progress during fiscal 2014. These changes to capital assets are described more fully in Note 3.

Long-Term Debt Issuance, Administration and Credit Ratings

As detailed in the table on the following page, as of the fiscal year ended June 30, 2014, the Southeast Project had \$54,795 of total outstanding debt that is not carried on the Authority's books. This includes the Authority's Resource Recovery Revenue Refunding Bonds (Covanta Southeastern Connecticut Company Project – 2010 Series 2010A) supported by a Special Capital Reserve Fund (SCRF) with the State, and three series of Corporate Credit Revenue Bonds. The SCRF is a contingent liability of the State available to replenish any debt service reserve fund draws on bonds that have the SCRF designation. The funds used to replenish a debt service reserve draw are provided by the State's General Fund and are deemed appropriated by the Connecticut legislature. See Note 1A for additional information on the structure of the Southeast Project.

STATUS OF OUTSTANDING BONDS ISSUED AS OF JUNE 30, 2014

| PROJECT / Series | Moody's Rating | Standard & Poor's Rating | X= SCRF-Backed ¹ | Dated | Maturity Date | Original Principal (\$000) | Principal Outstanding (\$000) | On Authority's Books (\$000) |
|---|----------------|--------------------------|-----------------------------|----------|---------------|----------------------------|-------------------------------|------------------------------|
| SOUTHEAST PROJECT | | | | | | | | |
| 2010 Series A - Project Refunding ² | Aa3 | AA | X | 12/02/10 | 11/15/15 | 27,750 | 11,295 | - |
| CORPORATE CREDIT REVENUE BONDS | | | | | | | | |
| 1992 Series A - Corporate Credit | Ba1 | NR | -- | 09/01/92 | 11/15/22 | 30,000 | 30,000 | - |
| 2001 Series A - Covanta Southeastern Connecticut Company-I | Ba1 | NR | -- | 11/15/01 | 11/15/15 | 6,750 | 6,750 | - |
| 2001 Series A - Covanta Southeastern Connecticut Company-II | Ba1 | NR | -- | 11/15/01 | 11/15/15 | 6,750 | 6,750 | - |
| TOTAL PRINCIPAL BONDS OUTSTANDING | | | | | | | 54,795 | - |

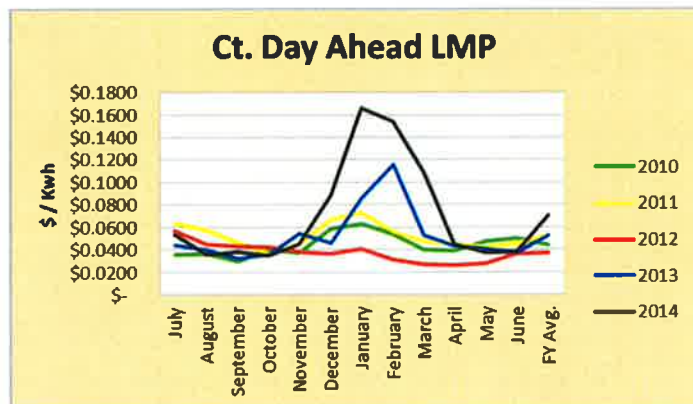
¹ SCRF = Special Capital Reserve Fund of the State of Connecticut.

² The 2010 Series A Bonds refunded the 1998 Series A Bonds originally issued in the amount of \$87,650,000 on August 18, 1998.

NR = Not Rated

Economic Factors and Outlook

The most significant economic factors with the potential to adversely affect the Authority are the CSWS business model's reliance on wholesale energy revenue to keep solid waste disposal fees below the levels that trigger customer contract termination provisions, the limited options available to the Authority through other divisions to relieve this pressure on tip fees when energy revenues are low, and an anticipated redevelopment of the CSWS in the context of this model.



The Connecticut Solid Waste System – The business model for CSWS provides that participating town waste disposal fees (“tip fees”) are to be set at the level necessary to fund the net cost of operation of the CSWS. The net cost of operation is the total operating budget less non-disposal fee revenue where non-disposal fee revenue primarily consists of the sale of electricity generated from the CSWS waste to energy facility and use of the CSWS by non-members. Consequently, price volatility in the wholesale energy market directly impacts the tip fees charged to member towns. Some of the Authority’s member town contracts include tip fee caps above which the towns may terminate the contract (“opt out tip fee”). In the last five fiscal years, average wholesale electric prices ranged from a high of \$0.0703 per Kwh to a low of \$0.0375 per Kwh. Based on the current FY 2015 business model, this is sufficient to reduce tip fees to a low of \$47 per ton (27% below the long term contract opt out), or to increase tip fees to a high of \$80 per ton (24% above the long term contract opt out). To address this matter, management has established a “Tip Fee Stabilization Fund” which may be drawn upon to support the CSWS net cost of operation when wholesale energy prices are low, thereby avoiding the opt out price, and which is to be reimbursed as wholesale energy prices rebound. The Tip Fee Stabilization Fund was established within the Authority’s Property Division with income

from the Authority's peaking units as the primary source of funding. The value of the Tip Fee Stabilization Fund at June 30, 2014 was \$2.4 million. Property Division Income will continue to flow to this fund in FY 2015 to an authorized level of \$7.0 million which management considers sufficient. Management is also preparing bid and contract documents for power purchase agreements with third parties for the potential direct purchase of a portion of the CSWS electric generation as a hedge against volatile wholesale energy prices. Additional cost control measures have been implemented to manage the budget model within the confines of the opt out price.

The Authority's Property Division – The primary source of revenue to the Property Division is participation in the wholesale energy markets of the Authority's peaking units. The majority of revenue from the peaking units is derived specifically from ISO New England's Forward Capacity Reserve and Real Time Reserve markets. In these reserve markets, wholesale energy providers are compensated to have electric generation capacity available, not to produce and export energy to the grid. The Authority's peaking units are infrequently called to produce energy because they are older and less economically efficient to operate than other power plants in New England. This inefficiency triggers certain federal and State air quality and emissions regulations requiring issuance of a "Trading Order" that permits the peaking units to run for a limited number of hours subject to the Authority's acquisition of "Discrete Emission Reduction Credits" (DERCs). While the Authority's existing Trading Order extends through May 31, 2017, the Capacity Supply Obligations it has incurred to ISO New England will soon extend through May 31, 2019. To address this matter, management has commenced a study to determine the feasibility of retrofitting the peaking units to meet air quality standards and eliminate the need for the Trading Order. Management has also begun assembling the data, analysis and reports necessary to "delist" the peaking units from the pool of electric generating resources available to ISO New England and avoid further extending the Authority's Capacity Supply Obligations if the retrofit is not feasible. Additional efforts are being undertaken to assess the feasibility of extending the Trading Order as a stop gap measure. The Authority may also enter ISO New England's Reconfiguration Auctions where Capacity Supply Obligations are transferred among wholesale energy producers, or may enter direct agreements to transfer such obligation(s) as necessary. These efforts will determine the sustainability of electric generating revenue to the Authority's Property Division and therefore its ability to sustain the Tip Fee Stabilization Fund during extended periods of depressed wholesale energy prices.

The Authority's Landfill Division – In FY 2014, under State mandate, the Authority transferred its landfill post closure care obligations with respect to five landfills to the State's Department of Energy and Environmental Protection (DEEP) and \$31 million (approximately 92%) of its landfill post closure care reserves to the State. The transfer of these obligations and reserves did not otherwise affect the Authority's ownership and/or leasehold interest in the landfills or reduce the Authority's landfill liability. See Notes 4 and 11 for additional information concerning these transfers. To address this matter, management has secured a pollution legal liability insurance policy including coverage for the five landfills for a term of thirty-eight months commencing August 1, 2014. The policy provides coverage of \$40 million per occurrence and \$40 million aggregate over the policy term with a \$250,000 deductible. The Authority estimates that its retained landfill post closure reserves are adequate to fund such coverage for at least the next ten years at existing premiums. When these reserves are expended, payment obligations for insurance and related expenses including premiums, deductibles and

claims outside of policy coverage will need to transfer from the Landfill Division to the CSWS or Property Division. The timing of such transfer is dependent on the timely closure of the Hartford landfill and assumption of those obligations responsibilities by DEEP, the future cost of insurance coverage and any required payment of deductibles or claims.

Redeveloping CSWS

In FY 2014, the State passed Public Act 14-94 (the “Act”) forming the Authority and designating it as successor to the Connecticut Resources Recovery Authority (CRRA). One of the core objectives of the Act is to set a process in motion, with specific roles and deadlines for the Authority, DEEP and the private sector that will bring about the redevelopment of the CSWS. The major milestones of this initiative are summarized below.

- By January 1, 2016 DEEP, in consultation with the Authority, is to issue a Request for Proposals to redevelop the CSWS.
- By January 1, 2017 not more than three short-listed respondents selected by DEEP are to conduct and complete any required feasibility studies with the Authority’s cooperation. DEEP is required to hold a public hearing concerning the feasibility studies but the deadline is not specified in the legislation.
- By July 1, 2017 the short-listed respondents are to submit final proposals to DEEP.
- By September 15, 2017 DEEP is to submit a report on the nature and status of CSWS redevelopment proposals to the State legislature.
- By October 30, 2017 the State legislature may hold a public hearing concerning DEEP’s status report.
- By December 31, 2017 DEEP may select one final proposal and direct the Authority to enter into an agreement with the applicable respondent for the redevelopment of the CSWS.

While the nature, cost and funding mechanisms for this redevelopment are not yet determined, the underlying legislation did include proposal selection criteria sensitive to these matters. The Act requires DEEP to consider the level of investment proposed and whether the proposal is in the best interest of the municipalities under contract with the Authority, including maintenance or reduction of tip fees. The Act further provides that the selection of a final proposal by DEEP, in consultation with the Authority, is not to be construed as a legislative mandate that otherwise would increase the “opt out tip fee” established in certain municipal contracts.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, 100 Constitution Plaza – 6th Floor, Hartford, CT 06103.

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
STATEMENT OF NET POSITION
AS OF JUNE 30, 2014 AND JUNE 30, 2013
(Dollars in Thousands)

EXHIBIT I
Page 1 of 2

| | June 2014 | RESTATED June 2013 |
|--|-------------------|-------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Unrestricted Assets: | | |
| Cash and cash equivalents | \$ 58,827 | \$ 87,559 |
| Accounts receivable, net of allowances | 14,058 | 17,073 |
| Inventory | 6,069 | 6,544 |
| Prepaid expenses | 2,328 | 355 |
| Total Unrestricted Assets | <u>81,282</u> | <u>111,531</u> |
| Restricted Assets: | | |
| Cash and cash equivalents | <u>2,694</u> | <u>6,705</u> |
| Total Restricted Assets | <u>2,694</u> | <u>6,705</u> |
| TOTAL CURRENT ASSETS | <u>83,976</u> | <u>118,236</u> |
| NON-CURRENT ASSETS | | |
| Restricted Assets: | | |
| Investments | - | 8,184 |
| Capital Assets: | | |
| Depreciable, net | 79,068 | 84,517 |
| Nondepreciable | 31,407 | 30,342 |
| Development and bond issuance costs, net | <u>784</u> | <u>1,177</u> |
| TOTAL NON-CURRENT ASSETS | <u>111,259</u> | <u>124,220</u> |
| TOTAL ASSETS | <u>\$ 195,235</u> | <u>\$ 242,456</u> |

The accompanying notes are an integral part of these financial statements

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
STATEMENT OF NET POSITION (Continued)
AS OF JUNE 30, 2014 AND JUNE 30, 2013
(Dollars in Thousands)

EXHIBIT I
Page 2 of 2

| | June 2014 | RESTATED June 2013 |
|---|-------------------|------------------------------|
| LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Payable from unrestricted assets: | | |
| Closure and post-closure care of landfills | 43 | 14,214 |
| Accounts payable | 4,740 | 4,311 |
| Accrued expenses and other current liabilities | 8,498 | 11,430 |
| Total payable from unrestricted assets | 13,281 | 29,955 |
| Payable from restricted assets: | | |
| Accounts payable | - | 33 |
| Accrued expenses and other current liabilities | 4,096 | 2,837 |
| Total payable from restricted assets | 4,096 | 2,870 |
| TOTAL CURRENT LIABILITIES | 17,377 | 32,825 |
| LONG-TERM LIABILITIES | | |
| Payable from unrestricted assets: | | |
| Post-closure care of landfills | - | 27,695 |
| Other liabilities | 3,500 | 3,500 |
| Total payable from unrestricted assets | 3,500 | 31,195 |
| Payable from restricted assets: | | |
| Post-closure care of landfills | - | 7,367 |
| Other liabilities | - | 716 |
| Total payable from restricted assets | - | 8,083 |
| TOTAL LONG-TERM LIABILITIES | 3,500 | 39,278 |
| TOTAL LIABILITIES | 20,877 | 72,103 |
| DEFERRED INFLOW OF RESOURCES | | |
| Deferred Inflows | 2,592 | 2,105 |
| TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES | 23,469 | 74,208 |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 110,476 | 114,859 |
| Restricted for: | | |
| Covanta Wallingford escrow | 500 | 500 |
| Other restricted net position | 48 | 225 |
| City of Hartford Recycling education fund | - | 143 |
| Energy generating facility | - | 1,646 |
| Montville landfill post-closure | - | 1,026 |
| DEEP trust - landfills | - | 817 |
| Shelton landfill future use | - | 701 |
| Total Restricted | 548 | 5,058 |
| Unrestricted | 60,742 | 48,331 |
| TOTAL NET POSITION | 171,766 | 168,248 |
| TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION | \$ 195,235 | \$ 242,456 |

The accompanying notes are an integral part of these financial statements

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(Dollars in Thousands)

EXHIBIT II

| | <u>2014</u> | <u>RESTATED</u> <u>2013</u> |
|---|-------------------|--------------------------------|
| Operating Revenues | | |
| Service charges: | | |
| Members | \$ 45,588 | \$ 49,145 |
| Others | 16,513 | 18,512 |
| Energy sales | 56,451 | 42,261 |
| Other operating revenues | 4,810 | 9,948 |
| Total Operating Revenues | <u>123,362</u> | <u>119,866</u> |
| Operating Expenses | | |
| Solid waste operations | 97,583 | 99,194 |
| Maintenance and utilities | 1,313 | 1,024 |
| Closure and post-closure care of landfills | (3,392) | 1,862 |
| Legal services - external | 3,012 | 1,209 |
| Administrative and Operational services | 6,191 | 7,525 |
| Distribution to SCRRRA | 1,375 | - |
| Distribution to member towns | - | 810 |
| Distribution to SWEROC | - | 489 |
| Total Operating Expenses | <u>106,082</u> | <u>112,113</u> |
| Operating Income (Loss) before depreciation and amortization | 17,280 | 7,753 |
| Depreciation and amortization | 16,101 | 15,085 |
| Operating Income (Loss) | 1,179 | (7,332) |
| Non-Operating Revenues (Expenses) | | |
| Investment income | 109 | 139 |
| Gain on Write off of post closure liabilities | 4,751 | - |
| Other income (expenses), net | (2,521) | (973) |
| Interest expense | - | (87) |
| Non-Operating Expenses, Net | <u>2,339</u> | <u>(921)</u> |
| Change in Net Position | 3,518 | (8,253) |
| Total Net Position, beginning of period | <u>168,248</u> | <u>176,501</u> |
| Total Net Position, end of period | <u>\$ 171,766</u> | <u>\$ 168,248</u> |

The accompanying notes are an integral part of these financial statements

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in Thousands)

EXHIBIT III

| | 2014 | 2013 |
|--|------------|-------------|
| Cash Flows Provided (Used) by Operating Activities | | |
| Payments received from providing services | \$ 126,561 | \$ 117,354 |
| Payments to suppliers and employees | (107,180) | (106,859) |
| Distribution to member towns | - | (810) |
| Distribution to SWEROC | - | (489) |
| Distribution to SCRRA | (1,375) | - |
| Net Cash Provided by Operating Activities | 18,006 | 9,196 |
| Cash Flows Provided (Used) by Investing Activities | | |
| Proceeds from Investments | 8,184 | - |
| Interest on investments | 109 | 145 |
| Net Cash Provided (Used) by Investing Activities | 8,293 | 145 |
| Cash Flows Provided (Used) by Capital and Related Financing Activities | | |
| Proceeds from sales of equipment | 595 | 49 |
| Payments for landfill closure and post-closure care liabilities | (45,200) | (1,786) |
| Acquisition and construction of capital assets | (11,786) | (8,287) |
| Interest paid on long-term debt | - | (113) |
| Principal paid on long-term debt | - | (4,135) |
| Net Cash Used by Capital and Related Financing Activities | (56,391) | (14,272) |
| Cash Flows Used by Non-Capital Financing Activities | | |
| Other interest and fees | (2,651) | (11) |
| Net Cash Used by Non-Capital Financing Activities | (2,651) | (11) |
| Net decrease in cash and cash equivalents | (32,743) | (4,942) |
| Cash and cash equivalents, beginning of year | 94,264 | 99,206 |
| Cash and cash equivalents, end of year | \$ 61,521 | \$ 94,264 |
| Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities: | | |
| Operating loss | \$ 1,179 | \$ (10,248) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | | |
| Depreciation of capital assets | 15,709 | 14,685 |
| Amortization of development and bond issuance costs | 392 | 400 |
| Provision for closure and post-closure care of landfills | - | 1,862 |
| Other income (expenses) | - | 18 |
| Changes in assets and liabilities, net of transfers: | | |
| (Increase) decrease in: | | |
| Accounts receivable, net | 3,014 | (3,064) |
| Inventory | 475 | (174) |
| Prepaid expenses and other current assets | (1,973) | 4,095 |
| Increase (decrease) in: | | |
| Accounts payable, accrued expenses and other liabilities | (790) | 1,622 |
| Net Cash Provided by Operating Activities | \$ 18,006 | \$ 9,196 |

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Entity and Services

The Materials Innovation and Recycling Authority (the "Authority") was created by the State of Connecticut (the "State") under Public Act 14-94 (the "Act"). The Authority constitutes a successor authority to the Connecticut Resources Recovery Authority (CRRA) which was created in 1973 under Chapter 446e of the State Statutes. The Authority is a public instrumentality and political subdivision of the State and is included as a component unit in the State's Comprehensive Annual Financial Report.

The Authority became CRRA's successor effective June 6, 2014 when it assumed control over all of CRRA's assets, rights, duties and obligations and continued CRRA's ongoing business. The Act and related statutes outlined below specified the transfer of responsibilities from CRRA to the Authority in a manner that assured continuity.

- The Authority's designation as CRRA's successor did not represent a grant of new authority by the State. The Authority replaced CRRA and CRRA no longer exists;
- Any effective orders or regulations of CRRA remain effective under the governance of the Authority;
- To the extent that CRRA was a party to any action or proceeding (civil or criminal), the Authority was substituted for CRRA in that action or proceeding;
- Any contract, right of action or matter undertaken or commenced by CRRA is now being undertaken and completed by the Authority;

- The officers and employees of CRRA have been transferred to the Authority; and
- All property of CRRA has been delivered to the Authority.

Considering the nature and scope of the Authority's designation as CRRA's successor, the Authority's financial statements reflect all operating and non-operating revenues and expenses for the period ending June 30, 2014, and all assets, liabilities and the net position of the Authority as of June 30, 2014, including all financial activities of CRRA during this period.

The Authority is authorized to have a board consisting of eleven directors and eight ad-hoc members. The Governor appoints three directors and all eight ad-hoc members. The remaining eight directors are appointed by various state legislative leaders. All appointments require the advice and consent of both houses of the General Assembly. The Act made no changes to the composition of, or appointments to, the Authority's current Board of Directors.

The State Treasurer continues to approve the issuance of all Authority bonds and notes. The State is contingently liable to restore deficiencies in debt service reserves established for certain Authority bonds. The Authority has no taxing power.

Under the Act, the Authority's purpose continues to be the planning, design, construction, financing, management, ownership, operation and maintenance of solid waste disposal, volume reduction, recycling, intermediate processing, resource recovery and related support facilities necessary to carry out the State's Solid Waste Management Plan. The Authority continues to provide solid waste management services to municipalities, regions and persons within the state by receiving solid wastes at Authority facilities, recovering

resources from such solid wastes, and generating revenues from such services sufficient for the Authority to operate on a self-sustaining basis.

The Act established a new consultative partnership between the Authority and the State's Department of Energy and Environmental Protection (DEEP) specifically for redevelopment of the Authority's Connecticut Solid Waste System (CSWS) described below, and generally for the development of new waste management industries, technologies and commercial enterprises on property owned by the Authority. The Act charged DEEP with revising the State's solid waste management plan and undertaking these consultative efforts consistent with the revised plan. The Act also transferred responsibility for statewide recycling education to a newly created "Recycle CT Foundation". The Authority continues to provide educational facilities and services to its customers as of June 30, 2014.

CRRA's original core mission was to develop a network of resource recovery and related facilities within the State to move the State away from the process of landfilling its municipal solid waste. Facilities were constructed in Hartford, Preston, Bridgeport and Wallingford, Connecticut, which have historically been known as the Mid Connecticut, Southeast, Bridgeport and Wallingford projects respectively. CRRA secured financing, facility developer, operator and customer contracts, and administered these projects throughout their various stages over the last four decades. While the initial underlying contracts for the Southeast Project remain in effect, those for Mid Connecticut, Bridgeport and Wallingford have expired resulting in a distribution and/or reformation of project assets which formed the foundation for CRRA's core project / division and financial structure at the time of assumption by the Authority. The Authority continues to recognize CRRA's project / division and financial structure outlined below.

Mid Connecticut Project - CRRA retained title to the resource recovery facility in Hartford (South Meadows), all support facilities and land when the initial underlying project contracts expired. No property transferred to the facility operator. CRRA assigned these assets to its Property Division and put them into service in the form of the ***Connecticut Solid Waste System (CSWS)***. Assets in service to the CSWS include the resource recovery facility, four transfer stations and a major recycling facility. The CSWS presently provides solid waste disposal services to 51 municipalities in the State and is the primary operating division of the Authority. All operating revenues and expenses of the CSWS, other than depreciation and amortization of assets, are assigned to the CSWS division. Mid Connecticut Project assets not in service to the CSWS include the Education and Trash Museum and certain jet turbine powered electric generating peaking units. All revenues and expenses associated with the assets not in service to CSWS are assigned to the Property Division. The Mid Connecticut Project remains active administratively for project close out activity including closure of the Hartford landfill and funds distribution.

Southeast Project

The initial underlying structure of this project remains in place. CRRA issued its Resource Recovery Revenue Bonds, and subsequently Refunding Bonds, (the "Bonds"), to finance construction of this resource recovery facility located in Preston and the supporting Special Capital Reserve Fund held by the State Treasurer. CRRA owned the facility and leased it to a private operator. The private operator runs the facility pursuant to a Service Agreement with CRRA, under which the CRRA is obligated to meet certain solid waste delivery requirements. To meet these requirements, the Southeastern Connecticut Regional Resource Recovery Authority (SCRRA) was established and SCRRA entered into agreements with its twelve member municipalities requiring them to deliver waste to SCRRA for disposal at the facility. Under a Bridge and Management Agreement between CRRA and SCRRA, the Authority causes the facility to be operated and

maintained and SCRRA causes its members to deliver waste. Based on this structure, CRRA's Balance Sheet has not included the Capital Assets comprising the facility as they will revert to operator ownership upon expiration of the underlying documents. Likewise, the Balance Sheet does not reflect the Current or Long Term Liabilities associated with these Capital Assets (debt service on the Bonds) which is secured solely by the pledge of revenue derived from the facility. CRRA's responsibility, among other things, has been to manage the flow of funds under the Bond Indenture. Accordingly, the Statement of Revenues, Expenses and Changes in Net Position includes revenues and funds distributed by the Authority pursuant to the Indenture. The Authority has assumed CRRA's interests and obligations under the Bonds, lease, Service Agreement, Bridge and Management Agreement and reports this activity consistent with the structure noted above.

Bridgeport Project – CRRA retained title to the land and a major recycling facility located in Stratford upon expiration of initial project underlying contracts. It transferred title to the resource recovery facility to the operator, but retained rights to a portion of the facility's waste processing capacity through June 30, 2014. CRRA leased the land to the operator and used its retained facility capacity to serve the waste processing needs of twelve towns in the Southwest area of the State. The processing of waste through this retained facility capacity is reflected in CRRA's "*Southwest Division*" which was formed for this purpose but ceased operations on June 30, 2014. Revenue from the facility lease was assigned to the Property Division. The Authority has assumed CRRA's interests and obligations in these assets and reports this activity consistent with the structure noted above.

Wallingford Project – Title to the resource recovery facility and underlying land was transferred to the operator. While no fixed assets were retained by CRRA, the Authority has assumed CRRA's interests and obligations with respect to certain ongoing project close out and asset transfer activities.

Property Division – All Capital Assets retained by CRRA upon expiration of the Mid Connecticut and Bridgeport projects other than those associated with landfills are assigned to this division. The division derives net income primarily from the lease of property and sale of jet turbine electric generating capacity in various ISO New England energy markets. The Authority has assumed CRRA's interests and obligations in the Property Division and reports this activity consistent with the structure noted above.

Landfill Division – As of June 6, 2014 the Authority assumed CRRA's ownership interests in three closed landfills in the State, and certain adjoining properties, assigned to the Landfill Division. Certain plant and equipment installations associated with these landfills, and the leased Hartford landfill, are also assigned to this division. The Authority has also assumed CRRA's interests and obligations pursuant to State statute and agreement with DEEP concerning the transfer of CRRA's landfill post closure care obligations to DEEP and the transfer of funds reserved for post close care activities to the State. See Note 4 for additional information.

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

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Authority is considered to be an Enterprise Fund. The Authority's activities are accounted for using a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses.

Enterprise funds are established to account for operations that are financed and operated in a

manner similar to private business enterprises, where the intent is that the costs of providing goods or services on a continuing basis are financed or recovered primarily through user charges.

The Authority's financial statements are prepared using an economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Interest on revenue bonds, used to finance the construction of certain asset, is capitalized during the construction period, net of interest earned on the investment of unexpended bond proceeds.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the disposal of solid waste. The principal operating revenues of the Authority are charges to customers for user services and sales of electricity. Operating expenses include the cost of solid waste operations, maintenance and utilities, closure and post-closure care of landfills, administrative expenses, distribution to member towns and/or other, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheets and the reported amounts of revenues and expenses during the reporting period. Such estimates are subsequently revised as deemed necessary when additional information becomes available. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

All unrestricted and restricted highly liquid investments with maturities of three months or

less when purchased are considered to be cash equivalents.

E. Accounts Receivable, Net

Accounts receivable are shown net of an allowance for the estimated portion that is not expected to be collected. The Authority performs ongoing credit evaluations and generally requires a guarantee of payment form of collateral from non-municipalities. The Authority has established an allowance for the estimated portion that is not expected to be collected of \$254,000 at June 30, 2014 and \$632,000 at June 30, 2013.

F. Inventory

The Authority's spare parts inventory is stated at the lower of cost or market using the weighted-average cost method. The Authority's fuel inventory is stated at the lower of cost or market using the FIFO method. Inventories at June 30, 2014 and 2013 are summarized as follows:

| Inventories | Fiscal Year | |
|-------------|-------------|----------|
| | 2014 | 2013 |
| | (000) | (\$000) |
| Spare Parts | \$ 4,687 | \$ 5,323 |
| Fuel | 1,382 | 1,221 |
| Total | \$ 6,069 | \$ 6,544 |

G. Investments

Investments are stated at fair value. Gains or losses on sales of investments are determined using the specific identification method.

Interest on investments is recorded as revenue in the year the interest is earned, unless capitalized as an offset to capitalized interest expense on assets acquired with tax-exempt debt.

H. Restricted Positions

Under provisions of various bond indentures and certain other agreements, restricted assets are used for debt service, special capital reserve

funds and other debt service reserve funds, development, construction and operating costs.

I. Development Costs

Costs incurred during the development stage of an Authority project, including, but not limited to, initial planning and permitting. When the project begins commercial operation, the development costs are amortized using the straight-line method over the estimated life of the project.

Development costs for fiscal 2014 and 2013 are presented in the following table:

| Southeast Development Costs | Fiscal Year | |
|--------------------------------|-----------------|-----------------|
| | 2014 (\$000) | 2013 (\$000) |
| Development Costs | \$ 10,006 | 10,006 |
| Less accumulated amortization | 9,222 | 8,829 |
| Total development costs, net | \$ 784 | \$ 1,177 |

A summary of future amortization for development is as follows:

| Fiscal year ending June 30, | Southeast (\$000) |
|--------------------------------|----------------------|
| 2015 | 392 |
| 2016 | 392 |
| Total | \$ 784 |

J. Capital Assets

Capital assets with a useful life in excess of one year are capitalized at historical cost. Depreciation of exhaustible capital assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives of landfills are based on the estimated years of available disposal capacity. The estimated useful lives of other capital assets are as follows:

| Capital Assets | Years |
|-------------------------------|-------|
| Resources Recovery Buildings | 30 |
| Other Buildings | 20 |
| Resources Recovery Equipment | 30 |
| Gas and Steam Turbines | 10-20 |
| Recycling Equipment | 10 |
| Rolling Stock and Automobiles | 5 |
| Office and Other Equipment | 3-5 |
| Roadways | 20 |

The Authority's capitalization threshold for property, plant, and equipment and for office furniture and equipment is \$5,000 and \$1,000, respectively. Improvements, renewals, and significant repairs that extend the useful life of a capital asset are capitalized; other repairs and maintenance costs are expensed as incurred. When capital assets are retired or otherwise disposed of, the related asset and accumulated depreciation is written off and any related gains or losses are recorded.

The Authority reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates impairment in value. The Authority records impairment losses and reduces the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Authority does not expect to recover its carrying costs on properties held for use, the Authority reduces its carrying cost to fair value, and for properties held for sale, the Authority reduces its carrying value to the fair value less costs to sell. During the fiscal years ended June 30, 2014 and 2013, no impairment losses were recognized. Management does not believe that the value of its properties is impaired as of June 30, 2014.

K. Compensated Absences

The Authority's liability for vested accumulated unpaid vacation and personal amounts is included in accrued expenses and other current

liabilities in the accompanying balance sheet. Compensated absences for fiscal 2013 and 2014 are presented in the following table:

| Compensated Absences | Balance at July 1, 2012 | | | Balance at June 30, 2013 | | | Balance at June 30, 2014 |
|------------------------------------|-------------------------------|----------------------|----------------------|--------------------------------|----------------------|----------------------|--------------------------------|
| | (\$000) | Increases (\$000) | Decreases (\$000) | (\$000) | Increases (\$000) | Decreases (\$000) | (\$000) |
| Accrued vacation and personal time | \$ 475 | \$ 141 | \$ 288 | \$ 328 | \$ 41 | \$ - | \$ 369 |
| Total | \$ 475 | \$ 141 | \$ 288 | \$ 328 | \$ 41 | \$ - | \$ 369 |

L. Net Position

The Authority's net position is stated in the three components including invested in capital assets, restricted net position and unrestricted net position.

Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

Restrictions of net position are limited to outside third party restrictions and represent the net position that has been legally identified for specific purposes. Restricted net position totaled \$548,000 and \$5.0 million as of June 30, 2014 and 2013, respectively.

As of June 30, 2014 and 2013, the Authority has no net position that is restricted by enabling legislation.

Unrestricted net position may be divided into designated and undesignated portions. Designated net position represent the Authority's self-imposed limitations on the use of otherwise unrestricted net position. Unrestricted net position has been designated by the Board of Directors of the Authority for various purposes. Such designations totaled \$25.7 million and \$22.3 million as of June 30, 2014 and 2013, respectively. Unrestricted net position at June 30, 2014 and 2013 are summarized as follows:

Materials Innovation and Recycling Authority
A Component Unit of the State of Connecticut

| Unrestricted Net Position | 2014 (\$000) | 2013 (\$000) |
|---------------------------------|-----------------|-----------------|
| Undesignated | \$ 35,007 | \$ 26,019 |
| Designated: | | |
| Capital Expenditures | - | 3,130 |
| Debt service stabilization | 175 | - |
| Enron litigation expense | 394 | 438 |
| Future loss contingencies | 6,663 | 8,647 |
| General | 4,534 | - |
| Improvements | 5,343 | - |
| Landfill development | 296 | 296 |
| Legal | 508 | - |
| Litigation reserve | 790 | 3,135 |
| Non-GASB #18 post-closure | 1,783 | 4,115 |
| Post-project closure | 144 | 179 |
| Project-closure | 1,633 | 433 |
| Recycling | 190 | 189 |
| Severances | 874 | - |
| Tip fee stabilization | 2,408 | - |
| Transition costs | - | 1,750 |
| | <u>25,735</u> | <u>22,312</u> |
| Total Unrestricted Net Position | \$ 60,742 | \$ 48,331 |

M. New Accounting Pronouncements

Effective June 1, 2013, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). As a result of adopting GASB 65, the Authority now presents resources that do not meet the availability criterion as deferred inflows of resources.

Effective June 1, 2013, the Authority adopted the provisions of GASB Statement No. 66, *Technical Corrections* (GASB No. 66). This statement establishes clarifications on two recently issued statements, statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement resolves conflicting guidance created as a result of the issuance of these two statements.

The Authority fully adopted GASB statements No.65 and 66 as of July 1,2013 and there was no significant impact to the financial statements.

2. CASH DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist of the following as of June 30, 2014 and 2013:

| Cash and Cash Equivalents | 2014 (\$000) | 2013 (\$000) |
|----------------------------|-----------------|-----------------|
| Unrestricted: | | |
| Cash deposits | \$ 8,935 | \$ 3,342 |
| Cash equivalents: | | |
| STIF * | 49,892 | 84,217 |
| | <u>58,827</u> | <u>87,559</u> |
| Restricted -- current: | | |
| Cash deposits | 1,788 | 630 |
| Cash equivalents: | | |
| STIF * | 584 | 6,075 |
| Money Market Funds | 322 | - |
| | <u>2,694</u> | <u>6,705</u> |
| Restricted -- non-current: | | |
| Cash equivalents: | | |
| U.S. Treasuries | - | 8,184 |
| | <u>-</u> | <u>8,184</u> |
| Total | \$ 61,521 | \$102,448 |

* STIF = Short-Term Investment Fund of the State of Connecticut

A. Cash Deposits – Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority's investment policy does not have a deposit policy for custodial credit risk.

As of June 30, 2014 and 2013, approximately \$9.9 million and \$2.2 million, respectively, of the Authority's bank balance of cash deposits were exposed to custodial credit risk as follows:

Materials Innovation and Recycling Authority
A Component Unit of the State of Connecticut

| Custodial Credit Risks | 2014 | 2013 |
|--|-----------------|----------------|
| | (\$000) | (\$000) |
| Uninsured and Uncollateralized | \$ 8,495 | \$ 1,888 |
| Uninsured but collateralized with securities held by the pledging bank's trust department or agent but not in the Authority's name | 1,427 | 350 |
| Total | \$ 9,922 | \$2,238 |

All of the Authority's deposits were in qualified public institutions as defined by State statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from other assets, eligible collateral in an amount equal to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio. The amount of public deposits is determined based on either the public deposits reported on the most recent quarterly call report, or the average of the public deposits reported on the four most recent quarterly call reports, whichever is greater. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

Investments in the Short-Term Investment Fund ("STIF"), U.S. Treasuries, and Money Market Funds as of June 30, 2014 and 2013 are included in cash and cash equivalents in the accompanying balance sheet. For purposes of disclosure under GASB Statement No. 40, such amounts are considered investments and are included in the investment disclosures that follow.

B. Investments

Interest Rate Risk

As of June 30, 2014, the Authority's investments consisted of the following debt securities:

| Investment Type | Fair Value (\$000) | Investment Maturities (In Years) | | |
|-----------------|--------------------|----------------------------------|-------------|-------------|
| | | Less than 1 | 1 to 5 | 6 to 10 |
| STIF | \$ 50,476 | \$ 50,476 | \$ - | \$ - |
| Total | \$ 50,476 | \$ 50,476 | \$ - | \$ - |

As of June 30, 2013, the Authority's investments consisted of the following debt securities:

| Investment Type | Fair Value (\$000) | Investment Maturities (In Years) | | |
|-----------------|--------------------|----------------------------------|-------------|-------------|
| | | Less than 1 | 1 to 5 | 6 to 10 |
| STIF | \$ 90,292 | \$ 90,292 | \$ - | \$ - |
| U.S. Treasuries | 8,184 | 8,184 | - | - |
| Total | \$ 98,476 | \$ 98,476 | \$ - | \$ - |

STIF is an investment pool of short-term money market instruments that may include adjustable-rate federal agency and foreign government securities whose interest rates vary directly with short-term money market indices and are generally reset daily, monthly, quarterly, and semi-annually. The adjustable-rate securities have similar exposures to credit and legal risks as fixed-rate securities from the same issuers. The fair value of the position in the pool is the same as the value of the pool shares. As of June 30, 2014 and 2013, STIF had a weighted average maturity of 40 days and 45 days; respectively. The U.S. Treasury Securities are U.S. Treasury Bills that had 90-day maturities as of June 30, 2013. The Money Market Funds invest exclusively in short-term U.S. Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. This fund complies with Securities and Exchange Commission regulations regarding money market fund maturities, which requires that the weighted average maturity be 90 days or less. As of June 30, 2014, the weighted average maturity of this fund was 40 days.

The Authority's investment policy does not limit investment maturities as a means of

Materials Innovation and Recycling Authority
A Component Unit of the State of Connecticut

managing its exposure to fair value losses arising from increasing interest rates. The Authority is limited to investment maturities as required by specific bond resolutions or as needed for immediate use or disbursement. Those funds not included in the foregoing may be invested in longer-term securities as authorized in the Authority's investment policy. The primary objectives of the Authority's investment policy are the preservation of principal and the maintenance of liquidity.

Credit Risk

The Authority's investment policy delineates the investment of funds in securities as authorized and defined within the bond resolutions governing the Southeast Projects for those funds established under the bond resolution and held in trust by the Authority's trustee. For all other funds, Connecticut state statutes permit the Authority to invest in obligations of the United States, including its instrumentalities and agencies; in obligations of any state or of any political subdivision, authority or agency thereof, provided such obligations are rated within one of the top two rating categories of any recognized rating service; or in obligations of the State of Connecticut or of any political subdivision thereof, provided such obligations are rated within one of the top three rating categories of any recognized rating service.

As of June 30, 2014, the Authority's investments, other than U.S. Treasuries, were rated as follows:

| Security | Fair Value (\$000) | Standard & Poor's | Moody's Investor Service | Fitch Ratings |
|--------------------|--------------------|-------------------|--------------------------|---------------|
| STIF | \$ 50,476 | AAAm | Not Rated | Not Rated |
| Money Market Funds | \$ 322 | AAAm | Aaa-mf | AAAmmf |

As of June 30, 2013, the Authority's investments, other than U.S. Treasuries, were rated as follows:

| Security | Fair Value (\$000) | Standard & Poor's | Moody's Investor Service | Fitch Ratings |
|----------|--------------------|-------------------|--------------------------|---------------|
| STIF | \$ 90,292 | AAAm | Not Rated | Not Rated |

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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. The Authority's investment policy does not include provisions for custodial credit risk, as the Authority does not invest in securities that are held by counterparties. In accordance with GASB Statement No. 40, none of the Authority's investments require custodial credit risk disclosures. The STIF is not subject to regulatory oversight nor is it registered with the Securities and Exchange Commission as an investment company.

Concentration of Credit Risk

The Authority's investment policy places no limit on the amount of investment in any one issuer, but does require diversity of the investment portfolio if investments are made in non-U.S. government or U.S. agency securities to eliminate the risk of loss of over-concentration of assets in a specific class of security, a specific maturity and/or a specific issuer. The asset allocation of the investment portfolio should, however, be flexible enough to assure adequate liquidity for Authority needs. As of June 30, 2014 and 2013, approximately 100% and 91.7%, respectively, of the Authority's investments are in the STIF, which is rated in the highest rating category by Standard & Poor's and provides daily liquidity, thereby satisfying the primary objectives of the Authority's investment policy.

3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended June 30, 2013 and 2014:

| | Balance at June 30, 2012 (\$000) | Additions (\$000) | Transfers (\$000) | Sales and Disposals (\$000) | Balance at June 30, 2013 (\$000) | Additions (\$000) | Transfers (\$000) | Sales and Disposals (\$000) | Balance at June 30, 2014 (\$000) |
|---|--|----------------------|----------------------|-----------------------------------|--|----------------------|----------------------|-----------------------------------|--|
| Depreciable assets: | | | | | | | | | |
| Plant | \$ 192,180 | \$ 13 | \$ 7,937 | \$ (4,563) | \$ 195,566 | - | \$ 4,242 | \$ (1,662) | \$ 198,145 |
| Equipment | 228,521 | 3,413 | 3,608 | (801) | 234,741 | 137 | 6,336 | (1,034) | 240,179 |
| Total at cost | 420,701 | 3,425 | 11,545 | (5,364) | 430,307 | 137 | 10,577 | (2,697) | 438,324 |
| Less accumulated depreciation for: | | | | | | | | | |
| Plant | (154,842) | (6,323) | 125 | 3,545 | (157,496) | (6,460) | - | 1,325 | (162,631) |
| Equipment | (180,597) | (8,486) | - | 789 | (188,294) | (9,249) | \$ - | \$ 918 | (196,625) |
| Total accumulated depreciation | (335,439) | (14,809) | 125 | 4,334 | (345,790) | (15,709) | - | 2,243 | (359,256) |
| Total depreciable assets, net | \$ 85,262 | \$ (11,384) | \$ 11,670 | \$ (1,030) | \$ 84,517 | \$ (15,572) | \$ 10,577 | \$ (454) | \$ 79,068 |
| Nondepreciable assets: | | | | | | | | | |
| Land | \$ 28,180 | \$ - | \$ - | \$ - | \$ 28,181 | \$ - | \$ - | \$ - | \$ 28,181 |
| Construction-in-progress | 5,943 | 8,265 | (12,047) | - | 2,161 | 11,649 | (10,583) | - | 3,226 |
| Total nondepreciable assets | \$ 34,123 | \$ 8,265 | \$ (12,047) | \$ - | \$ 30,342 | \$ 11,649 | \$ (10,583) | \$ - | \$ 31,407 |
| Total depreciable and nondepreciable assets | \$ 119,385 | \$ (3,120) | \$ (377) | \$ (1,030) | \$ 114,859 | \$ (3,923) | \$ (6) | \$ (454) | \$ 110,475 |

Interest is capitalized on assets acquired with debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until completion of the projects with interest earned on invested debt proceeds over the same period. During fiscal years 2014 and 2013, there was no capitalized interest as there was no new external borrowing.

4. LONG-TERM LIABILITIES FOR CLOSURE AND POST-CLOSURE CARE OF LANDFILLS

Federal, State and local regulations require the Authority to place final cover on its landfills when it stops accepting waste (including ash) and to perform certain maintenance and monitoring functions for periods that may extend to thirty years after closure.

GASB Statement No. 18 "Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs," applies to closure and post-closure care costs that are paid near or after the date a landfill stops accepting waste. In accordance with GASB Statement No. 18, the Authority estimates its liability for these closure and post-closure care costs and records any increases or decreases to the liability as an operating expense. For landfills presently open, such estimate is based on landfill capacity used as of the balance sheet date. The liability for these costs is reduced when the costs are actually paid, which is generally after the landfill is closed. Actual costs may be higher due to inflation or changes in permitted capacity, technology or regulation. At June 30, 2013, all five of the landfills had no capacity available since 100% of their capacity had been used. Accordingly, there are no remaining costs to be recognized in the future as closure and post-closure care costs of the landfills.

The Connecticut Department of Energy and Environmental Protection ("DEEP") requires that certain financial assurance mechanisms be maintained by the Authority to ensure payment

of closure and post-closure costs related to certain

landfills. Additionally, DEEP requires that the Authority include closure costs for the Hartford Landfill in its applicable fiscal year budget.

The Authority has placed funds in reserve accounts for the Hartford, Ellington, Waterbury, and Wallingford Landfills for financial assurance purposes. These reserve accounts are reflected as cash and equivalents in the accompanying balance sheet as of June 30, 2013.

In addition, the Authority established Post-Closure Trust Funds as financial assurance mechanisms for the Shelton Landfill and the Wallingford Landfill. These trust funds are reflected as restricted investments in the accompanying balance sheet as of June 30, 2013.

During FY 2014, pursuant to applicable State statute as described further under Note 11, the Authority transferred its post closure care obligations for all of its landfills to DEEP and concurrently transferred \$31 million of the landfill reserve accounts and trust funds described above to the State's General Fund. The Authority's closure obligation for the Hartford landfill was not transferred. Accordingly, the accompanying balance sheet as of June 30, 2014 no longer recognizes liabilities associated with the post closure care of the Authority's landfills but continues to recognize the Hartford Landfill closure obligation. The nature and status of these statutes and their implementation are described fully under Note 11. Their effect on Authority's FY 2014 Financial Statements are as follows:

- \$7.5 million in funds held in trust by US Bank as financial assurance mechanisms for the Shelton Landfill and the Wallingford Landfill, and reflected as restricted investments as of June 30, 2013, have been liquidated and used by the Authority to satisfy its transfer obligation to the State's General Fund;
- \$23.5 million in funds held in reserve accounts for the Hartford, Ellington, Waterbury, and Wallingford Landfills, and reflected as cash

Materials Innovation and Recycling Authority
A Component Unit of the State of Connecticut

and equivalents as of June 30, 2013, have been liquidated and used by the Authority to satisfy its transfer obligation to the State;

- Landfill trust funds and reserve accounts not used to satisfy the Authority's transfer obligation to the State are no longer restricted and are being used to advance fund ongoing landfill work that is being reimbursed by DEEP during a transition period, to fund maintenance activity at the Hartford landfill pending completion of the Closure Certification Report and assumption of post closure obligations by DEEP, and to pay necessary ongoing insurance coverage;

- \$35.8 million in long term liabilities of the Authority for the post closure care of its landfills as of the effective date of transfer to DEEP have been removed from the Authority's Financial Statements;

- \$4.8 million in non-operating revenue has been recognized in the Authority's Landfill Division. This non-operating revenue reflects the difference between funds transferred by the Authority and the GASB 18 liabilities assumed by the State;

- An inter-fund loan from the Authority's Hartford Landfill Post Closure Reserve to the Authority's Connecticut Solid Waste System (CSWS), representing start up working capital for CSWS, has been written off the Authority's Financial Statements as there is no ongoing need for this post closure reserve. This \$7.9 million transaction is now reflected as a contribution from the Landfill Division to CSWS rather than a CSWS liability due to other funds as presented in the Authority's Financial Statements as of June 30, 2013.

There were no capital assets transferred pursuant to these statutes.

The closure and post-closure care liabilities including the amounts paid and accrued for fiscal 2013 and 2014 for the landfills, are presented in the following table:

| Landfill | Liability at June 30, 2012 | | | Liability at June 30, 2013 | | | Transfers | Liability at June 30, 2014 | | Amounts Due Within One Year |
|--------------|----------------------------|-----------------|-------------------|----------------------------|-------------------|--------------------|--------------------|----------------------------|--------------|-----------------------------|
| | Expense (\$000) | | Paid (\$000) | Expense (\$000) | Paid (\$000) | 2014 (\$000) | | 2014 (\$000) | | |
| Ellington | \$ 3,614 | \$ (164) | \$ (150) | \$ 3,300 | \$ - | \$ (187) | \$ (3,113) | \$ - | \$ - | |
| Hartford | 28,618 | 3,195 | (1,205) | 30,608 | (3,392) | (9,392) | (17,781) | 43 | 43 | |
| Shelton | 10,906 | (528) | (251) | 10,128 | - | (350) | (9,778) | - | - | |
| Wallingford | 5,111 | (660) | (153) | 4,298 | - | (137) | (4,161) | - | - | |
| Waterbury | 951 | 19 | (27) | 942 | - | (25) | (917) | - | - | |
| Total | \$ 49,200 | \$ 1,862 | \$ (1,786) | \$ 49,276 | \$ (3,392) | \$ (10,091) | \$ (35,750) | \$ 43 | \$ 43 | |

During the year ended June 30, 2014, the Authority revised its estimates for closure expenses to be incurred at the Hartford landfill. Previously accrued closure costs were reduced by approximately \$3.4 million.

5. MAJOR CUSTOMERS

Energy sales to ISO New England through our lead market participant Nextera Energy Power Marketing and Northeast Utilities totaled 29% and 16.80%; respectively, of the Authority's operating revenues for the fiscal year ended June 30, 2014. Energy sales to Northeast Utilities and Constellation totaled 16.31% and 12.19%; respectively, of the Authority's operating revenues for the fiscal year ended June 30, 2013.

Service charge revenues from All Waste, Inc. totaled 6.28% and 7.00% of the Authority's operating revenues for fiscal years ended June 30, 2014 and 2013; respectively.

6. RETIREMENT BENEFIT PLAN

The Authority is the Administrator of its 401(k) Employee Savings Plan. This defined contribution retirement plan covers all eligible employees.

Under the Amended and Restated 401(k) Employee Savings Plan, effective July 1, 2000, Authority contributions are five percent of payroll plus a dollar for dollar match of employees' contributions up to five percent of employee wages. Authority contributions for the years ended June 30, 2014 and 2013 amounted to \$392,000 and \$410,000, respectively. Employees contributed \$390,000 to the plan in fiscal year 2014 and \$406,000 in fiscal year 2013. A separate report is not available to non-participants.

In addition, the Authority is a participating employer in the State of Connecticut's defined contribution 457(b) Plan, which allows Authority employees to participate in the State of Connecticut's deferred compensation plan created in accordance with Internal Revenue Code Section 457. All amounts of

compensation deferred under the 457(b) plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of the plan participants and their beneficiaries. The Authority holds no fiduciary responsibility for the plan; rather, fiduciary responsibility rests with the State Comptroller's office.

The Authority has no post-employment benefit plans as of June 30, 2014 and 2013.

7. RISK MANAGEMENT

The Authority is exposed to various risks of loss. The Authority endeavors to purchase commercial insurance for all insurable risks of loss that can be done so at reasonable expense. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years. The overall limit applies on a blanket basis, per occurrence, for property damage to all scheduled locations and provides coverage for business interruption and extra expense for the South Meadows facilities. The South Meadows waste-to-energy facility is the Authority's highest valued single facility.

The Authority is a member of the Connecticut Interlocal Risk Management Agency's ("CIRMA") Workers' Compensation Pool, a risk sharing pool, which was begun on July 1, 1980. The Workers' Compensation Pool provides statutory benefits pursuant to the provisions of the Connecticut Workers' Compensation Act. The coverage is a guaranteed cost program. The premium for each of the policy periods from July 1, 2014 through July 1, 2015 and July 1, 2013 through July 1, 2014 was \$66,000 and \$63,000, respectively.

8. COMMITMENTS

The Authority has various operating leases for office space and office equipment, which totaled \$294,000 and \$352,000 for fiscal years 2014 and 2013, respectively.

Materials Innovation and Recycling Authority
A Component Unit of the State of Connecticut

The Authority also has agreements with various municipalities for payments in lieu of taxes (“PILOT”) for personal and real property. For the years ended June 30, 2014 and 2013, the PILOT payments, which are included in the solid waste operations in the accompanying statements of revenues, expenses and changes in net position, totaled \$ 3,304,000 and \$3,708,000, respectively. The City of Hartford PILOT agreement for the CSWS was effective as of November 27, 2013. Future minimum rental commitments under non-cancelable operating leases and future PILOT payments as of June 30, 2014 are as follows:

| <u>Fiscal Year</u> | <u>Lease Amount (\$000)</u> | <u>PILOT Amount (\$000)</u> |
|--------------------|-----------------------------|-----------------------------|
| 2015 | 396 | 2,544 |
| 2016 | 207 | 1,088 |
| 2017 | 17 | 1,133 |
| 2018 | 15 | 35 |
| 2019 | 15 | 35 |
| Thereafter | <u>120</u> | <u>280</u> |
| Total | <u>\$ 770</u> | <u>\$ 5,115</u> |

The Authority has executed contracts with the operators/contractors of the resources recovery facilities, regional recycling centers, transfer stations, and landfills containing various terms and conditions expiring through November 2015. Generally, operating charges are derived from various factors such as tonnage processed, energy produced, and certain pass-through operating costs.

The approximate amount of contract operating charges, including transition costs incurred in connection with a new Operations and Management Agreements effective in 2012 (“O & M Agreements”) to operate the South Meadows waste energy facility, included in solid waste operations and maintenance and utilities expense for the years ended June 30, 2014 and 2013 was as follows:

| <u>Project</u> | <u>2014 (\$000)</u> |
|--------------------------------|-------------------------|
| Connecticut Solid Waste System | \$ 46,208 |
| Mid-Connecticut Southeast | (793) |
| SouthWest | 20,349 |
| Property | 12,907 |
| Landfill | 1,054 |
| Recycling | 750 |
| Wallingford | - |
| Total | <u>\$ 80,475</u> |

There are no construction contracts executed during fiscal year 2014.

9. OTHER FINANCING

The Authority served as a conduit issuer for several bonds pursuant to bond resolutions to fund the construction of waste processing facilities built and operated by independent contractors. The only bonds that remain outstanding relate to the Authority’s Southeast project. The revenue bonds were issued by the Authority to lower the cost of borrowing for the contractor/operator of the projects. The Authority was not involved in the construction activities, and construction requisitions by the contractor were made from various trustee accounts. See note 1A for additional information on the structure of Southeast project.

The Authority is not obligated for the repayment of debt on these issues other than the revenues of Southeast project. In the event of default, and except in cases where the State has a contingent liability, the payment of debt is not guaranteed by the Authority or the State. Therefore, the Authority does not record the assets and liabilities related to these bond issues on its financial statements. The principal amounts of

these bond issues outstanding at June 30, 2014 are as follows:

| Project | Amount (\$000) |
|---|----------------------|
| <hr/> | |
| Southeast - | |
| 1992 Series A - Corp. Credit | \$ 30,000 |
| 2001 Series A - Covanta Southeastern Connecticut Company - I | 6,750 |
| 2001 Series A - Covanta Southeastern Connecticut Company - II | 6,750 |
| 2010 Series A - Project Refunding | <u>11,295</u> |
| Total | <u>\$ 54,795</u> |

11. SIGNIFICANT EVENTS

During FY 2014, The Authority implemented certain actions mandated by the State of Connecticut in its Public Act 13-247 and Section 99 of Public Act 13-184. These acts required the Authority to transfer all legally required obligations resulting from the closure of the Authority's landfills located in Hartford, Ellington, Waterbury, Wallingford and Shelton to the State's Department of Energy and Environmental Protection (DEEP), and to transfer up to \$35 million of the Authority's resources to the State, to be credited to the resources of the State's General Fund, for the fiscal year ending June, 30, 2014. The Authority's closure obligations for the Hartford Landfill were not transferred.

The transfer of legal obligations resulting from the closure of landfills was addressed by a Memorandum of Understanding ("MOU") between the Authority and DEEP. The MOU became effective April 24, 2014 at which point in time DEEP began reimbursing the Authority for all post closure care and maintenance work at all landfills other than Hartford and the parties began a transition process to assign vendor contracts for the performance of landfill post closure care work to DEEP and to assign federal and state licenses, permits and orders

("Authorizations") related to the landfills to DEEP. As of June 30, 2014, the Authority continues to perform landfill post closure work at these four landfills subject to reimbursement by DEEP pending assignment of vendor contracts, and by August 7, 2014 all solid waste Authorizations concerning the landfills had been transferred to DEEP. As of June 30, 2014 the Hartford landfill has not been certified as closed and the Authority has not entered the post-closure care period for this landfill. DEEP will assume the obligation to reimburse the Authority for all post-closure care work for Hartford as of the date the Authority completes its landfill closure work and submits its Closure Certification Report to DEEP. The transition of any vendor contracts and Authorizations concerning the Hartford landfill will begin as of the date DEEP certifies the Hartford landfill as closed. While the Authority is no longer responsible for the post-closure care of its landfills, the Public Act and related MOU did not result in the transfer of any real property or infrastructure constituting Capital Assets of the Authority's Landfill Division.

The transfer of up to \$35 million of the Authority's resources to the State as required by Public Act 13-184 was addressed by resolution of the Authority's Board of Directors. The Authority received written confirmation from the State that the transfer of \$31 million will fully satisfy the requirements of Public Act 13-184 and the Board directed the transfer of \$31 million in stages based on the occurrence of certain relevant milestones that included i) execution of the MOU, ii) issuance of a purchase order providing for reimbursement of the Authority's ongoing work during the transition period, iii) transfer of certain Authorizations, iv) termination of certain trust agreements, and v) action required by certain local government policy boards. As of June 30, 2014, all of these milestones have been achieved and the Authority has transferred \$31 million to the State.

The implementation of Public Acts 13-247 and 13-184 is reflected on the Authority's Financial Statements as of June 30, 2014 as a liquidation of \$31 million in trust and reserve funds

previously held as financial assurance for post closure care obligations, a write off of long term liabilities associated with such post closure care obligations, and recognition of non-operating revenue representing the difference between such funds and liabilities. See Note 4 for additional information.

12. CONTINGENCIES

Mid-Connecticut Project

On October 7, 2009, The Metropolitan District Commission (“MDC”) initiated an arbitration proceeding against the Authority seeking a declaratory judgment that the Authority is responsible for certain post-employment benefits and other costs that MDC may incur following the expiration of its contract for the operation of a portion of the Mid-Connecticut Project on December 30, 2011. The MDC did not specify the amount of its monetary claim in its demand for a declaratory judgment in arbitration; however, the MDC subsequently asserted an amended demand for arbitration based on similar underlying legal arguments and asserting a claim for unspecified damages. On February 26, 2013, MDC also filed an application for a prejudgment remedy (the “PJR Application”), asserting that an attachment or garnishment of \$47 million, or more, is necessary to secure a remedy for its claims. MDC’s application acknowledged, however, that it had only actually expended \$2.1 million of its alleged \$47 million claimed obligation. On April 1, 2013, the Authority filed a motion to dismiss MDC’s PJR Application, which was granted on October 1, 2013. On October 22, 2013, MDC filed a new application for a prejudgment remedy, seeking an attachment of CRRA’s assets to secure an alleged \$52 million obligation. The Authority filed a motion to dismiss the application on November 8, 2013; the court has not yet ruled on the motion. The parties are currently engaged in arbitration hearings on the question of liability only; testimony is anticipated to conclude in October 2014. If there is a determination of liability, additional discovery and arbitration hearings will be required. On February 7, 2012, the Authority sent letters to all Mid-Connecticut Project municipalities advising them that, in the

event that the Authority is ultimately determined to be responsible for any portion of MDC’s claimed costs, each municipality will be responsible for its pro rata share of such costs.

The Authority has valid defenses and is vigorously defending against the MDC demands. At this time, the outcome of this arbitration is uncertain.

In March 2013, Tremont Public Advisors filed a complaint against the Authority in Connecticut Superior Court, claiming that the Authority illegally awarded a contract for Municipal Government Liaison Services and violated Connecticut’s Antitrust Act, and seeking injunctions, damages, interest, and attorneys’ fees and costs. The Authority denies the allegations and has asserted several defenses. On January 21, 2014, the Authority filed a motion to dismiss the complaint, which is pending. Limited discovery is ongoing.

In October 2013, Devone Little filed a complaint in Connecticut Superior Court against several parties, including the Authority, alleging that he was a passenger in a City of Hartford garbage truck that was struck by a pay loader owned by the Authority at 300 Maxim Road, Hartford, and seeking damages for resulting neck and back injuries. Pursuant to the terms of the Agreement between the Authority and NAES Corporation for the operation and maintenance of the facility, NAES is providing the Authority with indemnity and a defense of this claim. A settlement mediation is scheduled for October 29, 2014.

CSWS

The Municipal Solid Waste Management Agreement (“MSA”) between the Authority and the City of Waterbury expired on June 30, 2013. On July 30, 2013, the City underpaid the Authority’s invoice for June waste disposal services, indicating that it disputed the remainder of the invoice. On May 30, 2014, the Authority filed a Demand for Arbitration, alleging breach of contract, and claiming \$240,468.41 in damages, together with late payment charges and costs of collection. The parties have agreed to attempt to mediate the dispute on September 16, 2014.

Bridgeport Project

In the early 1990’s, the Authority was named as a Potentially Responsible Party in the now-combined federal and State of New Jersey suits to recover the costs of remediation of the landfill known as Combe Fill South. The Authority’s liability was substantially resolved in the spring of 2009 as a result of a mediated global settlement. However, one of the settling parties is pursuing a contribution action against certain non-settling entities. The Authority continues to monitor remaining case activities to the extent they may implicate the Authority.

Other Issues; Subsequent Claims; Resolved Matters; Unasserted Claims and Assessments

The MDC has included in several monthly invoices to the Authority a claim for reimbursement of certain MDC legal and consulting fees. The Authority has disputed these charges on the grounds that they are not related to the MDC’s obligation to operate, maintain, and repair the WPF during the term of the Authority-MDC Agreement.

On August 21, 2014, the Authority was served with a Complaint of former NAES Corporation employee Bruce Hart, alleging that he was injured while employed by NAES at the Authority’s waste-to-energy facility in Hartford. The Authority has made a demand for indemnification pursuant to the terms of its

Agreement with NAES for the operation and maintenance of the facility.

On November 12, 2013, Michael C. Harrington appealed the Connecticut Freedom of Information Commission’s November 16, 2012, finding that certain records not produced by the Authority in response to a request from Mr. Harrington were exempt from production under the Freedom of Information Act; a hearing on the matter is scheduled to be held in Superior Court in Hartford on October 21, 2014.

In January 2006, the Authority’s pollution liability insurance carrier, American International Specialty Lines Insurance Company (“AISLIC”) settled with numerous commercial and residential neighbors of the Hartford Landfill who had filed suit against the Authority in 2001, claiming that the Authority negligently maintained and operated its Hartford Landfill and that the Hartford Landfill constituted a public nuisance. On May 4, 2006, AISLIC initiated a declaratory judgment action in federal district court seeking a declaration that AISLIC is not obligated to indemnify the Authority in connection with the settled lawsuit and that AISLIC should be awarded the amount it spent on defense and indemnification of the Authority. This matter was settled in November 2013.

Two contracts between CRRA and Covanta Mid-Conn, Inc. for the operation and maintenance of components of the Mid-Connecticut Project expired on May 31, 2012. Several Covanta Mid-Conn invoices were disputed by CRRA and remained unpaid as of 6/30/14. The matter has subsequently been resolved.

On March 31, 2009, the Authority submitted a timely water discharge renewal application seeking the re-issuance of the Authority’s National Pollutant Discharge Elimination System (“NPDES”) Permit to the Connecticut Department of Environmental Protection, now known as the Connecticut Department of Energy and Environmental Protection (“DEEP”). Review of the Authority’s permit renewal application by DEEP is ongoing, including

Materials Innovation and Recycling Authority
A Component Unit of the State of Connecticut

whether the current location, design, construction and capacity of the cooling water intake structures at the Authority's South Meadows Facility represents best technology available ("BTA") for minimizing adverse environmental impact and, if not, what additional operational and/or technological measures reflecting BTA will need to be implemented at the Facility.

The Authority is subject to numerous federal, state and local environmental and other laws and regulations and management believes it is in substantial compliance with all such governmental laws and regulations.

13. RESTATEMENT

During 2013, the Authority exercised its right to terminate an operations and maintenance service agreement for its recycling center. Pursuant to the agreement, the Authority paid the operator approximately \$2.9 million for unrecovered investment costs and took ownership of equipment utilized by the contractor to operate the recycling center.

The Authority initially accrued for, and expensed, the contract termination payment during the year ended June 30, 2013. During 2014, the Authority determined that the contract termination payment was for equipment to be used in the recycling center and not a contract cost. Accordingly, the Authority has restated its financial statements for June 30, 2013 for the correction of the error as follows:

| | As Previously Reported | Adjustment | As Restated |
|--|---------------------------|-------------------|-------------------|
| Balance Sheet | | | |
| Depreciable capital assets, net | <u>\$ 81,601</u> | <u>\$ 2,916</u> | <u>\$ 84,517</u> |
| Net Position | | | |
| Invested in capital assets, net of related debt | <u>\$ 111,943</u> | <u>\$ 2,916</u> | <u>\$ 114,859</u> |
| Total net position | <u>\$ 165,332</u> | <u>\$ 2,916</u> | <u>\$ 168,248</u> |
| Statement of Revenues, Expenses and Changes in Net Position | | | |
| Solid waste operations | <u>\$ 102,110</u> | <u>\$ (2,916)</u> | <u>\$ 99,194</u> |
| Total operating expenses | <u>\$ 130,114</u> | <u>\$ (2,916)</u> | <u>\$ 127,198</u> |
| Operating loss | <u>\$ (10,248)</u> | <u>\$ 2,916</u> | <u>\$ (7,332)</u> |
| Change in net position | <u>\$ (11,169)</u> | <u>\$ 2,916</u> | <u>\$ (8,253)</u> |

14. NEW ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement.

The scope of this statement also addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers

through pension plans that are administered through trusts that have certain characteristics as defined in the statement. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. This statement is effective for periods beginning after June 15, 2014, with early implementation encouraged.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations, including mergers and acquisitions. This statement requires disclosures to be made that will enable financial statement users to evaluate the nature and financial effect of those transactions. This statement is effective for periods beginning after December 15, 2013, with earlier application encouraged.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement will require a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. An obligation guaranteed in a nonexchange transaction will need to be reported until it is legally released as an obligor. This statement is effective for periods beginning after June 15, 2013, with earlier application encouraged.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68.

This statement addresses an issue regarding the application of the transition provisions of statement No. 68, *Accounting and Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of the statement are to be adopted simultaneously with statement No. 68.

Management has not estimated the extent of the potential impact of these statements on the Authority's financial statements.

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
SUPPLEMENTARY INFORMATION - COMBINING SCHEDULE OF STATEMENT OF NET POSITION
AS OF JUNE 30, 2014
(Dollars in Thousands)

| | General Fund | Connecticut | | | | South West Division | Property Division | Landfill Division | Recycling Division | Eliminations | Total |
|--|--------------|--------------------|-------------------------|-------------------|----------|---------------------|-------------------|-------------------|--------------------|--------------|-------|
| | | Solid Waste System | Mid-Connecticut Project | Southeast Project | | | | | | | |
| ASSETS | | | | | | | | | | | |
| CURRENT ASSETS | | | | | | | | | | | |
| Unrestricted Assets: | | | | | | | | | | | |
| Cash and cash equivalents | \$ 1,536 | \$ 16,486 | \$ 23,683 | \$ 2,633 | \$ 217 | \$ 11,494 | \$ 2,149 | \$ 629 | \$ - | \$ 58,827 | |
| Accounts receivable, net of allowances | - | 4,559 | 34 | 7,580 | 1,168 | 681 | 36 | - | - | 14,058 | |
| Inventory | - | 4,204 | - | - | - | 1,865 | - | - | - | 6,069 | |
| Prepaid expenses | - | 2,272 | - | - | - | 56 | - | - | - | 2,328 | |
| Due from other funds | 1,179 | 440 | 208 | - | - | 538 | - | - | (2,365) | - | |
| Total Unrestricted Assets | 2,715 | 27,961 | 23,925 | 10,213 | 1,385 | 14,634 | 2,185 | 629 | (2,365) | 81,282 | |
| Restricted Assets: | | | | | | | | | | | |
| Cash and cash equivalents | - | 124 | 70 | 1,938 | - | 548 | - | 14 | - | 2,694 | |
| Total Restricted Assets | - | 124 | 70 | 1,938 | - | 548 | - | 14 | - | 2,694 | |
| TOTAL CURRENT ASSETS | 2,715 | 28,085 | 23,995 | 12,151 | 1,385 | 15,182 | 2,185 | 643 | (2,365) | 83,976 | |
| NON-CURRENT ASSETS | | | | | | | | | | | |
| Restricted Assets: | | | | | | | | | | | |
| Capital Assets: | | | | | | | | | | | |
| Depreciable: | | | | | | | | | | | |
| Plant | 864 | - | - | - | - | 171,928 | 25,353 | - | - | 198,145 | |
| Equipment | 1,204 | - | 3,507 | - | - | 233,165 | 2,303 | - | - | 240,179 | |
| | 2,068 | - | 3,507 | - | - | 405,093 | 27,656 | - | - | 438,324 | |
| Less: Accumulated depreciation | (2,048) | - | - | - | - | (329,552) | (27,656) | - | - | (359,256) | |
| Total Depreciable, net | 20 | - | 3,507 | - | - | 75,541 | - | - | - | 79,068 | |
| Nondepreciable: | | | | | | | | | | | |
| Land | - | - | - | - | - | 12,072 | 16,109 | - | - | 28,181 | |
| Construction in progress | - | - | - | - | - | 3,226 | - | - | - | 3,226 | |
| Total Nondepreciable | - | - | - | - | - | 15,298 | 16,109 | - | - | 31,407 | |
| Development and bond issuance costs, net | - | - | - | 784 | - | - | - | - | - | 784 | |
| TOTAL NON-CURRENT ASSETS | 20 | - | 3,507 | 784 | - | 90,839 | 16,109 | - | - | 111,259 | |
| TOTAL ASSETS | \$ 2,735 | \$ 28,085 | \$ 27,502 | \$ 12,935 | \$ 1,385 | \$ 106,021 | \$ 18,294 | \$ 643 | \$ (2,365) | \$ 195,235 | |

See Independent Auditor's Report

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
SUPPLEMENTARY INFORMATION - COMBINING SCHEDULE OF STATEMENT OF NET POSITION (Continued)
AS OF JUNE 30, 2014
(Dollars in Thousands)

| | Connecticut | | | | | | | | | | Total | |
|---|--------------|--------------------|-------------------------|-------------------|--------------------|-------------------|-------------------|--------------------|--------------|------|-------|--------|
| | General Fund | Solid Waste System | Mid-Connecticut Project | Southeast Project | SouthWest Division | Property Division | Landfill Division | Recycling Division | Eliminations | | | |
| LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION | | | | | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | | | | | |
| Payable from unrestricted assets: | | | | | | | | | | | | |
| Closure and post-closure care of landfills | \$ - | \$ - | \$ 43 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 43 |
| Accounts payable | 57 | 1,912 | 771 | 698 | 1,141 | 35 | 119 | 7 | - | - | - | 4,740 |
| Accrued expenses and other current liabilities | 694 | 3,347 | 3,933 | 48 | 89 | 213 | 174 | - | - | - | - | 8,498 |
| Due to other funds | 424 | 1,405 | 117 | 28 | - | 192 | 140 | 59 | (2,365) | - | - | - |
| Total payable from unrestricted assets | 1,175 | 6,664 | 4,864 | 774 | 1,230 | 440 | 433 | 66 | (2,365) | - | - | 13,281 |
| Payable from restricted assets: | | | | | | | | | | | | |
| Accrued expenses and other current liabilities | - | 124 | 70 | 3,888 | - | - | - | 14 | - | - | - | 4,096 |
| Total payable from restricted assets | - | 124 | 70 | 3,888 | - | - | - | 14 | - | - | - | 4,096 |
| TOTAL CURRENT LIABILITIES | 1,175 | 6,788 | 4,934 | 4,662 | 1,230 | 440 | 433 | 80 | (2,365) | - | - | 17,377 |
| LONG-TERM LIABILITIES | | | | | | | | | | | | |
| Payable from unrestricted assets: | | | | | | | | | | | | |
| Other liabilities | - | - | 3,500 | - | - | - | - | - | - | - | - | 3,500 |
| Total payable from unrestricted assets | - | - | 3,500 | - | - | - | - | - | - | - | - | 3,500 |
| TOTAL LONG-TERM LIABILITIES | - | - | 3,500 | - | - | - | - | - | - | - | - | 3,500 |
| TOTAL LIABILITIES | 1,175 | 6,788 | 8,434 | 4,662 | 1,230 | 440 | 433 | 80 | (2,365) | - | - | 20,877 |
| Deferred Inflows | - | 2,167 | 425 | - | - | - | - | - | - | - | - | 2,592 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS | 1,175 | 8,955 | 8,859 | 4,662 | 1,230 | 440 | 433 | 80 | (2,365) | - | - | 23,469 |

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
SUPPLEMENTARY INFORMATION - COMBINING SCHEDULE OF STATEMENT OF NET POSITION (Continued)
AS OF JUNE 30, 2014
(Dollars in Thousands)

| | General Fund | Connecticut Solid Waste System | Mid-Connecticut Project | Southeast Project | SouthWest Division | Property Division | Landfill Division | Recycling Division | Eliminations | Total |
|--|--------------|--------------------------------|-------------------------|-------------------|--------------------|-------------------|-------------------|--------------------|--------------|---------|
| NET POSITION | | | | | | | | | | |
| Invested in capital assets, net of related debt | 21 | - | 3,507 | - | - | 90,839 | 16,109 | - | - | 110,476 |
| Restricted for: | | | | | | | | | | |
| Operating surplus fund | - | - | - | - | - | - | - | - | - | - |
| Covanta Wallingford escrow | - | - | - | - | - | 500 | - | - | - | 500 |
| Other restricted net position | - | - | - | - | - | 48 | - | - | - | 48 |
| Total Restricted | - | - | - | - | - | 548 | - | - | - | 548 |
| Unrestricted | 1,539 | 19,130 | 15,136 | 8,273 | 155 | 14,194 | 1,752 | 563 | - | 60,742 |
| TOTAL NET POSITION | 1,560 | 19,130 | 18,643 | 8,273 | 155 | 105,581 | 17,861 | 563 | - | 171,766 |
| TOTAL LIABILITIES, DEFERRED INFLOW OF RESOU | 2,735 | 28,085 | 27,502 | 12,935 | 1,385 | 106,021 | 18,294 | 643 | (2,365) | 195,235 |

See Independent Auditor's Report

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
SUPPLEMENTARY INFORMATION - COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
AS OF JUNE 30, 2014
(Dollars in Thousands)

| | General Fund | Connecticut Solid Waste System | Mid-Connecticut Project | Southwest Division | Property Division | Landfill Division | Recycling Division | Eliminations | Total |
|---|--------------|--------------------------------|-------------------------|--------------------|-------------------|-------------------|--------------------|--------------|----------------|
| Operating Revenues | | | | | | | | | |
| Service charges: | | | | | | | | | |
| Members | \$ - | \$ 23,612 | \$ - | \$ 13,389 | \$ 185 | \$ - | \$ - | \$ - | \$ 45,588 |
| Others | - | 16,579 | - | - | - | - | - | (185) | 16,513 |
| Energy sales | - | 26,806 | - | - | 8,971 | - | - | - | 56,451 |
| Other operating revenues | - | 3,078 | 1,096 | - | 521 | 115 | - | - | 4,810 |
| Total Operating Revenues | - | <u>70,075</u> | <u>1,096</u> | <u>13,389</u> | <u>9,677</u> | <u>115</u> | - | <u>(185)</u> | <u>123,562</u> |
| Operating Expenses | | | | | | | | | |
| Solid waste operations | - | 52,261 | 47 | 12,907 | 3,383 | 203 | (3) | (185) | 97,583 |
| Maintenance and utilities | - | 690 | 6 | - | 630 | (24) | 11 | - | 1,313 |
| Closure and post-closure care of landfills | - | - | (3,392) | - | - | - | - | - | (3,392) |
| Legal services - external | - | 179 | 2,362 | - | 82 | 286 | - | - | 3,012 |
| Administrative and Operational services | - | 3,977 | 66 | 572 | 942 | 429 | - | - | 6,191 |
| Distribution to SCRRA | - | - | - | - | - | - | - | - | 1,375 |
| Total Operating Expenses | - | <u>57,107</u> | <u>(911)</u> | <u>13,479</u> | <u>5,037</u> | <u>894</u> | <u>8</u> | <u>(185)</u> | <u>106,082</u> |
| Operating Income (Loss) before Depreciation and Amortization | - | 12,968 | 2,007 | (90) | 4,640 | (779) | (8) | - | 17,280 |
| Depreciation and amortization | 117 | - | - | - | 15,592 | - | - | - | 16,101 |
| Operating Income (Loss) | (117) | 12,968 | 2,007 | (90) | (10,952) | (779) | (8) | - | 1,179 |
| Non-Operating Revenues (Expenses) | | | | | | | | | |
| Investment income | - | 19 | 38 | - | 14 | 34 | - | - | 109 |
| Gain on write-off of post closure liabilities | - | - | - | - | - | 4,751 | - | - | 4,751 |
| Settlement costs | - | - | - | - | - | - | - | - | - |
| Other income (expenses) | (2) | - | (2,250) | - | (309) | (4) | - | - | (2,521) |
| Non-Operating Revenues (Expenses), net | (2) | <u>19</u> | <u>(2,212)</u> | - | <u>(295)</u> | <u>4,781</u> | - | - | <u>2,339</u> |
| Income (Loss) before Transfers | (119) | 12,987 | (205) | (90) | (11,247) | 4,002 | (8) | - | 3,518 |
| Contribution of initial working capital | - | 7,881 | - | - | - | (7,881) | - | - | - |
| Transfers in (out) | 874 | (7,461) | 3 | - | 6,585 | - | - | - | - |
| Change in Net Position | 755 | <u>13,407</u> | <u>(203)</u> | <u>(90)</u> | <u>(4,662)</u> | <u>(3,879)</u> | <u>(8)</u> | - | <u>3,518</u> |
| Total Net Position, beginning of period | 805 | 5,723 | 18,846 | 245 | 110,243 | 21,741 | 570 | - | 168,248 |
| Total Net Position, end of period | \$ 1,560 | \$ 19,130 | \$ 18,643 | \$ 155 | \$ 105,581 | \$ 17,862 | \$ 562 | \$ - | \$ 171,766 |

See Independent Auditor's Report

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
SUPPLEMENTARY INFORMATION - COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
(Dollars in Thousands)

| | Connecticut | | | | | | | | | | Total |
|---|-----------------|--------------------|-------------------------|-------------------|--------------------|-------------------|--------------------|--------------------|--------------|--------------------|-------|
| | General Fund | Solid Waste System | Mid-Connecticut Project | Southeast Project | SouthWest Division | Property Division | Landfill Division | Recycling Division | Eliminations | | |
| Cash Flows Provided (Used) by Operating Activities | | | | | | | | | | | |
| Payments received from providing services | \$ 22 | \$ 71,411 | \$ 2,049 | \$ 29,494 | \$ 13,470 | \$ 9,913 | \$ 79 | \$ 123 | \$ - | \$ 126,561 | |
| Payments received from other funds | 6 | 171 | - | - | - | (525) | 7,881 | 67 | (7,600) | - | |
| Payments to suppliers and employees | 118 | (56,803) | (3,233) | (27,800) | (13,471) | (5,212) | (689) | (90) | - | (107,180) | |
| Payments to other funds | 411 | (7,548) | (8) | 22 | - | (532) | 1 | 54 | 7,600 | - | |
| Distribution to SCRRA | - | - | - | (1,375) | - | - | - | - | - | (1,375) | |
| Net Cash Provided (Used) by Operating Activities | 557 | 7,231 | (1,192) | 341 | (1) | 3,644 | 7,272 | 154 | - | 18,006 | |
| Cash Flows Provided by Investing Activities | | | | | | | | | | | |
| Proceeds from investments | - | - | - | - | - | - | 8,184 | - | - | 8,184 | |
| Interest on investments | - | 19 | 38 | 4 | - | 14 | 34 | - | - | 109 | |
| Net Cash Provided by Investing Activities | - | 19 | 38 | 4 | - | 14 | 8,218 | - | - | 8,293 | |
| Cash Flows Used by Capital and Related Financing Activities | | | | | | | | | | | |
| Proceeds from sales of equipment | - | - | - | - | - | 595 | - | - | - | 595 | |
| Payments for landfill closure and post-closure care liabilities | - | - | (11,876) | (716) | - | - | (32,608) | - | - | (45,200) | |
| Acquisition and construction of capital assets | - | - | (3,507) | - | - | (8,279) | - | - | - | (11,786) | |
| Interest paid on long-term debt | - | - | - | - | - | - | - | - | - | - | |
| Principal paid on long-term debt | - | - | - | - | - | - | - | - | - | - | |
| Net Cash Used by Capital and Related Financing Activities | - | - | (15,383) | (716) | - | (7,684) | (32,608) | - | - | (56,391) | |
| Cash Provided (Used) by Non-Capital Financing Activities | | | | | | | | | | | |
| Other interest and fees | (2) | - | (2,250) | 45 | - | (443) | (4) | 3 | - | (2,651) | |
| Cash inflow / (outflow) | 874 | 420 | 2 | - | - | 6,585 | (7,881) | - | - | - | |
| Net Cash Provided (Used) by Non-Capital Financing Activities | 872 | 420 | (2,248) | 45 | - | 6,142 | (7,885) | 3 | - | (2,651) | |
| Net decrease in cash and cash equivalents | \$ 1,429 | \$ 7,670 | \$ (18,785) | \$ (326) | \$ (1) | \$ 2,116 | \$ (25,003) | \$ 157 | \$ - | \$ (32,743) | |
| Cash and cash equivalents, beginning of year | 107 | 8,940 | 42,538 | 4,897 | 218 | 9,926 | 27,152 | 486 | - | 94,264 | |
| Cash and cash equivalents, end of year | \$ 1,536 | \$ 16,610 | \$ 23,753 | \$ 4,571 | \$ 217 | \$ 12,042 | \$ 2,149 | \$ 643 | \$ - | \$ 61,521 | |

See Independent Auditor's Report

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
SUPPLEMENTARY INFORMATION - COMBINING SCHEDULE OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2014
(Dollars in Thousands)

| | General Fund | Connecticut | | | | Recycling Division | Eliminations | Total |
|---|---------------|--------------------|-------------------------|-------------------|--------------------|--------------------|---------------|------------------|
| | | Solid Waste System | Mid-Connecticut Project | Southeast Project | SouthWest Division | | | |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | | | | | |
| Operating (loss) income | \$ (117) | \$ 12,968 | \$ 2,007 | \$ (1,850) | \$ (90) | \$ (10,952) | \$ (8) | \$ 1,179 |
| Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities: | | | | | | | | |
| Depreciation of capital assets | 117 | - | - | - | - | 15,592 | - | 15,709 |
| Amortization of development and bond issuance costs | - | - | - | 392 | - | - | - | 392 |
| Provision for closure and post-closure care of landfills | - | - | - | - | - | - | - | - |
| Other income (expenses) | - | - | - | - | - | - | - | - |
| Changes in assets and liabilities, net of transfers: (Increase) decrease in: | | | | | | | | |
| Accounts receivable, net | 22 | 1,336 | 953 | 299 | 81 | 236 | 123 | 3,014 |
| Inventory | - | 621 | - | - | - | (146) | - | 475 |
| Prepaid expenses and other current assets | - | (1,917) | - | - | - | (56) | - | (1,973) |
| Due from other funds | 6 | 171 | - | - | - | (525) | 67 | 7,600 |
| Increase (decrease) in: | | | | | | | | |
| Accounts payable, accrued expenses and other liabilities | 118 | 1,600 | (4,144) | 1,478 | 8 | 27 | (82) | (790) |
| Due to other funds | 411 | (7,548) | (8) | 22 | - | (532) | 54 | (7,600) |
| Net Cash Provided by Operating Activities | \$ 557 | \$ 7,231 | \$ (1,192) | \$ 341 | \$ (1) | \$ 3,644 | \$ 154 | \$ 18,006 |

See Independent Auditor's Report

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
SUPPLEMENTARY INFORMATION - COMBINING SCHEDULE OF NET POSITION
AS OF JUNE 30, 2014
(Dollars in Thousands)

| | General Fund | Connecticut Solid Waste System | Mid-Connecticut Project | Southeast Project | SouthWest Division | Property Division | Landfill Division | Recycling Division | Total |
|---|--------------|--------------------------------|-------------------------|-------------------|--------------------|-------------------|-------------------|--------------------|------------|
| Net position invested in capital assets, net of related debt | \$ 21 | \$ - | \$ 3,507 | \$ - | \$ - | \$ 90,839 | \$ 16,109 | \$ - | \$ 110,476 |
| Restricted net position: | | | | | | | | | |
| Current restricted cash and cash equivalents and investments: | | | | | | | | | |
| City of Hartford recycling education fund | - | - | 70 | - | - | - | - | - | 70 |
| Commodity revenue share | - | - | - | - | - | - | - | 14 | 14 |
| Covanta Wallingford escrow | - | - | - | - | - | 500 | - | - | 500 |
| Customer guarantee of payment | - | 124 | - | - | - | - | - | - | 124 |
| Operating surplus fund | - | - | - | 322 | - | - | - | - | 322 |
| Revenue fund | - | - | - | 1,616 | - | - | - | - | 1,616 |
| Town of Ellington trust - pooled funds | - | - | - | - | - | 48 | - | - | 48 |
| Total current restricted cash and cash equivalents | - | 124 | 70 | 1,938 | - | 548 | - | 14 | 2,694 |
| Less liabilities to be paid with current restricted assets: | | | | | | | | | |
| Other liabilities | - | 124 | 70 | 1,938 | - | - | - | 14 | 2,146 |
| Total liabilities to be paid with current restricted assets | - | 124 | 70 | 1,938 | - | - | - | 14 | 2,146 |
| Total restricted net position | - | - | - | - | - | 548 | - | - | 548 |

See Independent Auditor's Report

MATERIALS INNOVATION AND RECYCLING AUTHORITY
A Component Unit of the State of Connecticut
SUPPLEMENTARY INFORMATION - COMBINING SCHEDULE OF NET POSITION (Continued)
AS OF JUNE 30, 2014
(Dollars in Thousands)

| | General Fund | Connecticut Solid Waste System | Mid-Connecticut Project | Southeast Project | SouthWest Division | Property Division | Landfill Division | Recycling Division | Total |
|-----------------------------------|--------------|--------------------------------|-------------------------|-------------------|--------------------|-------------------|-------------------|--------------------|------------|
| Unrestricted net position: | | | | | | | | | |
| Designated for: | | | | | | | | | |
| Debt service stabilization | \$ - | \$ 175 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 175 |
| Enron litigation expense | - | - | - | - | - | 394 | - | - | 394 |
| Future loss contingencies | - | 266 | 6,145 | 252 | - | - | - | - | 6,663 |
| General | - | 3,537 | - | - | - | 997 | - | - | 4,534 |
| Improvement | - | - | - | - | - | 5,343 | - | - | 5,343 |
| Landfill development | - | - | 296 | - | - | - | - | - | 296 |
| Legal | - | 508 | - | - | - | - | - | - | 508 |
| Litigation reserve | - | - | 790 | - | - | - | - | - | 790 |
| Post-closure | - | - | - | - | - | - | 1,783 | - | 1,783 |
| Project/Post-project closure | - | - | 1,629 | - | - | 148 | - | - | 1,777 |
| Recycling | - | - | - | - | - | - | - | 190 | 190 |
| Severance | 874 | - | - | - | - | - | - | - | 874 |
| Tip fee stabilization | - | - | - | - | - | 2,408 | - | - | 2,408 |
| Undesignated | 665 | 14,644 | 6,276 | 8,021 | 155 | 4,904 | (30) | 372 | 35,007 |
| | 1,539 | 19,130 | 15,136 | 8,273 | 155 | 14,194 | 1,753 | 562 | 60,742 |
| Total unrestricted net position | \$ 1,560 | \$ 19,130 | \$ 18,643 | \$ 8,273 | \$ 155 | \$ 105,581 | \$ 17,862 | \$ 562 | \$ 171,766 |

See Independent Auditor's Report

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Materials Innovation and Recycling Authority
Hartford, Connecticut

We have audited, in accordance with the 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, the financial statements of Materials Innovation and Recycling Authority (Authority), which comprise the statement of financial position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated _____, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

New York, New York
_____, 2014