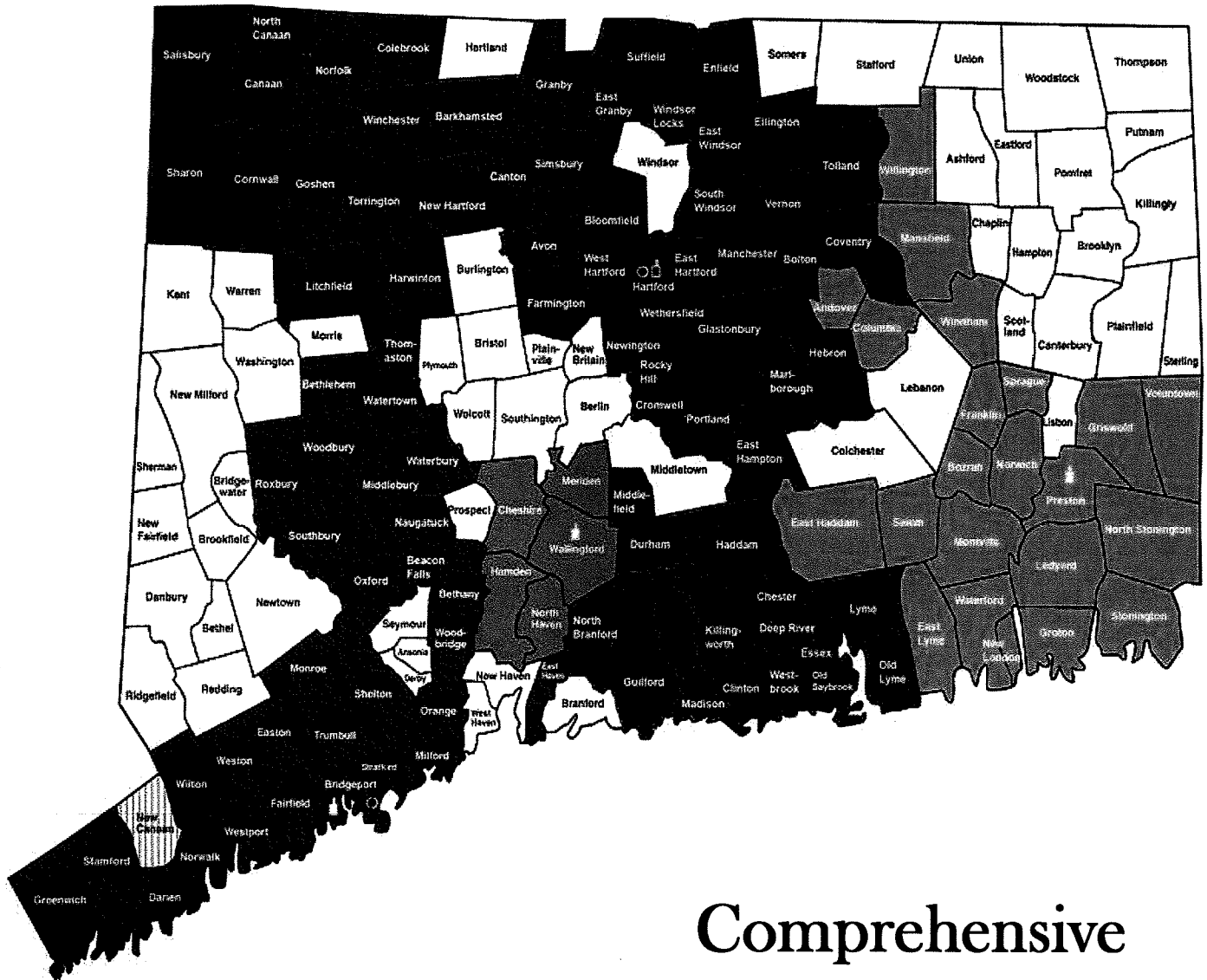


CONNECTICUT RESOURCES RECOVERY AUTHORITY

A Component Unit of the State of Connecticut



Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2005



A Component Unit of the State of Connecticut

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2005

Submitted by:

James P. Bolduc
Chief Financial Officer

Nhan Vo-Le
Director of Accounting



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COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2005

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Introductory Section



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December 22, 2005

Board of Directors
Connecticut Resources Recovery Authority
100 Constitution Plaza, 6th Floor
Hartford, CT 06103

We are pleased to present the Connecticut Resources Recovery Authority's (the "Authority") Comprehensive Annual Financial Report prepared for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of the Authority. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Authority has established a comprehensive internal control framework that is designed both to protect the Authority's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Because the cost of internal controls should not outweigh their benefits, the Authority's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Authority's financial statements have been audited by Carlin, Charron & Rosen, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit that there was a reasonable basis for rendering an unqualified opinion that the Authority's financial statements for the fiscal year ended June 30, 2005 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to complement MD&A and should be read in

conjunction with it. The Authority's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE AUTHORITY

The Authority is a body politic and corporate, created in 1973 by an act of the Connecticut Legislature, and is a public instrumentality and political subdivision of the State of Connecticut (the "State"). The Authority is responsible for implementing solid waste disposal, recycling and resources recovery systems, facilities and services. Revenues generated by Authority operations, primarily disposal fees, energy revenues and recycling revenues, provide for the support of the Authority and its operations on a self-sustaining basis. The State provides no revenues to the Authority, other than State loans pertaining to the Mid-Connecticut project (see "State Loans" section in the MD&A), and the Authority has no taxing power. In carrying out its mission, the Authority utilizes private industry to construct and operate solid waste disposal and resources recovery facilities. 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 Authority contracts with Connecticut member municipalities, non-member municipalities (spot waste), and commercial haulers to provide solid waste management services and charges fees for these services. The Authority is authorized to issue tax-exempt bonds and notes to finance its activities upon approval of the State Treasurer.

The Authority is governed by an eleven member Board of Directors. In addition, two *ad hoc* directors are eligible to serve on the Board for each of the Authority's four regional solid waste management projects. These *ad hoc* directors vote only on matters concerning the project they represent.

Solid Waste Management Systems

The Authority has developed four regional solid waste management projects, which together serve more than 100 Connecticut cities and towns. Each of these projects is described below:

Mid-Connecticut Project

The Mid-Connecticut Project consists of a 2,850 ton per day municipal solid waste / 2,030 ton per day refuse derived fuel resources recovery facility located in Hartford, Connecticut; the Hartford Landfill, which handles ash, receives process residue and other bulky and non-processible waste; the Ellington Landfill, which has been closed; a network of four transfer stations; and a regional recycling center composed of paper and container processing facilities. The Mid-Connecticut Project serves seventy Connecticut municipalities in the greater Hartford area and around the State.

The Mid-Connecticut resources recovery facility began commercial operation in October 1988 and continued to generate power at an annual hourly average rate of 47.22 megawatts of electrical energy (net of in-plant usage) in fiscal year 2005.

Bridgeport Project

The Bridgeport Project consists of a 2,250 ton per day mass burn resources recovery facility located in Bridgeport, Connecticut; the Waterbury Landfill, which provides bulky waste disposal capacity for the project; the Shelton Landfill, which has been closed; a network of eight transfer stations; and a regional recycling center. The ash residue from the resources recovery facility is disposed of at an in-state landfill under contract with a private operator. The Bridgeport Project serves eighteen Connecticut municipalities in the southwest and south central part of the State.

The Bridgeport resources recovery facility began commercial operation in July 1988 and continued to generate power at an annual hourly average rate of 51.89 megawatts of electrical energy (net of in-plant usage) in fiscal year 2005.

Wallingford Project

The Wallingford Project consists of a 420 ton per day mass burn resources recovery facility located in Wallingford, Connecticut and the Wallingford Landfill, which has been closed. The ash residue from the resources recovery facility is disposed of at an in-state landfill under contract with a private operator. The Wallingford project serves five Connecticut municipalities in New Haven County.

The Wallingford facility began commercial operation in May 1989 and continued to generate power at an annual hourly average rate of 7.67 megawatts of electrical energy (net of in-plant usage) in fiscal year 2005.

Southeast Project

The Southeast Project consists of a 690 ton per day mass burn resources recovery facility located in Preston, Connecticut and the Montville Landfill, which has been closed. The ash residue from the resources recovery facility is disposed of at an in-state landfill under contract with a private operator. The Southeast Project serves fifteen Connecticut municipalities in the eastern portion of the State.

The Southeast facility began commercial operation in February 1992 and continued to generate power at an annual hourly average rate of 15.05 megawatts of electrical energy (net of in-plant usage) in fiscal year 2005.

General Fund

In addition to the Authority's operating projects, the Authority maintains a General Fund in which the costs of central administration are accumulated. Substantially, all of these costs are allocated to the Authority's projects based on time expended.

Please refer to Note 1A in the "Notes to the Financial Statements" in the Financial Section of this report for additional information on the solid waste management systems.

THE AUTHORITY'S ECONOMIC CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Authority operates.

Local Economy

The Authority's "local economy" entails the entire State of Connecticut. The Authority's four solid waste management projects situated in Bridgeport, Hartford, Preston, and Wallingford, serve the residents of 108 of the 169 municipalities of the State.

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one-quarter of the total population of the United States and more than 50% of the Canadian population live within 500 miles of the State.

The population of Connecticut in 2004 was approximately 3,500,000. The State's population growth has slowed during the past three decades. The 2004 population density was 723 persons per square mile, compared with 83 for the United States as a whole and 227 for the New England region.

Connecticut has an extensive network of expressways and major arterial highways that provide access to local and regional markets. The power grid that supplies electricity to the entire State is owned and operated by both private and municipal electrical companies. Transmission lines connect Connecticut with New York, New England and Canada. All electric utilities in the State are members of the New England Power Pool (operated by ISO New England) and operate as part of the regional bulk power system.

Connecticut has a high level of personal income; the historic average per capita income has consistently been among the highest in the nation. This is due to a concentration of relatively high paying manufacturing jobs along with a higher portion of residents working in the non-manufacturing sector in such areas as finance, insurance and real estate as well as educational services. A concentration of major corporate headquarters located within the State also contributes to the high level of income. Per capita income in 2003 was \$43,292 for Connecticut compared with \$31,462 for the nation. Per capita income in 1994 was \$29,695 for Connecticut compared with \$22,210 for the nation.

Major industries in the State include Manufacturing; Finance, Insurance and Real Estate; Utilities; Retail Trade; Professional, Business and Personal Services; and Government. In 2002, two industries - Manufacturing and Finance, Insurance and Real Estate – accounted for 42.1% of total Gross State Product¹ in Connecticut compared to 33.4% for the nation and was little changed from 42.6% in 1998. This demonstrates that Connecticut's economy is more heavily

¹ Gross State Product is the current market value of all final goods and services produced by labor and property located within the State of Connecticut.

concentrated in a few industries than the nation as a whole and this concentration has changed little in recent years.

One important component of the manufacturing sector in Connecticut is the defense industry. Approximately one-quarter of the State's manufacturing employees are employed in defense-related business. However, this sector's significance in the State's economy has declined considerably since the early 1980s.

The State's unemployment rate has mirrored the economic boom of the mid-1980s and recession of the 1990s. In 1995, the State's unemployment rate was 5.5% compared to the national average of 5.6%. By 2000, the State's unemployment rate was 2.2% compared to the national average of 4.0%. And for 2004, the State's employment rate was 4.5% compared to the national average of 5.5%.

Historically, as the State's economy grows, so does its need for solid waste disposal capacity. The Connecticut Department of Environmental Protection ("DEP") is currently updating its solid waste management plan, and this document is expected to recognize the need for additional solid waste disposal capacity, as well as enhanced recycling and source reduction and reuse.

Major Initiatives

As discussed under "Enron Matters" in the MD&A, in December 2000, the Authority entered into agreements with Enron Power Marketing, Inc. ("Enron") and the Connecticut Light & Power ("CL&P"), which provided the Authority with the funding for the acquisition of property and for the extensive environmental remediation associated with the nearly century-long use of Hartford property for electricity generation purposes. These agreements had originally been anticipated to provide revenues to the Mid-Connecticut project for the life of the project. However, following Enron's declaration of bankruptcy in 2001, the Authority has experienced the loss of a significant capacity charge of \$2.2 million per month and the loss of electricity sales that Enron was contractually obligated to purchase under the agreement.

The following are several initiatives undertaken to mitigate the effect of the Enron loss of revenues on the Mid-Connecticut Project:

- **Efforts To Minimize Tipping Fees for Mid-Connecticut Municipalities**

The Steering Committee Report to the Board of Directors and the Connecticut General Assembly submitted pursuant to Public Act 02-46, filed in December 2002, required a plan to minimize tipping fees for the Connecticut municipalities that utilize the Mid-Connecticut project. Since then, a number of administrative, financial, operational and procedural changes have been implemented at the Authority and efforts on others have begun. Central to these initiatives has been the orderly transition by the new senior management to a renewed focus by the Authority on the solid waste business in Connecticut. The challenge of overcoming the significant loss of approximately \$26 million (\$30/ton) in annual cash revenue to the Mid-Connecticut Project cannot be accomplished in one year or through a

singular solution. It will be overcome through a series of actions over an extended time horizon.

As of the date of this report, the Authority has successfully undertaken numerous steps to avoid substantially increasing the tip fees of Mid-Connecticut project member towns in the near term, while at the same time being mindful of its obligations under the Mid-Connecticut bond resolution to avoid defaulting on its bonded debt. The results of these efforts are as follows:

1. A resolution of the Authority's bankruptcy claim against Enron. In June 2004, the bankruptcy court awarded the Authority a claim worth \$82.7 million in cash and stock. In August 2004, the Authority sold its Enron claims to a major financial institution through a competitive bid auction, which resulted in a premium of 34.4% or \$28.5 million over the estimated value amount. In February 2005, the Authority realized \$111.7 million, including \$0.4 million of interest income, from the sale of its bankruptcy claim against Enron. The \$111.7 million sale proceeds were used to defease certain outstanding bonds issued for the Mid-Connecticut Project. The remaining proceeds from the sale of the Enron claims were deposited in an irrevocable escrow account, which will provide for future State loans repayments. The proceeds from the sale of the Enron claims helped to ensure stable tip fees for the 70 Mid-Connecticut Project towns that were impacted by the Authority's Enron loss.
2. An agreement with an independent contractor for the design, upgrade, retrofit and operation/maintenance services for the Mid-Connecticut Project Regional Recycling Center ("RRC"). The contractor will finance the construction of the RRC including capital improvements and state-of-the-art processing equipment. This agreement will provide the Mid-Connecticut Project with net revenue of approximately \$2.7 million for sales of commodities delivered to the new RRC. When the new RRC is operational, Mid-Connecticut residents will be able to recycle boxboard (cereal boxes, shoe boxes, dry goods boxes with inner packaging removed), aerosol cans and oversized plastic and metal containers such as No. 10 steel cans. Through this agreement, the Authority is able to take advantage of rising prices for recycled commodities in world markets.
3. A two-year extension of an energy agreement with Select Energy for the sale of the first 250 gigawatt hours of electricity produced at the Mid-Connecticut facility for fiscal years 2006 and 2007. This results in incremental electricity revenues of \$9.4 million over the CL&P contract rate for the two-year contract extension.
4. An agreement with the Town of Windsor for the diversion of excess municipal solid waste from the Mid-Connecticut project to the Windsor-Bloomfield Landfill during periods of peak waste deliveries and during plant outages. This agreement has provided the Mid-Connecticut project with a more cost-effective, in-state waste bypass alternative when compared to the costs associated with transporting and disposing of this waste at out-of-state disposal facilities.

5. A three-year Municipal Solid Waste Delivery Agreement with commercial haulers for the delivery of acceptable waste to the Mid-Connecticut project. Since a significant amount of acceptable waste from member towns is collected and transported by commercial haulers, such waste is contractually secured for the next three years. Additionally, the three-year agreements versus the historical annual hauler agreements also reduce the Authority's administrative costs.
6. The fiscal year 2005 tip fee was increased to \$70.00/ton from \$63.75/ton recognizing that competitive market conditions allowed for a higher tip fee. As a result of the resolution of the Enron bankruptcy claim, the fiscal year 2006 tip fee remains at \$70.00/ton.
7. Two separate Master Loan Agreements with the State of Connecticut were negotiated for \$22.0 million and \$20.0 million to be available through June 30, 2004 and June 30, 2005, respectively. These funds are required to be repaid by June 30, 2012. During fiscal year 2004, the Authority had drawdowns of \$12.8 million on the State loan. During fiscal year 2005, the Authority had drawdowns of \$8.7 million on the State loan. However, there have been no drawdowns since January 2005. In March 2005, the Authority established an irrevocable escrow account in the amount of \$19.4 million with the remaining proceeds from the sale of the Enron claims, which will provide for future State loans repayments.
8. Miscellaneous revenue streams were sought in the form of landfill cover and generated approximately \$555,000 and \$498,000, respectively, in fiscal years 2005 and 2004. This landfill cover consists of "Brownfields" soil which is used as daily landfill cover, replacing soil which the Authority would otherwise have to buy, and that has been approved by the DEP for this purpose.

The next phase of the mitigation plan will continue to focus on a combination of both near-term and longer-term issues, while recognizing that the current solid waste disposal contracts with member and contract municipalities expire in 2012. The actions will vary but the central theme of an ongoing Mid-Connecticut project business model post 2012 will be paramount in establishing the structure for managing Connecticut's solid waste as we continue into the 21st century. Looking ahead, the Authority will be focusing its efforts as follows:

1. Continue vendor contract negotiations and/or renegotiation to improve costs and/or improve efficiency.
2. Continue meetings with officials of member and contract towns to discuss the extension of their solid waste contracts and also to provide information on the future of solid waste disposal options in the State and region.
3. Continue the process of developing a business model for the post 2012 period with the eventual renegotiation of contract extensions with member and contract towns as well as new towns.
4. Identify, develop and implement cost-effective solutions for the long-term disposal of residue and ash.

5. Maintain least cost strategies in administrative costs.
6. Continue to pursue the recovery of settlement funds arising from Enron-related litigation.

The ultimate success of the efforts to mitigate the impact on tip fees rests in the ability to successfully extend the operations of the Authority beyond 2012, renegotiation of member and contract town agreements, maximizing recovery of outstanding Enron litigation and identifying a new landfill site in Connecticut.

- **Efforts to Increase Electricity Revenues**

The Authority has evaluated a number of options for the sale of electricity generated at the Mid-Connecticut Project, with the goal of maximizing revenues from that sale while simultaneously minimizing market risk. As of the date of this report, the Authority has made significant progress including the following:

1. On November 6, 2002, the Authority received a conditioned electric supplier license from the Department of Public Utility Control (“DPUC”). The decision required a second DPUC approval for any retail sales from the South Meadows facility. The appeal in Superior Court is still pending. A motion has also been filed with DPUC requesting the condition be removed. Currently, the Authority has no intention to sell electricity to the retail market.
2. On June 2, 2003, the Authority was accepted by the Federal Energy Regulatory Commission (“FERC”) as a member of the New England Power Pool, which provides the opportunity for the Authority to sell power directly to the grid, effective July 1, 2003.
3. On June 30, 2003, the Authority entered into a new two-year Energy Purchase Agreement with Select Energy for the sale of the first 250 gigawatt hours of electricity produced at the Mid-Connecticut plant for fiscal years 2004 and 2005. The price received is variable, based on off-peak and on-peak hours. The total revenue increase that was realized in fiscal years 2004 and 2005 over the CL&P contract rate is nearly \$4.0 million.
4. On August 5, 2004, the Authority further negotiated a two-year extension of the Energy Purchase Agreement with Select Energy for the sale of the first 250 gigawatt hours of electricity produced at the Mid-Connecticut plant for fiscal years 2006 and 2007 with the result being incremental electricity revenues of approximately \$9.4 million over the CL&P contract rate for the two-year contract extension.
5. During August 2004, the Authority negotiated an extension of the Jet Turbine Power Sales Agreement to be co-terminus with the Energy Generating Facility Agreement providing a guaranteed electric revenue stream through fiscal year 2012.
6. During fiscal year 2005, the Authority worked closely with the operator of the Mid-Connecticut Power Block Facility to increase the boiler availability and

steam production back to historical levels². Major repairs and replacements were completed by the operator of the Power Block Facility. The boilers are currently operating at a 90% level.

- **Efforts to Renegotiate Vendor Contracts**

The Authority will recognize more positive cashflow with successful vendor contract renegotiations. To that end, the Authority has renegotiated and is continuing to renegotiate certain contracts with its contract operators. It has also renegotiated all of its legal services agreements including those with the law firms employed by the Attorney General's office in its pursuit of recovering lost monies in federal and state courts in connection with the Enron loss. In addition, the Authority has renegotiated its lease agreement which involved the Authority moving its corporate headquarters and renting less space at a lower cost. Other vendor contracts will be renegotiated as they expire. During November 2005, the Authority issued requests for proposals seeking the most efficient and lowest-cost-contractor to operate the Mid-Connecticut Project Waste Processing Facility and transfer stations in Essex, Ellington, Torrington and Watertown.

- **Efforts to Reduce Administrative Costs**

The Authority continues its efforts to evaluate and reduce administrative costs. A major initiative to reduce the cost of insurance was successfully achieved in fiscal years 2005 and 2004 resulting in an annualized year-over-year premium reduction of approximately \$95,000 and \$204,000, respectively. The move of the Authority's headquarters in June 2004 is projected to save the Authority \$850,000 through 2012. Future efforts will focus on least cost strategies and continuance of vendor contract negotiations and/or renegotiations.

There are several initiatives that were undertaken at the Bridgeport, Southeast and Wallingford projects during fiscal year 2005:

- **Bond Calls**

During fiscal year 2005, the Authority called its outstanding \$500,000 Wallingford Resources Recovery Project 1991 Series One Subordinated Bonds and \$2,045,000 Southeast Project 1989 A Bonds from available funds and these bonds were retired.

- **Wallingford Landfill Final Closure and DEP grant**

On February 28, 2005, the Authority received final closure certification from the DEP for the Wallingford Landfill. Following receipt of the formal closure certification, the Authority, in conjunction with the Town of Wallingford, executed a contract with DEP to receive \$1,000,000 as reimbursement for costs previously incurred by the Authority in the closure of the Wallingford Landfill. The Authority received the funds on September 16, 2005.

² Historically, the boiler availability has operated at 90%.

- **Wallingford Project Rebates**

During fiscal year 2005, the Authority distributed \$1,177,000 from the Wallingford project surplus to its participating municipalities.

- **Refinancing Savings Dispute Settlement**

In February 2005, the Authority's Bridgeport Project entered into a settlement agreement related to an August 1999 bond refinancing with a contractor. Under this agreement, the Bridgeport Project paid the contractor a lump sum of \$1,850,000 on July 1, 2005. It was in the best interest of the Bridgeport Project to get the dispute resolved in lieu of arbitration.

- **A Three-Year Agreement for Deliveries of Acceptable Solid Waste to the Bridgeport Project Resources Recovery Facility**

During fiscal year 2005, the Authority entered into a three-year contract with the City of Stamford to deliver its Acceptable Solid Waste to the Bridgeport Project Resources Recovery Facility. The three-year contract is projected to provide gross revenue of approximately \$14.0 million and the Bridgeport towns would realize a net benefit of approximately \$1.0 million, which helped to offset a portion of the \$1,850,000 million Refinancing Savings Dispute Settlement discussed previously.

- **Settlement Agreements for Recyclable Diversion Claim**

In February 2005, two of the Authority's member towns agreed to settlement agreements related to wrongful diversion of cardboard and mixed paper from the Bridgeport Resources Recovery Facility. Under the agreements, the Authority receives a net settlement amount of \$136,000. Through monitoring/contract compliance effort, deliveries of recyclables to the Bridgeport Resources Recovery Facility have been increased.

- **Safety Efforts**

In March 2005, the Connecticut Interlocal Risk Management Agency ("CIRMA") recognized the Authority's success in controlling the frequency and severity of work-related accidents through active management involvements. In addition, the Authority's Safety & Health Committee undertook the task of revising and updating safety procedures at all of the Authority's operating facilities. The Committee also established a web site link for employees to voice their safety concerns and for the Committee to communicate employee and general public safety information throughout the organization.

- **New Web site**

On February 1, 2005, the Authority implemented its new Web site which has a new look, more information and an easier-to-use structure. Further, the Authority's customer service team has begun a series of classes in use of its new Web site to help customers find the information they need.

Long-Term Service Planning

The contractual life of the Authority's projects (the term of the municipal service contracts, power contracts, operating contracts and project bonds) extends between 2008 and 2015. While this appears to be years away, the Authority has already begun to consider how solid waste services will be provided beyond the term of the existing projects. During 2002, the Authority underwent a change in senior management and reconstituted its Board of Directors due to the Enron matters discussed earlier in this letter. The new Board delivered a Steering Committee Report to the Connecticut Legislature in December 2002. Since then, senior management has conducted an ongoing series of meetings with its member cities and towns to discuss long-term planning with regard to solid waste flow. In addition, the Board has begun a long-term strategic planning process designed to determine the future course for the Authority and, concurrently, plan ways to manage the State's solid waste disposal and recycling needs for decades to come.

Long-Term Financial Planning

The contractual life of the Bridgeport Project is set to terminate in 2008. The Wallingford, Mid-Connecticut and Southeast Projects will terminate in 2010, 2012 and 2015, respectively, assuming no extensions. As a result, the Authority has begun to evaluate the financial condition of each of the projects, beginning with the Bridgeport Project. The Authority is undertaking a study to determine what obligations the projects will be responsible for even after the existing project has terminated and the amounts of assets that will be available to fund such obligations. As part of this study, the Authority will also determine if capital improvements will be required to be completed prior to the termination of the existing contracts. The results of these studies will be included in the Authority's next budget process to ensure proper funding of capital reserves and post project reserves.

Market Competitive Tip Fees

The Authority has managed to minimize tip fee increases and to provide a competitive market rate tip fee. The Authority accomplished this by implementing cost control initiatives such as reducing insurance premiums, renegotiating the office lease, minimizing legal activity and replacing higher priced contractors. There were also initiatives to increase revenues which included the continued use of revenue generating soil at the landfill.

The Authority has leveraged its service reliability and market proximity with competitive tip fees to assure waste deliveries by means of "economic flow control." Simply put, waste haulers will generally seek out the closest reliable disposal option offering a reasonable market price.

Overall, the Authority has been successful in increasing member waste flow through stabilization of the tip fees. The Board of Directors passed a \$6.25 per ton increase in the Mid-Connecticut project tip fee for fiscal year 2005. As a result of the sale of the Enron claims, the Board of Directors was able to adopt the same Mid-Connecticut Project tip fee of \$70.00 for fiscal year 2006 as was adopted in fiscal year 2005. The Bridgeport, Southeast and Wallingford projects tip fees were raised \$1.50, \$0.00 and \$1.00 per ton, respectively, for fiscal year 2005 and \$1.50, \$0.00, and \$1.00 per ton, respectively, for fiscal year 2006.

Solid Waste Management Plan

The State Solid Waste Management Plan (“SWMP”) is currently 14 years old. The SWMP serves to provide guidance and direction for the State of Connecticut regarding solid waste management, certain aspects of which the Authority is statutorily required to undertake, implement and/or oversee. DEP proceeded with an initiative to update the SWMP in late calendar year 2004. In November 2004, DEP issued a request for proposals intended to identify a private consultant to undertake a revision of the SWMP. DEP contracted with a consultant to revise the SWMP in Spring 2005. To support the update process, DEP established an “external stakeholders group.” This group includes representatives from 17 organizations, representing the public sector, the quasi-public sector, and the private sector (e.g., waste haulers, waste management companies, municipalities, environmental justice organizations, manufacturers, retailers, etc.).

The Authority is a member of the external stakeholders group, and has participated in each of the monthly meetings since the project was commenced in June 2005.

DEP intends to have a final draft SWMP prepared by late January 2006. DEP will then disseminate the SWMP statewide, hold several public hearings to solicit input from the public, incorporate comments received during the public hearing process into the SWMP, and promulgate a final SWMP sometime in late spring 2006.

The Authority considers revision of the SWMP to be significant and crucial, and has been involved in re-drafting the SWMP with DEP, its consultant, and the other stakeholders.

Cash Management

During the year, cash was invested on a short-term basis. The Authority’s primary short-term investment vehicle is the Short-Term Investment Fund (“STIF”) operated by the Office of the State Treasurer. The annualized average yield for STIF for fiscal year 2005 was 2.32% compared to 1.16% in fiscal year 2004. This reflects the rise in short-term market rates during fiscal year 2005. The Authority’s Board revised and updated the Authority’s Investment Policy in January 2004. The Authority intends to maximize its fund earnings by utilizing more diverse investment securities and lengthening investment terms while maintaining its prudent investment standards and ensuring liquidity.

Risk Management

The Authority endeavors to purchase commercial insurance for its property and liability needs. The Authority has secured insurance coverage for a variety of potential environmental exposures related to the operation and control of its projects and landfills. Statutory workers’ compensation benefits are provided by the Authority’s membership in the Connecticut Interlocal Risk Management Agency Workers’ Compensation Pool. The Authority also has designated a portion of its net assets to cover insurance deductibles and losses not covered by the Authority’s commercial insurance among other items. The Authority engages in an on-going evaluation of

its risk exposures to prevent losses where possible and minimize the financial impact of those risks that must be undertaken.

CERTIFICATE OF ACHIEVEMENT

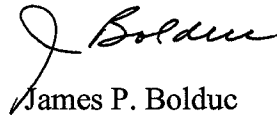
The Government Finance Officers Association of the United States and Canada (“GFOA”) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Connecticut Resources Recovery Authority for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. This was the twelfth consecutive year that the Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Authority must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

We would like to express our gratitude to the many individuals whose dedication and support contributed to the production of this report. We also appreciate the assistance and dedication of the audit team from Carlin, Charron & Rosen, LLP. Finally, we would like to thank the Authority’s Board of Directors for their interest and support in planning and conducting the Authority’s finances and operations.

Respectfully submitted,



James P. Bolduc
Chief Financial Officer



Nhan Vo-Le
Director of Accounting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Connecticut Resources Recovery Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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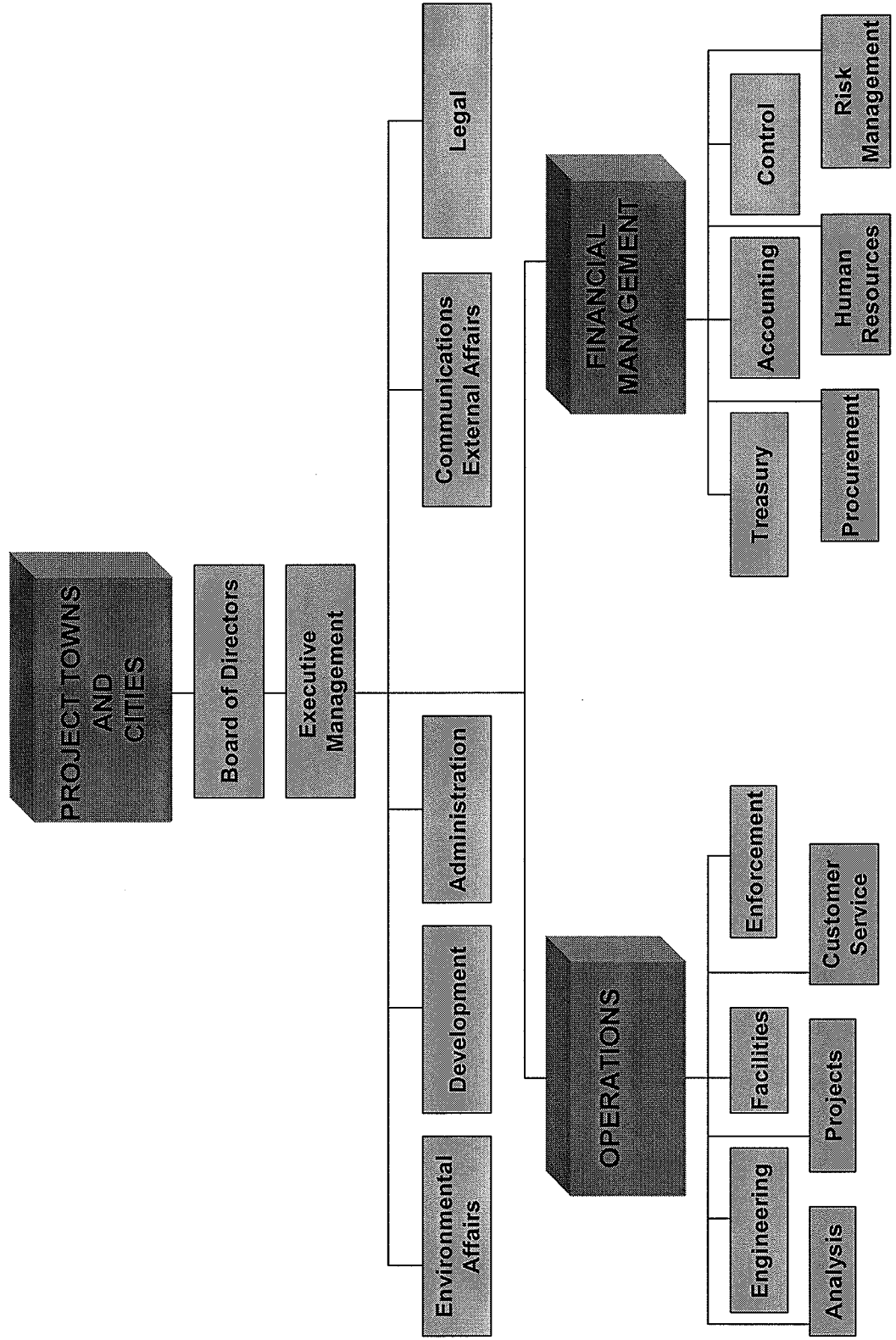
Southeast Project

Vacancy
Vacancy

President

Thomas D. Kirk

Connecticut Resources Recovery Authority Organization Chart



Financial Section



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Connecticut Resources Recovery Authority
Hartford, Connecticut

We have audited the accompanying basic financial statements of the Connecticut Resources Recovery Authority ("Authority"), a component unit of the State of Connecticut, as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Connecticut Resources Recovery Authority as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis presented on pages 3 through 20 of the Financial Section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory Section, the Supplementary Information presented on pages 45 through 51 of the Financial Section, and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplementary Information presented on pages 45 through 51 of the Financial Section has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

Carlin, Charvat & Reen, LLP

Glastonbury, Connecticut
September 14, 2005



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the Connecticut Resources Recovery Authority (the "Authority") activities and financial performance provides an introduction to the audited financial statements for the fiscal years ended June 30, 2005 and 2004 as compared to prior fiscal years. The MD&A reflects the Authority's commitment to openness and transparency. Following the MD&A are the basic financial statements of the Authority together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements.

During fiscal year 2005, the Authority realized \$111.7 million, including \$0.4 million of interest income, from the sale of its bankruptcy claim against Enron. The Authority sold its claim to a major financial institution through a competitive bid auction. For accounting purposes, the Authority has reported \$82.8 million, which represents a court approved estimated value of its Enron claim, as non-operating revenue, and \$28.5 million, which represents the gain on the sale of the Enron claim, as a special item, in the accompanying statements of revenues, expenses and change in net assets. The \$111.7 million sale proceeds have been used to defease certain outstanding bonds issued for the Mid-Connecticut Project and to establish an escrow fund as more fully described in the "Enron Matters" section herein.

FINANCIAL POSITION SUMMARY

The Authority's fiscal year 2005 total assets increased by \$0.6 million or 0.2% over fiscal year 2004 and total liabilities decreased by \$111.3 million or 41.3%. Total assets exceeded liabilities by \$230.8 million in 2005 as compared to \$118.8 million for 2004, or a net increase of \$111.9 million. The fiscal year 2004 total assets decreased by \$6.9 million or 1.8% compared to fiscal year 2003 and total liabilities decreased by \$8.3 million or 3.0%. Total assets exceeded liabilities by \$118.8 million in 2004 as compared to \$117.5 million for 2003, or a net increase of \$1.3 million.



| | BALANCE SHEETS | | |
|---|-------------------|-------------------|-------------------|
| | As of June 30, | | |
| | (In Thousands) | | |
| | 2005 | 2004 | 2003 |
| ASSETS | | | |
| Current unrestricted assets | \$ 92,846 | \$ 88,360 | \$ 81,344 |
| Current restricted assets | 23,225 | 29,504 | 28,873 |
| Total current assets | <u>116,071</u> | <u>117,864</u> | <u>110,217</u> |
| Non-current assets: | | | |
| Restricted cash and cash equivalents | 81,452 | 62,521 | 61,694 |
| Capital assets, net | 184,414 | 198,936 | 213,219 |
| Development and bond issuance costs, net | 7,221 | 9,204 | 10,341 |
| Total non-current assets | <u>273,087</u> | <u>270,661</u> | <u>285,254</u> |
| TOTAL ASSETS | <u>\$ 389,158</u> | <u>\$ 388,525</u> | <u>\$ 395,471</u> |
| LIABILITIES | | | |
| Current liabilities | \$ 33,695 | \$ 47,780 | \$ 46,939 |
| Long-term liabilities | 124,695 | 221,912 | 231,043 |
| TOTAL LIABILITIES | <u>158,390</u> | <u>269,692</u> | <u>277,982</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 100,471 | 26,096 | 26,456 |
| Restricted | 61,082 | 64,025 | 63,385 |
| Unrestricted | 69,215 | 28,712 | 27,648 |
| Total net assets | <u>230,768</u> | <u>118,833</u> | <u>117,489</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 389,158</u> | <u>\$ 388,525</u> | <u>\$ 395,471</u> |

FINANCIAL HIGHLIGHTS

The following is an overview of significant changes within the Balance Sheets as of June 30, 2005 and 2004:

ASSETS

Current unrestricted assets increased by \$4.5 million or 5.1% over fiscal year 2004 and \$7.0 million or 8.6% over fiscal year 2003. The fiscal year 2005 increase is primarily due to:

- A \$1.0 million grant receivable from the Connecticut Department of Environmental Protection (“CTDEP”) as reimbursement for costs previously incurred by the Authority in the closure of the Wallingford Landfill; and
- Increased solid waste service charges of \$6.2 million at the Bridgeport, Mid-Connecticut and Wallingford projects; and
- Increased operating reserve balances of \$5.3 million at the Bridgeport, Mid-Connecticut and Wallingford projects; and
- Increased interest income of \$1.4 million, offset by:
- A transfer of funds (\$4.5 million) and contributions (\$2.3 million) to the Mid-Connecticut and Wallingford non-current restricted assets for operating reserve requirements; and
- A distribution of the Wallingford project surplus funds of \$1.2 million to its participating municipalities; and
- Other, net of (\$1.4 million).



The fiscal year 2004 increase is due to increased tipping fees at the Mid-Connecticut, Bridgeport, and Southeast projects, higher electricity rates negotiated in a new Energy Purchase Agreement at the Mid-Connecticut project and a transfer of funds from the Mid-Connecticut restricted assets as a result of a major fiber contract expiration offset by a contribution to the Wallingford Tip Fee Stabilization Fund.

Current restricted assets decreased by \$6.3 million or 21.3% over fiscal year 2004 and increased by \$0.6 million or 2.1% compared to fiscal year 2003. The fiscal year 2005 decrease is due to decreased debt service fundings in Mid-Connecticut project as a result of the defeasance of debt and in the Wallingford and Southeast projects as a result of bond redemptions. The fiscal year 2004 increase is due to timely receipt of electric revenue at the Wallingford project and increased debt service fundings in Mid-Connecticut project offset by the transfer of funds to unrestricted assets as a result of the major fiber contract expiration.

Non-current assets increased by \$2.4 million or 0.9% over fiscal year 2004 and decreased by \$14.6 million or 5.4% compared to fiscal year 2003 due to:

- Restricted cash and cash equivalents increased by \$18.9 million compared to fiscal year 2004 and \$0.8 million compared to fiscal year 2003. The fiscal year 2005 increase is due to:
 - A combination of the transfer of funds and contributions from unrestricted assets for operating reserve requirements; and
 - The creation of the State Loan Escrow account from proceeds of the sale of the Enron claim, which is designated for the repayment of the State loans until it is paid in full; and
 - Interest earned, offset by:
 - A decrease in Special Capital Reserve and Debt Service Reserve Funds as a result of the Mid-Connecticut defeasance of debt and the Wallingford and Southeast bond redemptions.

The fiscal year 2004 increase is due to an additional contribution to the Wallingford Tip Fee Stabilization Fund during fiscal year 2004 to cover future reductions in electricity revenues and increases in anticipated operating expenses at the Wallingford project.

- Capital assets decreased by \$14.5 million compared to fiscal year 2004 and \$14.3 million compared to fiscal year 2003. The fiscal year 2005 decrease is due to depreciation expense of \$16.8 million offset by \$2.3 million in plant improvements and equipment purchases. The fiscal year 2004 decrease is due to depreciation expense of \$16.7 million offset by \$2.4 million in plant improvements and equipment purchases.
- Development and bond issuance costs decreased by \$2.0 million compared to fiscal year 2004 and \$1.1 million compared to fiscal year 2003. The fiscal year 2005 decrease is due to amortization expense and write-off of unamortized bond issuance costs related to the Mid-Connecticut defeasance of debt. The fiscal year 2004 decrease is due to amortization expense.



LIABILITIES

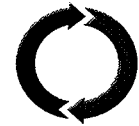
Current liabilities decreased by \$14.1 million or 29.5% compared to fiscal year 2004 and increased by \$0.8 million or 1.8% compared to fiscal year 2003. The fiscal year 2005 decrease is due to a \$16.2 million decrease in the current portion of bonds payable as a result of the Mid-Connecticut defeasance of debt and the Wallingford and Southeast bond redemptions offset by an increase in the current portion of the State loans payable as a result of scheduled principal payments on prior State loans drawdowns. The fiscal year 2004 increase is due to a \$1.3 million increase in the current portion of bonds payable and a \$0.9 million increase in the current portion of the State loans payable offset by a \$1.4 million decrease in accounts payable and accrued expenses.

Long-term liabilities decreased by \$97.2 million or 43.8% compared to fiscal year 2004 and \$9.1 million or 4.0% compared to fiscal year 2003 due to:

- Long-term portion of bonds payable, net decreased by \$101.5 million compared to fiscal year 2004 and \$18.9 million compared to fiscal year 2003. The fiscal year 2005 decrease is due to:
 - Defeasance of debt: Mid-Connecticut System Bonds 1996 Series A Bonds (\$81.5 million), 1997 Series A Bonds (\$2.1 million) and 2001 Series A Bonds (\$13.2 million); and
 - Bond redemptions: Wallingford Resources Recovery Project 1991 Series One Subordinated Bonds (\$0.5 million) and Southeast Project 1989 Series A Bonds (\$2.0 million); and
 - Regular principal payments due on Authority bonds.

The fiscal year 2004 decrease is due to regular principal payments on Authority bonds during the fiscal year. The debt amounts as of June 30, 2005 and 2004 reflect the deferred amount on refunding of bonds and the unamortized premium on sale of bonds.

- State loans payable increased by \$5.3 million over fiscal year 2004 and \$8.8 million over fiscal year 2003. The fiscal year 2005 increase is due to additional drawdowns during the first six months of fiscal year 2005. There were no drawdowns since January 2005. The fiscal year 2004 increase is due to additional drawdowns during the fiscal year.
- Closure and postclosure care of landfills decreased by \$0.7 million compared to fiscal year 2004 and increased by \$1.2 million compared to fiscal year 2003. The fiscal year 2005 decrease is due to a reduction of the long-term liability accounts as a result of payments for the Ellington, Shelton and Wallingford landfills. In addition, there was no significant increase in projected costs for the Ellington, Hartford, Shelton, Waterbury and Wallingford landfills during fiscal year 2005. The fiscal year 2004 increase is due to payments of \$0.7 million for the Ellington, Shelton and Wallingford landfills offset by a \$1.9 million increase in projected costs for all five landfills. This increase was primarily due to increases in land surface care, general engineering services, environmental monitoring and remediation costs.



SUMMARY OF OPERATIONS AND CHANGE IN NET ASSETS

Net Assets may serve over time as a useful indicator of the Authority's financial position.

| | STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS Fiscal Years Ended June 30, (In Thousands) | | |
|---|---|-------------------|-------------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Operating revenues | \$ 168,941 | \$ 165,418 | \$ 155,820 |
| Operating expenses | <u>137,443</u> | <u>135,482</u> | <u>138,272</u> |
| Excess before depreciation and amortization and other non-operating revenues and (expenses) | 31,498 | 29,936 | 17,548 |
| Depreciation and amortization | <u>17,864</u> | <u>17,887</u> | <u>18,188</u> |
| Income before other non-operating revenues and (expenses), net | 13,634 | 12,049 | (640) |
| Non-operating revenues and (expenses), net | <u>75,927</u> | <u>(10,705)</u> | <u>(10,686)</u> |
| Income before special items | 89,561 | 1,344 | (11,326) |
| Special items: | | | |
| Gain on sale of Enron claim | 28,502 | - | - |
| Early retirement/defeasance of debt | <u>(6,128)</u> | <u>-</u> | <u>-</u> |
| Increase (Decrease) in net assets | 111,935 | 1,344 | (11,326) |
| Total net assets, beginning of year | <u>118,833</u> | <u>117,489</u> | <u>128,815</u> |
| Total net assets, end of year | <u>\$ 230,768</u> | <u>\$ 118,833</u> | <u>\$ 117,489</u> |

Operating revenues increased by \$3.5 million or 2.1% during fiscal year 2005 over fiscal year 2004 and \$9.6 million or 6.2% from fiscal year 2003 to fiscal year 2004. The fiscal year 2005 increase was due to a \$6.2 million increase in service charges due to tip fee increases at three of the four Authority projects (see "Authority Rates and Charges," herein) and increases in contracted waste deliveries. There was also a \$0.5 million increase due to favorable recycling sales. These increases were offset by lower energy revenues of \$3.2 million. The fiscal year 2004 increase was due primarily to a \$5.1 million increase in service charges at three of the four Authority projects, a \$2.4 million increase in energy revenue at the Mid-Connecticut project offset by \$161,000 in decreased energy revenue at the Wallingford project, and a \$2.2 million increase in other operating revenue as a result of increased recycling sales and the return of a \$500,000 contribution previously made to National Geographic.

Operating expenses increased during fiscal year 2005 by \$2.0 million or 1.4% compared to fiscal year 2004 due to an increase in waste deliveries, costs associated with capital improvements and an increase in enforcement and scale staffing at the projects. Operating expenses decreased during fiscal year 2004 by \$2.8 million or 2.0% compared to fiscal year 2003. This was due primarily to decreased solid waste operation expenses and lower closure and postclosure care costs recognized in fiscal year 2004 for the Hartford and Wallingford landfills.



Depreciation and amortization remained fairly constant, decreasing by \$23,000 and \$301,000, over fiscal years 2004 and 2003, respectively, due to full depreciation of certain assets during the fiscal years and decreased amortization of bond issuance costs related to the Mid-Connecticut defeasance of debt during fiscal year 2005, which was offset by depreciation expense on capital additions.

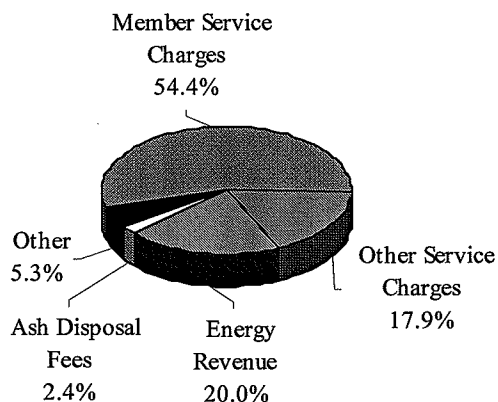
Non-operating revenues, net increased by \$86.6 million during fiscal year 2005 primarily due to the court approved estimated value of the Authority's Enron claim of \$82.8 million, increased investment income and lower interest expense, offset by increased net other expense. Non-operating expenses, net remained fairly constant, increasing by \$19,000, between the fiscal years 2004 and 2003 due to a decrease in investment income and other settlement income offset by a decrease in bond interest expense.

Special item – Gain on sale of Enron claim represents proceeds from the sale of the Enron claim to a major financial institution with a significant presence in the distressed debt claims markets. Such sale resulted in a premium of 34.4% or \$28.5 million over the court approved estimated value of the Authority's Enron claim of \$82.8 million.

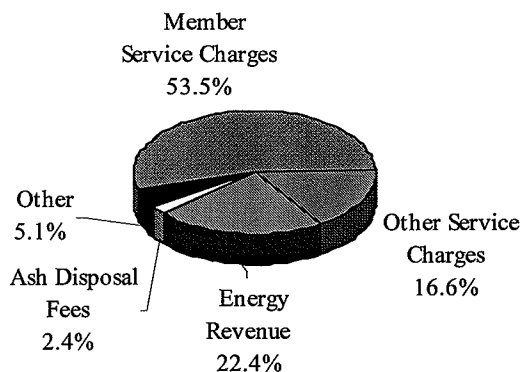
Special item – Early retirement/defeasance of debt of \$6.1 million is attributable to the write-off of unamortized amounts such as bond issuance costs and other deferred amounts related to the Mid-Connecticut 1996 Series A Bonds, 1997 Series A Bonds and 2001 Series A Bonds, which were partially or fully defeased, plus the Wallingford Project 1991 Series One Subordinated Bonds which were redeemed during fiscal year 2005.

SUMMARY OF OPERATING REVENUES

The following charts show the major sources and the percentage of operating revenues for the fiscal years ended June 30, 2005 and 2004:



Fiscal Year 2005



Fiscal Year 2004

During fiscal year 2005, Solid Waste tipping fees (member service and other service charges) plus ash disposal reimbursement account for nearly 75% of the Authority's operating revenues. Energy production makes up another 20.0% of operating revenues. During fiscal year 2004, Solid Waste tipping fees (member service and other service charges) plus ash disposal



reimbursement accounted for 72.5% of the Authority's operating revenues. Energy production made up another 22.4% of operating revenues.

A summary of the operating revenues, non-operating revenues and special item for the fiscal year ended June 30, 2005, and the amount and percentage of change in relation to the immediate prior two fiscal years is as follows:

SUMMARY OF OPERATING, NON-OPERATING REVENUES AND SPECIAL ITEM
Fiscal Years Ended June 30,
(In Thousands)

| | 2005 | 2005 Percent of Total | 2004 | 2005 Increase/ (Decrease) from 2004 | 2005 Percent Increase/ (Decrease) | 2003 | 2004 Increase/ (Decrease) from 2003 | 2004 Percent Increase/ (Decrease) |
|-------------------------------------|-------------------|-----------------------------|-------------------|--|--|-------------------|--|--|
| Operating: | | | | | | | | |
| Member Service Charges | \$ 91,894 | 32.1% | \$ 88,541 | \$ 3,353 | 3.8% | \$ 82,915 | \$ 5,626 | 6.8% |
| Other Service Charges | 30,223 | 10.5% | 27,384 | 2,839 | 10.4% | 27,927 | (543) | -1.9% |
| Energy Revenue | 33,798 | 11.8% | 36,998 | (3,200) | -8.6% | 34,639 | 2,359 | 6.8% |
| Ash Disposal Reimbursement | 4,025 | 1.4% | 4,031 | (6) | -0.1% | 4,033 | (2) | 0.0% |
| Other Operating Revenue | 9,001 | 3.1% | 8,464 | 537 | 6.3% | 6,306 | 2,158 | 34.2% |
| Total Operating Revenues | 168,941 | 58.9% | 165,418 | 3,523 | 2.1% | 155,820 | 9,598 | 6.2% |
| Non-Operating: | | | | | | | | |
| Enron Claim Settlement | 82,760 | 28.9% | - | 82,760 | 100.0% | - | - | 0.0% |
| Investment Income | 4,471 | 1.6% | 1,623 | 2,848 | 175.5% | 2,386 | (763) | -32.0% |
| Other Income | 1,884 | 0.7% | 184 | 1,700 | 923.9% | 549 | (365) | -66.5% |
| Total Non-Operating Revenues | 89,115 | 31.2% | 1,807 | 87,308 | 4831.7% | 2,935 | (1,128) | -38.4% |
| Special Item: | | | | | | | | |
| Gain on sale of Enron claim | 28,502 | 9.9% | - | 28,502 | 100.0% | - | - | 0.0% |
| TOTAL | \$ 286,558 | 100.0% | \$ 167,225 | \$ 119,333 | 71.4% | \$ 158,755 | \$ 8,470 | 5.3% |

Overall, fiscal year 2005 total revenues rose by \$119.3 million or 71.4% over fiscal year 2004, largely reflective of the Enron claim. Fiscal year 2004 total revenues rose by \$8.5 million or 5.3% from fiscal year 2003. The following discusses the major changes in operating, non-operating revenues and special item of the Authority:

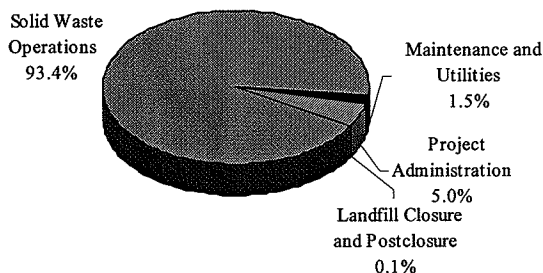
- Member service charges increased by \$3.4 million in fiscal year 2005 and \$5.6 million in fiscal year 2004. These increases reflect the increase of the tipping fee enacted at the Bridgeport, Mid-Connecticut and Wallingford projects in fiscal year 2005 and tipping fee increases enacted at the Bridgeport, Mid-Connecticut and Southeast projects in fiscal year 2004.
- Other service charges to both contract towns and spot waste haulers, increased by \$2.8 million from fiscal year 2004 to 2005. This is contrasted by a \$543,000 decrease in other service charges from fiscal year 2003 to 2004. The fiscal year 2005 increase is due to contracting additional waste at the Bridgeport project and higher tipping fees for contract towns at the Mid-Connecticut project. The fiscal year 2004 decrease is due to the loss of private hauler contracts at the Bridgeport project and a decrease in contract deliveries at the Mid-Connecticut project due to the increase in tipping fees.



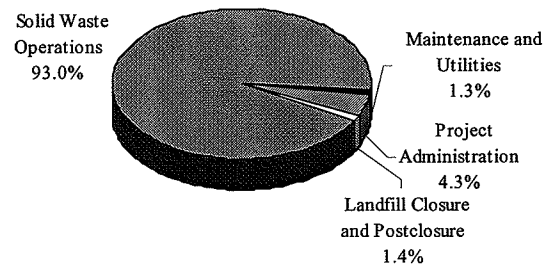
- Energy revenue decreased by \$3.2 million during fiscal year 2005 and increased by \$2.4 million during fiscal year 2004. The fiscal year 2005 decrease reflects lower electrical generation due to poor plant performance and a lower electricity contract rate during the 2005 fiscal year at the Mid-Connecticut project. The fiscal year 2004 increase reflects a net increase in energy revenue at the Mid-Connecticut project due to a more favorable electricity contract rate during the 2004 fiscal year.
- Other operating revenue increased by \$537,000 in fiscal year 2005 and \$2.1 million in fiscal year 2004. The fiscal year 2005 increase is a result of contractual favorable recycling sales market. The fiscal year 2004 increase is due to the return of a \$500,000 contribution previously made to the National Geographic, better-than-expected recycling sales of \$1 million, unanticipated increases of ferrous metal sales and revenues for soil deliveries to the Hartford landfill.
- Enron claim of \$82.8 million represents the estimated value of the Enron claim that was awarded to the Authority from the bankruptcy court (see “Enron Matters” section herein).
- Investment income increased \$2.8 million from fiscal 2004 to 2005 due to overall improved market returns and increased balances. Investment income decreased \$763,000 from fiscal year 2003 to 2004 due to poor market returns and lower balances.
- Other income of \$1.9 million represents a settlement with an insurance company for contingent commissions or overrides, funds authorized for release by the Southeastern Connecticut Regional Resources Recovery Authority from the restricted Montville Landfill Postclosure Fund to cover fiscal year 2004 operating deficit and landfill postclosure expenses and a grant from the CTDEP for landfill closure costs incurred by the Authority to close the Wallingford landfill (see “Landfill Activity” section herein). Other income during fiscal year 2004 was \$184,000 representing gains on sales of investments and computer equipment.
- Special item – Gain on sale of Enron claim (previously discussed on page 8 of the MD&A).

SUMMARY OF OPERATING EXPENSES

The following charts show the major sources and the percentage of expenses for the fiscal years ended June 30, 2005 and 2004:



Fiscal Year 2005



Fiscal Year 2004



Solid Waste Operations are the major component of the Authority's operating expenses, accounting for 93% of the operating expenses in both fiscal years 2005 and 2004.

A summary of the operating expenses, non-operating expenses and special item for the fiscal year ended June 30, 2005, and the amount and percentage of change in relation to the immediate prior two fiscal years is as follows:

SUMMARY OF OPERATING, NON-OPERATING EXPENSES AND SPECIAL ITEM
Fiscal Years Ended June 30,
(In Thousands)

| | 2005 | 2005 Percent of Total | 2004 | 2005 Increase/ (Decrease) from 2004 | 2005 Percent Increase/ (Decrease) | 2003 | 2004 Increase/ (Decrease) from 2003 | 2004 Percent Increase/ (Decrease) |
|-------------------------------------|-------------------|-----------------------------|-------------------|--|--|-------------------|--|--|
| Operating: | | | | | | | | |
| Solid Waste Operations | \$ 128,394 | 73.5% | \$ 126,016 | \$ 2,378 | 1.9% | \$ 127,873 | \$ (1,857) | -1.5% |
| Maintenance and Utilities | 2,037 | 1.2% | 1,697 | 340 | 20.0% | 1,076 | 621 | 57.7% |
| Project Administration | 6,832 | 3.9% | 5,880 | 952 | 16.2% | 5,205 | 675 | 13.0% |
| Landfill Closure and Postclosure | 180 | 0.1% | 1,889 | (1,709) | -90.5% | 4,118 | (2,229) | -54.1% |
| Total Operating Expenses | 137,443 | 78.7% | 135,482 | 1,961 | 1.4% | 138,272 | \$ (2,790) | -2.0% |
| Depreciation | 17,864 | 10.2% | 17,887 | (23) | -0.1% | 18,188 | (301) | -1.7% |
| Non-Operating: | | | | | | | | |
| Interest Expense | 10,022 | 5.8% | 12,482 | (2,460) | -19.7% | 13,510 | (1,028) | -7.6% |
| Other Expenses | 3,166 | 1.8% | 30 | 3,136 | 10453.3% | 111 | (81) | -73.0% |
| Total Non-Operating Expenses | 13,188 | 7.6% | 12,512 | 676 | 5.4% | 13,621 | \$ (1,109) | -8.1% |
| Special Item: | | | | | | | | |
| Early retirement/defeasance of debt | 6,128 | 3.5% | - | 6,128 | 100.0% | - | - | 0.0% |
| TOTAL | \$ 174,623 | 100.0% | \$ 165,881 | \$ 8,742 | 5.3% | \$ 170,081 | \$ (4,200) | -2.5% |

The Authority's total expenses increased by \$8.7 million or 5.3% between fiscal year 2004 and 2005. Fiscal year 2004 total expenses decreased by \$4.2 million or 2.5% from fiscal year 2003. Notable differences between the years include:

- Solid waste operations increased by \$2.4 million from fiscal year 2004 to 2005 primarily due to increased deliveries at the Bridgeport facility. From fiscal year 2003 to 2004, solid waste operations decreased by \$1.9 million due to a reduction in contract operating charges as a result of lower solid waste deliveries at the Mid-Connecticut and Bridgeport projects and lower legal fees as a result of settled litigations.
- Maintenance and utilities expenses increased \$340,000 during fiscal year 2005 primarily due to extensive conveyor rebuilds at the Mid-Connecticut facility. During fiscal year 2004, maintenance and utilities expenses increased by \$621,000 as a result of roof and baler improvements, demolition of a building, installation of gas wells and reallocation of pass-through costs for the Mid-Connecticut energy generating facility.
- Project administration costs increased \$952,000 during fiscal year 2005 over fiscal year 2004 and \$675,000 during fiscal year 2004 over fiscal year 2003. During fiscal year 2005, this increase was due to the addition of enforcement staff and scalehouse operators.



During fiscal year 2004, the increase was due to filling vacant management positions and the hiring of new staff positions including four enforcement positions at the four projects and two administrative positions.

- Landfill closure and postclosure costs decreased \$1.7 million between fiscal year 2004 and 2005, primarily due to lower closure and postclosure care costs recognized in fiscal year 2005 as a result of no significant increase in projected costs for all five landfills. Between fiscal years 2003 and 2004, landfill closure and postclosure care costs decreased \$2.2 million as a result of lower closure and postclosure care costs recognized in fiscal year 2004 for the Hartford and Wallingford landfills, which was offset by higher costs recognized for the Ellington and Shelton landfills. During fiscal year 2004, projected costs for the Ellington and Shelton landfills increased due to increases in land surface care, general engineering services, environmental and remediation costs.
- Interest expense decreased by \$2.5 million during fiscal year 2005 and \$1.0 million during fiscal year 2004 due to the decrease in principal amount of bonds outstanding.
- Other expenses of \$3.1 million represents the Wallingford project rebate to its participating municipalities (\$1,177,000), a settlement with the Bridgeport project's operator (\$1,850,000), trustee fees and letter of credit fees. Other expenses during fiscal years 2004 and 2003 were \$30,000 and \$111,000, respectively, representing trustee fees, letter of credit fees and miscellaneous expenses.
- Early retirement/defeasance of debt (previously discussed on page 8 of the MD&A).

CAPITAL ASSETS

The Authority's investment in capital assets for its activities as of June 30, 2005 and 2004 totaled \$184.4 million and \$198.9 million, respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, gas and steam turbines, rolling stock and vehicles. The total fiscal year 2005 and 2004 decrease in the Authority's investment in capital assets was 7.3% and 6.7%, respectively. The decrease is due to depreciation expense offset by plant improvements and equipment purchases.

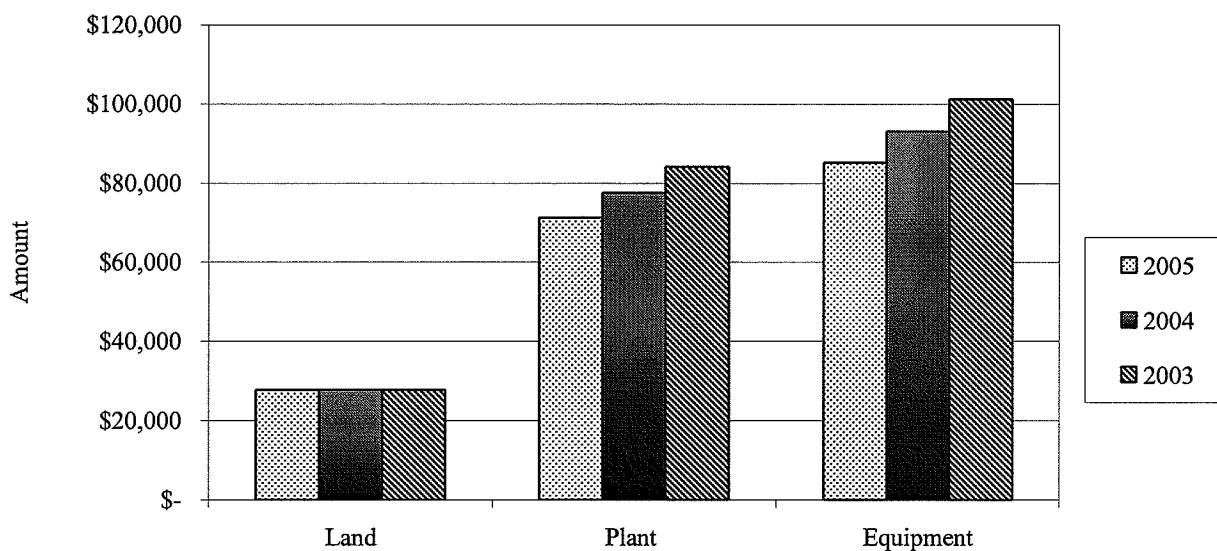
Major capital asset events during the current and immediate prior two fiscal years included conveyor rebuilds, floor repairs, building/leasehold improvements, installation of a dolomitic lime system and new gas collection wells, and extension of the ash base liner system.



The following table is a three year comparison of the investment in capital assets:

Capital Assets
(Net of Accumulated Depreciation)
As of June 30,
(In Thousands)

| | 2005 | 2004 | 2003 |
|--------------------------|-------------------|-------------------|-------------------|
| Land | \$ 27,774 | \$ 27,774 | \$ 27,774 |
| Plant | 71,380 | 77,593 | 84,145 |
| Equipment | 85,189 | 93,068 | 101,264 |
| Construction in progress | 71 | 501 | 36 |
| Totals | \$ 184,414 | \$ 198,936 | \$ 213,219 |



Additional information on the Authority’s capital assets can be found in Notes 1J and 3 on pages 27, 28 and 32 of this report.

ENRON MATTERS

As part of the deregulation of the energy industry in Connecticut and the resultant energy contract buy-downs, the Authority entered into agreements with Enron Power Marketing, Inc. (“Enron”) and the Connecticut Light & Power Company (“CL&P”) on December 22, 2000 that, among other obligations, required Enron to pay the Authority monthly charges for the purchase of steam capacity and for electricity generated from such steam from the Authority’s Mid-Connecticut project. As part of these transactions, Enron received \$220 million from the Authority and the Authority received approximately \$60 million from CL&P during fiscal year



2001. Enron filed for bankruptcy on December 2, 2001 and has not made its monthly payments since that time.

The Authority has continued its efforts to mitigate the financial impact of the above on the municipalities that are part of the Mid-Connecticut project. These efforts included: increasing the Mid-Connecticut tipping fees (see “Authority Rates and Charges” section herein), pursuing remedies in bankruptcy court with the State’s Attorney General, negotiating with Select Energy for improved electricity revenues for the Mid-Connecticut facility power and securing a retail electric supplier license in the State. In addition, the Authority, through the State’s Attorney General’s Office continues to pursue recovery of lost monies in federal and state courts. Furthermore, the State provided its support to ensure timely payment of debt service on the Mid-Connecticut bonds as required by legislation (see “State Loans” section below).

In connection with the Enron bankruptcy, the Authority filed proofs of claim against Enron Power Marketing, Inc. and Enron Corporation, seeking to recover the losses sustained in connection with the 2000 transaction. On June 29, 2004, Enron agreed to the proposed settlement of the claims that were filed, pending approval from the United States Bankruptcy court, among others. On July 22, 2004, the Authority’s Board of Directors voted to allow bids to be received in connection with a potential sale of the Enron claims. The Authority’s Enron claims were estimated by the bankruptcy court to have a value of \$82,760,484. On August 20, 2004, the Authority’s Board of Directors received bids and passed a resolution approving the sale of the Enron claims to a major financial institution with a significant presence in the distressed debt claims markets, which resulted in a premium of \$28,501,471 or 34.4% over the estimated value amount. On January 20, 2005, the United States Bankruptcy court approved the Enron settlement agreement. On February 1, 2005, the Authority received \$111,686,881 (which included \$424,926 interest) at the closing of the Enron claims sale, which was applied to the Mid-Connecticut project debt as follows: On March 11, 2005, the Authority fully defeased its outstanding Mid-Connecticut Project Bonds 1997 Series A and 2001 Series A and partially defeased its outstanding Mid-Connecticut Project Bonds 1996 Series A. In addition, the Authority established an irrevocable escrow account on March 24, 2005 in the amount of \$19,394,506 with the remaining proceeds from the sale of the Enron claims, which will provide for future State loans repayments.

STATE LOANS

On April 19, 2002, the Connecticut General Assembly passed Public Act No. 02-46 (the “Act”), which authorizes a loan by the State to the Authority of up to \$115 million to support the repayment of the Authority’s debt for the Mid-Connecticut project, in order to avoid default. The Act also restructured the Authority’s Board of Directors and required a Steering Committee Report and Financial Mitigation Plan to be filed with the State. This State support resulted in the approval of a loan in the amount of \$22 million for the period June 30, 2003 through June 30, 2004 and the approval of a subsequent loan in the amount of \$20 million for the period July 1, 2004 through June 30, 2005. As of June 30, 2005, the Authority had drawn down \$21.5 million of the authorized State loans and had a principal balance of \$18.5 million outstanding. The Authority makes monthly loan repayments comprising both principal and interest payments. The monthly interest rate on the State loans equals the monthly State Treasurer’s Short Term Investment Fund rate plus 25 basis points, and is capped at six percent.



LANDFILL ACTIVITY

During calendar year 2004, the Authority entered into a contract with an environmental engineering firm to conduct a comprehensive landfill siting investigation. This analysis is complete and has identified potential sites within the State that are technically and environmental amenable to permitting and constructing an ash residue and/or bulky waste landfill. The Authority is now reviewing the results of this report to select a site upon which it will initiate siting activities. The Authority expects to make a decision by the end of calendar year 2005.

There is approximately 12 months of capacity remaining at the Hartford landfill for non-processible waste and process residue generated at the Mid-Connecticut Resource Recovery Facility ("RRF"), and there is approximately 33 months of capacity remaining at the Hartford landfill for ash residue generated by the Mid-Connecticut RRF. The Authority intends to employ a consulting engineer to develop a closure plan for the area of the landfill that accepts the non-processible waste and process residue. The Authority intends to submit the closure plan to the CTDEP by the end of calendar year 2005.

The solid waste permit and regulations that govern activities at the Hartford landfill require that the Authority estimate the cost of landfill closure, and reserve funds against this estimated cost. The same permit and regulations also require that a 30-year postclosure care and maintenance cost estimate be developed, and that funds be reserved for these future activities. The Authority has developed both a closure and postclosure cost estimate and has reserved funds for these activities in accordance with the permit and regulations. The Authority has accounted for such amounts in accordance with GASB Statement No. 18 "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs". Pursuant to the Lease Agreement between the Authority and the City of Hartford, the obligation for closure and postclosure activities are shared by the Authority and the City of Hartford. The Authority and the City differ on the proportionate share of these costs for which each party is responsible, and are working so that the matter is resolved prior to closure of the landfill. The Authority is reserving funds sufficient to cover what it believes is its share of the closure and post-closure costs.

The Authority received final closure certification from the CTDEP for the Wallingford landfill on February 28, 2005. Following receipt of the formal closure certification, the Authority, in conjunction with the Town of Wallingford, executed a contract with the CTDEP to receive \$1,000,000 as reimbursement for landfill closure costs incurred by the Authority to close the landfill. This money was earmarked by the Connecticut Legislature in calendar year 1999 for this purpose and has been held in escrow by the CTDEP since that time, pending final closure. On August 26, 2005, the CTDEP received authorization to release the funds, which the Authority expects to receive during September 2005.

METROPOLITAN DISTRICT COMMISSION ARBITRATION RULING

The Authority completed two arbitration hearings with the Metropolitan District Commission (the "MDC") during fiscal year 2005 on claims asserted by both parties.

The first arbitration hearing was held in the fall of 2004 regarding the Authority's right to hire replacement workers at the Mid-Connecticut Project transfer stations and for transportation



services. The arbitrators ruled that the Authority has the right to replace the MDC workers. The MDC did not seek damages.

A second arbitration hearing was held in the spring of 2005 to resolve certain claims, including non-payment of two MDC invoices and the Authority's claim that it was being overcharged by the MDC for indirect costs. The Authority had previously created an escrow account to set aside 25% of the indirect costs invoiced by the MDC pursuant to a previous arbitration panel's ruling in 1999. In July 2005, the second arbitration panel ruled in favor of the Authority stating that due to the overcharges the Authority did not have to pay the two MDC invoices and that the Authority shall retain 100% of the escrow account which was approximately \$5.0 million at the end of June 30, 2005. The MDC has since filed an action to vacate the ruling of the arbitrators. The Authority plans to contest this action.

NEW HARTFORD SUIT

In December 2003, the Towns of New Hartford and Barkhamsted filed suit against the Authority, former board members and delegates, the Authority's former President, and others, seeking damages allegedly resulting from the Enron transaction (and, with regard to some of the defendants, other allegedly improper transactions), as well as equitable relief. In addition to vigorously contesting these claims on its own behalf, the Authority, as required by statute, is defending and indemnifying its former President and board members. On September 7, 2004, the plaintiff Towns filed a motion to have all municipalities that receive and pay for solid waste management services from the Mid-Connecticut Project under contract with the Authority certified as a class. On August 10, 2005, the Motions to Dismiss all of the non-Authority defendants were granted; on August 30, 2005, plaintiffs filed an appeal. On August 11, 2005, the court established a scheduling order for Class Certification. The matter is too preliminary to estimate any potential exposure.



AUTHORITY RATES AND CHARGES

The Authority’s Board of Directors approves the succeeding fiscal year tipping fees for all of the projects except the Southeast Project, which is subject to approval by the Southeastern Connecticut Regional Resources Recovery Authority, during the months of January and February each year, as required under the various project bond resolutions. The following table presents a history of the tipping fees for each of the four projects:

| TIP FEE HISTORY BY PROJECT | | | | | |
|--|------------------------|-------------------------------|---------|--------------------|------------------|
| (Dollars charged per ton of solid waste delivered) | | | | | |
| Fiscal Year | Mid-Connecticut | Bridgeport¹ | | Wallingford | Southeast |
| 2000 | \$49.00 | \$60.00 | \$10.00 | \$57.00 | \$59.00 |
| 2001 | 50.00 | 60.00 | 7.00 | 56.00 | 58.00 |
| 2002 | 51.00 | 60.00 | 7.00 | 55.00 | 57.00 |
| 2003 | 57.00 | 62.00 | 7.00 | 55.00 | 57.00 |
| 2004 | 63.75 | 63.00 | 8.00 | 55.00 | 60.00 |
| 2005 | 70.00 | 64.50 | 8.00 | 56.00 | 60.00 |

LONG-TERM DEBT ISSUANCE, ADMINISTRATION AND CREDIT RATINGS

As detailed in the table on page 19, as of the fiscal year ended June 30, 2005, the Authority had \$286.5 million of outstanding debt. Of this amount, \$43.5 million comprises debt issued by the Authority as a conduit issuer for the Southeast Project in connection with the American Ref-Fuel Company and is not carried on the Authority’s books. In addition, \$65.3 million of the outstanding bonds pertaining to the Bridgeport project, \$14.9 million of the outstanding bonds pertaining to the Wallingford project and \$57.7 million of the outstanding bonds pertaining to the Southeast project do not appear on the books of the Authority as these bonds were issued to fund construction of waste processing facilities operated by independent contractors who have commitments to repay the debt that is not allocable to Authority purposes.

Finally, the Authority defeased \$96.8 million bonds pertaining to the Mid-Connecticut project, which also do not appear on the Authority’s books. The Mid-Connecticut Project Bonds defeased during the fiscal year 2005 are invested in an escrow fund made up of U.S. Government Securities (State and Local Government Series). The total of outstanding bonds carried on the Authority’s books as of the fiscal year ended June 30, 2005 is \$105.1 million.

With the exception of the Southeast Project conduit bonds, all other bonds issued by the Authority are secured by credit enhancement in the form of municipal bond insurance or the Special Capital Reserve Fund of the State of Connecticut, and in some cases, both. The Special Capital Reserve Fund (SCRF) is a contingent liability of the State of Connecticut available to replenish any debt service reserve fund draws on bonds that have the SCRF designation. The funds used to replenish a debt service draw are provided by the State’s General Fund and are deemed appropriated by the Connecticut legislature.

¹ The Bridgeport Project charges a split rate; the first rate is for actual tons delivered and the second rate is based on the minimum commitment tonnage.



The Authority did not issue long-term debt for capital improvements during the fiscal year ended June 30, 2005. The Authority did, however, request and receive \$8.6 million in State Loans during fiscal year 2005 in support of the Mid-Connecticut Project Bonds debt service payments due. The State Loans are defined as bonds under the Mid-Connecticut Project Bond Resolution and are included in the table on page 19.

During March 2005, the Authority used proceeds from the sale of the Enron claim (See “Enron Matters” section herein) to fully defease its outstanding Mid-Connecticut Project 1997 Series A and 2001 Series A Bonds, to partially defease its outstanding Mid-Connecticut Project 1996 Series A Bonds, and to establish an irrevocable escrow fund for the repayment of its outstanding State loan borrowings. The defeased bonds do not appear on the Authority’s books, however the principal outstanding on State loan borrowings is reflected in the table on page 19.

The Authority also redeemed two outstanding series of bonds during fiscal year 2005:

- In December 2004, the Authority called its outstanding \$500,000 Wallingford Project 1991 Series One Subordinated Bonds at par from available funds and these bonds were retired. The 1991 Series One Bonds were originally issued in the amount of \$7,000,000. The called bonds had a coupon rate of 6.85%.
- In April 2005, the Authority called its outstanding \$2,045,000 Southeast Project 1989 Series A Bonds at par from available funds and these bonds were retired. The 1989 Series A Bonds were originally issued in the amount of \$3,935,000 and had a coupon rate of 7.70%.

The ratings of the Authority’s outstanding bonds were unchanged during the fiscal year ended June 30, 2005, with the exception of the Corporate Credit Revenue Bonds of the Southeast Project. Effective June 24, 2005, Danielson Holding Corporation, through its wholly-owned subsidiary, Covanta Energy Corporation, acquired all of the issued and outstanding shares of capital stock of American Ref-Fuel Holdings Corp., the indirect parent of American Ref-Fuel Company LLC. This acquisition was made pursuant to the terms of a Stock Purchase Agreement, dated as of January 31, 2005 among Danielson, Holdings Corp. and its owners. As a result of the acquisition, Danielson, through Covanta, owns 100% of the voting securities of Holdings Corp. On April 28, 2005, in connection with its consideration of the acquisition, Moody’s Investors Service issued a ratings action downgrading American Ref-Fuel Company LLC (“ARC”) and the guaranteed debt associated with the American Ref-Fuel Company projects. In addition, on June 28, 2005, Standard & Poor’s Ratings Service announced that following the acquisition the credit rating on American Ref-Fuel Company and the guaranteed debt related to the American Ref-Fuel Company projects was lowered to “BB+”.

Additional information on the Authority’s long-term debt can be found in Note 4 on pages 32 – 36 of this report.



STATUS OF OUTSTANDING BONDS ISSUED AS OF JUNE 30, 2005

| PROJECT / Series | Moody's Rating | Standard & Poor's Rating | Credit Enhancement | X= SCRF-Backed ¹ | Dated | Maturity Date | Original Principal (\$000) | Principal Outstanding (\$000) | On Authority's Books (\$000) | |
|--|----------------|--------------------------|--------------------|-----------------------------|----------|---------------|----------------------------|-------------------------------|------------------------------|--|
| MID-CONNECTICUT PROJECT | | | | | | | | | | |
| 1996 Series A - Project Refinancing ² | Aaa | AAA | MBIA | X | 08/20/96 | 11/15/12 | \$209,675 | \$69,415 | \$69,415 | |
| 2004 State Loan Borrowings (cumulative) ³ | NR | NR | -- | -- | various | 12/01/12 | 12,842 | 10,606 | 10,606 | |
| 2005 State Loan Borrowings (cumulative) ³ | NR | NR | -- | -- | various | 06/01/12 | 8,659 | 7,952 | 7,952 | |
| | | | | | | | | 87,973 | 87,973 | |
| BRIDGEPORT PROJECT | | | | | | | | | | |
| 1999 Series A - Project Refinancing | Aaa | AAA | MBIA | -- | 08/31/99 | 01/01/09 | 141,695 | 67,925 | 2,605 | |
| 2000 Series A - Refinancing (partial insurance) | A3/Aaa | A+/AAA | MBIA | -- | 08/01/00 | 01/01/09 | 9,200 | 4,640 | 4,640 | |
| | | | | | | | | 72,565 | 7,245 | |
| WALLINGFORD PROJECT | | | | | | | | | | |
| 1998 Series A - Project Refinancing | Aaa | AAA | Ambac | -- | 10/23/98 | 11/15/08 | 39,475 | 17,555 | 2,688 | |
| | | | | | | | | 17,555 | 2,688 | |
| SOUTHEAST PROJECT | | | | | | | | | | |
| 1998 Series A - Project Refinancing | Aaa | AAA | MBIA | X | 08/18/98 | 11/15/15 | 87,650 | 64,940 | 7,227 | |
| CORPORATE CREDIT REVENUE BONDS | | | | | | | | | | |
| 1992 Series A - Corporate Credit | Ba2 | BB+ | -- | -- | 09/01/92 | 11/15/22 | 30,000 | 30,000 | 0 | |
| 2001 Series A - American Ref-Fuel Company LLC-I | Ba2 | NR | -- | -- | 11/15/01 | 11/15/15 | 6,750 | 6,750 | 0 | |
| 2001 Series A - American Ref-Fuel Company LLC-II | Ba2 | NR | -- | -- | 11/15/01 | 11/15/15 | 6,750 | 6,750 | 0 | |
| | | | | | | | | 108,440 | 7,227 | |
| TOTAL PRINCIPAL BONDS OUTSTANDING | | | | | | | | \$286,533 | \$105,133 | |

BONDS REDEEMED DURING FISCAL YEAR ENDING JUNE 30, 2005

| PROJECT / Series | Moody's Rating | Standard & Poor's Rating | Credit Enhancement | X= SCRF-Backed ¹ | Dated | Maturity Date | Original Principal (\$000) | Redemption Date | Principal Outstanding (\$000) | Principal Redeemed (\$000) |
|-------------------------------------|----------------|--------------------------|--------------------|-----------------------------|----------|---------------|----------------------------|-----------------|-------------------------------|----------------------------|
| WALLINGFORD PROJECT | | | | | | | | | | |
| 1991 Series One - Subordinated | A3 | NR | -- | -- | 08/01/91 | 11/15/05 | \$7,000 | 12/15/04 | \$500 | \$500 |
| SOUTHEAST PROJECT | | | | | | | | | | |
| 1989 Series A - Project Refinancing | Aaa | AAA | MBIA | X | 06/01/89 | 11/15/11 | 3,935 | 04/29/05 | 2,045 | 2,045 |

BONDS DEFEASED DURING FISCAL YEAR ENDING JUNE 30, 2005

| PROJECT / Series | Moody's Rating | Standard & Poor's Rating | Credit Enhancement | X= SCRF-Backed ¹ | Dated | Maturity Date | Original Principal (\$000) | Defeasance Date | Principal Outstanding (\$000) | Principal Defeased (\$000) |
|--|----------------|--------------------------|--------------------|-----------------------------|----------|---------------|----------------------------|-----------------|-------------------------------|----------------------------|
| MID-CONNECTICUT PROJECT | | | | | | | | | | |
| 1996 Series A - Project Refinancing ² | Aaa | AAA | MBIA | X | 08/20/96 | 11/15/12 | \$209,675 | 03/11/05 | \$150,925 | \$81,510 |
| 1997 Series A - Project Construction | Aaa | AAA | MBIA | X | 07/15/97 | 11/15/06 | 8,000 | 03/11/05 | 2,100 | 2,100 |
| 2001 Series A - Project Construction (Subordinated) ³ | Baa3 | BBB | -- | -- | 01/18/01 | 11/15/12 | 13,210 | 03/11/05 | 13,210 | 13,210 |

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

² Partial Defeasance.

³ On 3/24/05, an Irrevocable Escrow Fund in the amount of 19,394,506 was established to pay all future State Loan repayments.

NR = Not Rated



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 Director of Accounting, 100 Constitution Plaza – 6th Floor, Hartford, CT 06103.



BALANCE SHEETS
AS OF JUNE 30, 2005 AND 2004
(In Thousands)

EXHIBIT I

| | 2005 | 2004 |
|--|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Unrestricted Assets: | | |
| Cash and cash equivalents | \$ 64,673 | \$ 62,312 |
| Accounts receivable, net of allowance | 23,135 | 21,053 |
| Inventory | 3,796 | 3,541 |
| Prepaid expenses | 1,242 | 1,454 |
| Total Unrestricted Assets | 92,846 | 88,360 |
| Restricted Assets: | | |
| Cash and cash equivalents | 22,900 | 29,360 |
| Accrued interest receivable | 325 | 144 |
| Total Restricted Assets | 23,225 | 29,504 |
| Total Current Assets | 116,071 | 117,864 |
| NON-CURRENT ASSETS | | |
| Restricted cash and cash equivalents | 81,452 | 62,521 |
| Capital Assets: | | |
| Depreciable, net | 156,569 | 170,661 |
| Nondepreciable | 27,845 | 28,275 |
| Development and bond issuance costs, net | 7,221 | 9,204 |
| Total Non-Current Assets | 273,087 | 270,661 |
| TOTAL ASSETS | \$ 389,158 | \$ 388,525 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Current portion of bonds payable, net | \$ 2,766 | \$ 18,922 |
| Current portion of State loans payable | 2,619 | 1,484 |
| Current portion of closure and postclosure care of landfills | 1,529 | 1,433 |
| Accounts payable and accrued expenses | 22,021 | 21,785 |
| Other | 4,760 | 4,156 |
| Total Current Liabilities | 33,695 | 47,780 |
| LONG-TERM LIABILITIES | | |
| Bonds payable, net | 82,227 | 183,690 |
| State loans payable | 15,939 | 10,606 |
| Closure and postclosure care of landfills | 24,948 | 25,716 |
| Other | 1,581 | 1,900 |
| Total Long-Term Liabilities | 124,695 | 221,912 |
| TOTAL LIABILITIES | 158,390 | 269,692 |
| NET ASSETS | | |
| Invested in Capital Assets, net of related debt | 100,471 | 26,096 |
| Restricted | 61,082 | 64,025 |
| Unrestricted | 69,215 | 28,712 |
| Total Net Assets | 230,768 | 118,833 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 389,158 | \$ 388,525 |

The accompanying notes are an integral part of these financial statements



Connecticut Resources Recovery Authority

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004 (In Thousands)

EXHIBIT II

| | 2005 | 2004 |
|--|-------------------|-------------------|
| Operating Revenues | | |
| Service charges: | | |
| Members | \$ 91,894 | \$ 88,541 |
| Others | 30,223 | 27,384 |
| Energy generation | 33,798 | 36,998 |
| Ash disposal reimbursement | 4,025 | 4,031 |
| Other operating revenues | 9,001 | 8,464 |
| Total operating revenues | <u>168,941</u> | <u>165,418</u> |
| Operating Expenses | | |
| Solid waste operations | 128,394 | 126,016 |
| Depreciation and amortization | 17,864 | 17,887 |
| Maintenance and utilities | 2,037 | 1,697 |
| Closure and postclosure care of landfills | 180 | 1,889 |
| Project administration | 6,832 | 5,880 |
| Total operating expenses | <u>155,307</u> | <u>153,369</u> |
| Operating Income | 13,634 | 12,049 |
| Non-Operating Revenues and (Expenses) | | |
| Enron claim | 82,760 | - |
| Investment income | 4,471 | 1,623 |
| Other income (expenses), net | (1,282) | 154 |
| Interest expense | (10,022) | (12,482) |
| Net Non-Operating Revenues and (Expenses) | <u>75,927</u> | <u>(10,705)</u> |
| Income before Special Items | 89,561 | 1,344 |
| Special items: | | |
| Gain on sale of Enron claim | 28,502 | - |
| Early retirement/defeasance of debt | (6,128) | - |
| Total special items | <u>22,374</u> | <u>-</u> |
| Increase in Net Assets | 111,935 | 1,344 |
| Total Net Assets, beginning of year | <u>118,833</u> | <u>117,489</u> |
| Total Net Assets, end of year | <u>\$ 230,768</u> | <u>\$ 118,833</u> |



**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(In Thousands)**

EXHIBIT III

| | <u>2005</u> | <u>2004</u> |
|---|-------------------|-------------------|
| Cash Flows From Operating Activities | | |
| Payments received from providing services | \$ 169,994 | \$ 166,961 |
| Payments to suppliers for goods and services | (135,263) | (132,907) |
| Payments to municipalities for rebates | (1,177) | - |
| Payments to employees for services | (4,043) | (3,395) |
| Net Cash Provided by Operating Activities | <u>29,511</u> | <u>30,659</u> |
| Cash Flows From Investing Activities | | |
| Proceeds from sale of Enron claim | 111,262 | - |
| Interest on investments | 4,290 | 1,643 |
| Proceeds from sales of investments | - | 181 |
| Net Cash Provided by Investing Activities | <u>115,552</u> | <u>1,824</u> |
| Cash Flows From Capital and Related Financing Activities | | |
| Proceeds from State loans | 8,659 | 10,842 |
| Proceeds from sales of equipment | 17 | 3 |
| Payments for landfill closure and postclosure care liabilities | (852) | (692) |
| Acquisition and construction of capital assets | (2,249) | (2,460) |
| Payment for early retirement/defeasance of debt | (4,501) | - |
| Interest paid on long-term debt | (10,373) | (12,126) |
| Principal paid on long-term debt | (121,025) | (19,353) |
| Net Cash Used for Capital and Related Financing Activities | <u>(130,324)</u> | <u>(23,786)</u> |
| Cash Flows From Non-Capital Financing Activities | | |
| Other interest and fees | 93 | 71 |
| Net Cash Provided by Non-Capital Financing Activities | <u>93</u> | <u>71</u> |
| Net increase in cash and cash equivalents | 14,832 | 8,768 |
| Cash and cash equivalents, beginning of year | <u>154,193</u> | <u>145,425</u> |
| Cash and cash equivalents, end of year | <u>\$ 169,025</u> | <u>\$ 154,193</u> |
| Reconciliation of Operating Income to Net Cash Provided By Operating Activities: | | |
| Operating income | \$ 13,634 | \$ 12,049 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation of capital assets | 16,786 | 16,749 |
| Amortization of development and bond issuance costs | 1,078 | 1,138 |
| Provision for closure and postclosure care of landfills | 180 | 1,889 |
| Other income (expenses) | (1,409) | - |
| (Increase) decrease in: | | |
| Accounts receivable, net | (2,082) | 215 |
| Inventory | (255) | 66 |
| Prepaid expenses | 212 | (8) |
| (Decrease) increase in: | | |
| Accounts payable and accrued expenses | 1,367 | (1,439) |
| Net Cash Provided by Operating Activities | <u>\$ 29,511</u> | <u>\$ 30,659</u> |



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Entity and Services

The Connecticut Resources Recovery Authority (the "Authority") is a body politic and corporate, created in 1973 by the State Solid Waste Management Services Act, constituting Chapter 446e of the Connecticut General Statutes. The Authority is a public instrumentality and political subdivision of the State of Connecticut (State) and is included as a component unit in the State's Comprehensive Annual Financial Report. As of June 30, 2005, the Authority is authorized to have a board consisting of eleven directors and eight ad-hoc members. The Governor of the State appoints three full members and all eight ad-hoc members. The remaining eight full members are appointed by the State legislature.

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 payments established for certain Authority bonds. The Authority has no taxing power.

The Authority has responsibility for implementing solid waste disposal and resources recovery systems and facilities throughout the State in accordance with the State Solid Waste Management Plan. To accomplish its purposes, the Authority is empowered to determine the location of and construct solid waste management projects, to own, operate and maintain waste management projects or to make provisions for operation and maintenance by contracting with private industry. The Authority is required to be self-sufficient in its operation in order to cover the cost of fulfilling the Authority's mission.

The Authority is comprised of four comprehensive solid waste disposal systems and a General Fund. Each of the operating systems has a unique legal, contractual, financial and operational structure described as follows:

Mid-Connecticut Project

The Mid-Connecticut Project consists of a 2,850 ton per day municipal solid waste / 2,030 ton per day refuse derived fuel Resources Recovery Facility located in Hartford, Connecticut, four transfer stations, the Hartford Landfill, the Ellington Landfill and a Regional Recycling Center located in Hartford, Connecticut. This system of facilities provides solid waste disposal services to seventy Connecticut municipalities through service contract arrangements. The Authority owns the Resources Recovery Facility, the transfer stations, the Ellington Landfill and the container-processing portion of the Regional Recycling Center. The Authority leases the land for the Essex transfer station and paper processing portion of the Regional Recycling Center. The Authority controls the Hartford Landfill under a long-term lease with the City of Hartford. The Authority leases the paper processing facility of the Regional Recycling Center and subleases to a private vendor. Private vendors, under various operating contracts, conduct operation of the facilities. All revenue generated by the facilities accrues to the Authority. Certain operating contracts have provisions for revenue sharing with a vendor if prescribed operating parameters are achieved. The Authority has responsibility for all debt issued in the development of the Mid-Connecticut system.

In conjunction with the deregulation of the State's electric industry, the Authority acquired from the Connecticut Light & Power Company (CL&P) four Pratt & Whitney Twin-Pac peaking jets turbines, two steam turbines, and certain other assets and land. Operating and



maintenance agreements were entered into with Northeast Generation Services Company to operate the peaking jets turbines and with Covanta Mid-Conn, Inc. to operate the steam turbines.

Bridgeport Project

The Bridgeport Project consists of a 2,250 ton per day mass burn Resources Recovery Facility located in Bridgeport, Connecticut, eight transfer stations, the Shelton Landfill, the Waterbury Landfill and a Regional Recycling Center located in Stratford, Connecticut. The Bridgeport Project provides solid waste disposal services to 18 Connecticut municipalities in Fairfield and New Haven Counties through service contract arrangements. The Authority holds title to all facilities in the Bridgeport system. The Resources Recovery Facility is leased to a private vendor under a long-term sales-type arrangement until December 2008, with several renewal option provisions. The private vendor has beneficial ownership of the facility through this arrangement. The vendor is obligated to pay for the costs of the facility including debt service (other than the portion allocable to Authority purposes for which the Authority is responsible). The Authority derives its revenues from service fees charged to member municipalities and other system users. The Authority pays the vendor a contractually determined service fee. Electric energy revenues and certain other service charges are accrued by the vendor.

Wallingford Project

The Wallingford Project consists of a 420 ton per day mass burn Resources Recovery Facility located in Wallingford, Connecticut and the Wallingford Landfill. Five Connecticut municipalities in New Haven County are provided solid waste disposal services by this system through service contract arrangements. The Authority leases the Wallingford Landfill and owns the Resources Recovery Facility. The Resources Recovery Facility is leased to a private vendor under a long-term arrangement. The private vendor has beneficial ownership of the facility through this arrangement. The

vendor is responsible for operating the facility and servicing the debt (other than the portion allocable to Authority purposes for which the Authority is responsible). The Wallingford Project's revenues are derived primarily from service fees charged to users and fees for electric energy generated. The Authority pays the vendor a contractually determined service fee. The operating contract has provisions for revenue sharing with the vendor if prescribed operating parameters are achieved.

Southeast Project

The Southeast Project consists of a 690 ton per day mass burn Resources Recovery Facility located in Preston, Connecticut and the Montville Landfill. The Southeast Project provides solid waste disposal services to 15 Connecticut municipalities in the eastern portion of the State through service contract arrangements. The Authority owns the Resources Recovery Facility. It is leased to a private vendor under a long-term lease. The private vendor has beneficial ownership of the facility through this arrangement. The vendor is obligated to operate and maintain the facility and service the debt (other than the portion allocable to Authority purposes for which the Authority is responsible). The Authority derives its revenues from service fees charged to participating municipalities and other system users. The Authority pays the vendor a contractually determined service fee. Electric energy revenues and certain other service charges are accrued by the vendor with certain contractually prescribed credits payable to the Authority for these revenue types.

General Fund

The Authority has a General Fund in which the costs of central administration are accumulated. Substantially, all of these costs are allocated to the Authority's projects based on time expended.

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

The Authority is considered an Enterprise Fund. The Authority's operations and balances are



accounted for using a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, 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 assets, 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 postclosure care of landfills, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial statements are presented in accordance with Alternative #1 under Governmental Accounting Standards Board (GASB) Statement No. 20, whereby the Authority follows (1) all GASB pronouncements and (2) Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those which conflict with a GASB pronouncement.

C. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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

For purposes of the Statements of Cash Flows, 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. The Authority has established an allowance for the estimated portion that is not expected to be collected of \$640,000 and \$250,000 at June 30, 2005 and 2004, respectively.

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 coal inventory is stated at the lower of cost or market using the FIFO method.

Inventories at June 30, 2005 and 2004 are summarized as follows:



| Inventories | 2005 (\$000) | 2004 (\$000) |
|-------------|-----------------|-----------------|
| Spare parts | \$ 3,583 | \$ 3,217 |
| Coal | 213 | 324 |
| Total | <u>\$ 3,796</u> | <u>\$ 3,541</u> |

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 Assets

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 and Bonds Issuance Costs

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

At June 30, 2005 and 2004, development and bond issuance costs for the projects are as follows:

| Project | 2005 (\$000) | 2004 (\$000) |
|--------------------------------|-----------------|-----------------|
| Development | | |
| costs: | | |
| Mid-Connecticut | \$ 3,277 | \$ 3,277 |
| Wallingford | 5,667 | 5,667 |
| Southeast | 10,006 | 10,006 |
| | <u>18,950</u> | <u>18,950</u> |
| Less accumulated amortization: | | |
| Mid-Connecticut | 2,807 | 2,650 |
| Wallingford | 4,534 | 4,250 |
| Southeast | 5,692 | 5,300 |
| | <u>13,033</u> | <u>12,200</u> |
| Total development costs, net | <u>\$ 5,917</u> | <u>\$ 6,750</u> |
| Bond Issuance | | |
| costs: | | |
| Mid-Connecticut | \$ 1,087 | \$ 2,832 |
| Bridgeport | 275 | 275 |
| Wallingford | 105 | 584 |
| Southeast | 1,008 | 1,008 |
| | <u>2,475</u> | <u>4,699</u> |
| Less accumulated amortization: | | |
| Mid-Connecticut | 559 | \$ 1,313 |
| Bridgeport | 153 | 122 |
| Wallingford | 67 | 474 |
| Southeast | 392 | 336 |
| | <u>1,171</u> | <u>2,245</u> |
| Total bond issuance costs, net | <u>\$ 1,304</u> | <u>\$ 2,454</u> |
| Totals, net | <u>\$ 7,221</u> | <u>\$ 9,204</u> |

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 capital assets located at the 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 is \$1,000. Improvements, renewals and significant repairs that extend the life of the asset are capitalized; other repairs and maintenance costs are expensed as incurred. When assets are retired or otherwise disposed of, the related asset and accumulated depreciation is written off and any related gains or losses are recorded.

K. Accrued Compensation

The Authority's liability for vested accumulated unpaid vacation, sick pay and other employee benefit amounts is included in accounts payable and accrued expenses in the accompanying balance sheets.

L. Net Assets

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.

Unrestricted net assets represent the net assets available to finance future operations or available to be returned through reduced tip fees or rebates.

Further, unrestricted net assets may be divided into designated and undesignated portions. Designated net assets represent the Authority's self-imposed limitations on the use of otherwise unrestricted net assets. Unrestricted net assets have been designated by the Board of Directors of the Authority for various purposes and such designations totaled \$38,795 and \$35,256 as of June 30, 2005 and 2004, respectively.

Restrictions of net assets are limited to outside third party restrictions and represent the net assets that have been legally identified for specific purposes. Restricted net assets at June 30, 2005 and 2004 are summarized as follows:

| Restricted Net Assets | 2005 (\$000) | 2004 (\$000) |
|-------------------------------------|-----------------|-----------------|
| Energy generating facility | \$ 20,809 | \$ 20,000 |
| Debt service reserve | 19,129 | 21,463 |
| Tip fee stabilization | 13,875 | 7,609 |
| Operating and maintenance | 1,512 | 1,529 |
| Equipment replacement | 1,512 | 1,529 |
| Debt service funds | 1,019 | 9,485 |
| Select Energy escrow | 1,000 | 1,000 |
| Landfill custodian accounts | 715 | 703 |
| Regional recycling center equipment | 374 | 448 |
| Recycling education fund | 346 | 239 |
| Revenue fund | 344 | - |
| State Loan | 124 | - |
| Others | 323 | 20 |
| Total | \$61,082 | \$64,025 |



M. Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform to the current year presentation.

2. CASH DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist of the following as of June 30, 2005 and 2004:

| | 2005 (\$000) | 2004 (\$000) |
|----------------------------------|------------------|------------------|
| Unrestricted: | | |
| Cash deposits | \$1,419 | \$1,766 |
| Cash equivalents: | | |
| STIF * | 63,254 | 60,546 |
| | 64,673 | 62,312 |
| Restricted – current: | | |
| Cash deposits | 338 | 482 |
| Cash equivalents: | | |
| STIF * | 19,848 | 27,059 |
| Money Market Funds | 2,714 | 1,819 |
| | 22,900 | 29,360 |
| Restricted – non-current: | | |
| Cash equivalents: | | |
| STIF * | 80,302 | 61,090 |
| U.S. Treasuries | 715 | 703 |
| Money Market Funds | 435 | 728 |
| | 81,452 | 62,521 |
| Total: | \$169,025 | \$154,193 |

* 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, 2005 and 2004, \$4.4 million and \$2.9 million, respectively, of the Authority's bank balance of cash deposits were exposed to custodial credit risk as follows:

| | 2005 (\$000) | 2004 (\$000) |
|--|-----------------|-----------------|
| Uninsured and Uncollateralized | \$3,866 | \$2,635 |
| Uninsured and collateralized with securities held by the pledging bank's trust department or agent but not in the Authority's name | 573 | 320 |
| Total | \$4,439 | \$2,955 |

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, 2005 and 2004, 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, 2005, 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 | More than 10 |
| STIF | \$163,404 | \$163,404 | \$0 | \$0 | \$0 |
| U.S. Treasuries | 715 | 715 | 0 | 0 | 0 |
| Money Market Funds | 3,149 | 3,149 | 0 | 0 | 0 |
| Total | \$167,268 | \$167,268 | \$0 | \$0 | \$0 |

As of June 30, 2004, 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 | More than 10 |
| STIF | \$148,695 | \$148,695 | \$0 | \$0 | \$0 |
| U.S. Treasuries | 703 | 703 | 0 | 0 | 0 |
| Money Market Funds | 2,547 | 2,547 | 0 | 0 | 0 |
| Total | \$151,945 | \$151,945 | \$0 | \$0 | \$0 |

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, 2005 and 2004, STIF had a weighted average maturity of 32 days and 35 days, respectively. The U.S. Treasury Securities are U.S. Treasury Bills that have 90-day maturities. The Money Market Funds invests 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, 2005 and 2004, the weighted average maturity of this fund was eight days and 38 days, respectively.

The Authority's investment policy does not limit investment maturities as a means of 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 objective of the Authority's investment policy is the preservation of principal and the maintenance of liquidity.

Interest repayment obligations on all outstanding Authority debt is fixed rate with the exception of the State loans, which are variable rate. As discussed in Note 4B, the State sets the interest rate monthly (the STIF rate plus 25 basis points). As of March 1, 2005, the State loan had a principal balance of \$19,213,525. On March 24, 2005, the Authority instructed the Trustee to create an irrevocable escrow fund invested in STIF and deposited \$19,394,506 of the proceeds from the sale of the Enron claim (see Note 12). The difference between the principal balance and the escrow fund deposit will be used to pay the 25 basis point differential between the STIF rate and the State loan monthly interest rate.

Credit Risk

The Authority's investment policy delineates the investment of funds in securities as authorized and defined within the bond resolutions governing the Bridgeport, Mid-Connecticut, Southeast and Wallingford projects, respectively, 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, provide such obligations are rated within one of the top three rating categories of any recognized rating service.

As of June 30, 2005, the Authority's investments were rated as follows:

| Security | Fair Value (\$000) | Standard & Poor's | Moody's Investor Service | Fitch Ratings |
|--------------------|--------------------|-------------------|--------------------------|---------------|
| STIF | \$163,404 | AAAm | Not Rated | Not Rated |
| U.S. Treasuries | 715 | AAA | Aaa | AAA |
| Money Market Funds | 3,149 | AAAm | Aaa | AAA/ V1+F |

As of June 30, 2004, the Authority's investments were rated as follows:

| Security | Fair Value (\$000) | Standard & Poor's | Moody's Investor Service | Fitch Ratings |
|--------------------|--------------------|-------------------|--------------------------|---------------|
| STIF | \$148,695 | AAAm | Not Rated | Not Rated |
| U.S. Treasuries | 703 | AAA | Aaa | AAA |
| Money Market Funds | 2,547 | AAAm | Aaa | AAA/ V1+F |

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a 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.

Concentration of Credit Risk

The Authority's investment policy places no limit on the amount of concentration 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 and/or bond resolution needs. As of June 30, 2005 and 2004, approximately 97.7% and 97.8%, 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.



3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended June 30, 2004 and 2005:

| | Balance at July 1, 2003 (\$000) | Additions (\$000) | Transfers (\$000) | Sales and Disposals (\$000) | Balance at June 30, 2004 (\$000) | Additions (\$000) | Transfers (\$000) | Sales and Disposals (\$000) | Balance at June 30, 2005 (\$000) |
|---|---------------------------------------|----------------------|----------------------|-----------------------------------|--|----------------------|----------------------|-----------------------------------|--|
| Nondepreciable assets: | | | | | | | | | |
| Land | \$ 27,774 | \$ - | \$ - | \$ - | \$ 27,774 | \$ - | \$ - | \$ - | \$ 27,774 |
| Construction-in-progress | 36 | 649 | (184) | - | 501 | 1,398 | (1,828) | - | 71 |
| Total nondepreciable assets | \$ 27,810 | \$ 649 | \$ (184) | \$ - | \$ 28,275 | \$ 1,398 | \$ (1,828) | \$ - | \$ 27,845 |
| Depreciable assets: | | | | | | | | | |
| Plant | \$ 186,157 | \$ 986 | \$ - | \$ (364) | \$ 186,779 | \$ 294 | \$ 1,073 | \$ (65) | \$ 188,081 |
| Equipment | 203,789 | 937 | 217 | (114) | 204,829 | 648 | 753 | (294) | 205,936 |
| Total at cost | 389,946 | 1,923 | 217 | (478) | 391,608 | 942 | 1,826 | (359) | 394,017 |
| Less accumulated depreciation for: | | | | | | | | | |
| Plant | (102,012) | (7,595) | 128 | 293 | (109,186) | (7,523) | - | 8 | (116,701) |
| Equipment | (102,525) | (9,154) | (161) | 79 | (111,761) | (9,263) | 2 | 275 | (120,747) |
| Total accumulated depreciation | (204,537) | (16,749) | (33) | 372 | (220,947) | (16,786) | 2 | 283 | (237,448) |
| Total depreciable assets, net | \$ 185,409 | \$ (14,826) | \$ 184 | \$ (106) | \$ 170,661 | \$ (15,844) | \$ 1,828 | \$ (76) | \$ 156,569 |

Interest is capitalized on assets acquired with tax-exempt 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 proceeds over the same period. During fiscal 2005 and 2004, there was no capitalized interest as there was no external borrowing.

4. LONG-TERM DEBT

A. Bonds Payable

The principal long-term obligations of the Authority are special obligation revenue bonds issued to finance the design, development and construction of resources recovery and recycling facilities and landfills throughout the State. These bonds are paid solely from the revenues generated from the operations of the projects and other receipts, accounts and monies pledged in the respective bond indentures.

The following is a summary of changes in bonds payable for the years ended June 30, 2004 and 2005.



| | Balance at July 1, 2003 (\$000) | Increases (\$000) | Decreases (\$000) | Balance at June 30, 2004 (\$000) | Increases (\$000) | Decreases (\$000) | Balance at June 30, 2005 (\$000) | Amounts Due Within One Year (\$000) |
|------------------------------|---------------------------------------|----------------------|----------------------|--|----------------------|----------------------|--|--|
| Bonds payable - principal | \$ 224,010 | \$ - | \$ (18,601) | \$ 205,409 | \$ - | \$ (118,834) | \$ 86,575 | \$ 2,875 |
| Unamortized amounts: | | | | | | | | |
| Premiums | 1,324 | - | (180) | 1,144 | - | (518) | 626 | 109 |
| Deferred amount on refunding | (4,728) | - | 787 | (3,941) | - | 1,733 | (2,208) | (218) |
| Total bonds payable | <u>\$ 220,606</u> | <u>\$ -</u> | <u>\$ (17,994)</u> | <u>\$ 202,612</u> | <u>\$ -</u> | <u>\$ (117,619)</u> | <u>\$ 84,993</u> | <u>\$ 2,766</u> |

The long-term debt amounts for the projects in the table above have been reduced by the deferred amount on refunding of bonds, net of the unamortized premium on the sale of bonds at June 30, 2005 and 2004 as follows:

| Project | 2005 (\$000) | 2004 (\$000) |
|---------------------------------|-----------------|-----------------|
| Deferred amount on refunding: | | |
| Mid-Connecticut | \$ 869 | \$ 2,368 |
| Bridgeport | (27) | (42) |
| Wallingford | 17 | 27 |
| Southeast | <u>1,349</u> | <u>1,588</u> |
| Subtotal | <u>2,208</u> | <u>3,941</u> |
| Reduced by unamortized premium: | | |
| Mid-Connecticut | - | (400) |
| Bridgeport | (20) | (31) |
| Southeast | <u>(606)</u> | <u>(713)</u> |
| Subtotal | <u>(626)</u> | <u>(1,144)</u> |
| Net Reduction | <u>\$ 1,582</u> | <u>\$ 2,797</u> |

Certain of the Authority's bonds are secured by special capital reserve funds. Each fund is equal to the highest annual amount of debt service remaining on the issue. The State is contingently liable to restore any deficiencies that exist in these funds in the event that the Authority must draw from the fund. Bond principal amounts recorded as long-term debt at June 30, 2005 and 2004, which are backed by special capital reserve funds, are as follows:

| Project | 2005 (\$000) | 2004 (\$000) |
|-----------------|------------------|-------------------|
| Mid-Connecticut | \$ 69,415 | \$ 168,775 |
| Southeast | <u>7,227</u> | <u>9,958</u> |
| Total | <u>\$ 76,642</u> | <u>\$ 178,733</u> |



Connecticut Resources Recovery Authority

Annual debt service requirements to maturity on bonds payable are as follows:

| Year ending June 30 | Mid-Connecticut | | Bridgeport | | Wallingford | |
|------------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
| | Principal (\$000) | Interest (\$000) | Principal (\$000) | Interest (\$000) | Principal (\$000) | Interest (\$000) |
| 2006 | \$ - | \$ 3,785 | \$ 1,740 | \$ 363 | \$ 633 | \$ 95 |
| 2007 | - | 3,785 | 1,845 | 277 | 658 | 69 |
| 2008 | - | 3,785 | 1,955 | 185 | 684 | 42 |
| 2009 | - | 3,785 | 1,705 | 86 | 713 | 14 |
| 2010 | 5,810 | 3,629 | - | - | - | - |
| 2011-2015 | 63,605 | 5,346 | - | - | - | - |
| 2016 | - | - | - | - | - | - |
| | <u>\$ 69,415</u> | <u>\$ 24,115</u> | <u>\$ 7,245</u> | <u>\$ 911</u> | <u>\$ 2,688</u> | <u>\$ 220</u> |
| Interest Rates | 5.375-5.50% | | 4.88-5.5% | | 4% | |

| Year ending June 30 | Southeast | | Total | |
|------------------------|----------------------|---------------------|----------------------|---------------------|
| | Principal (\$000) | Interest (\$000) | Principal (\$000) | Interest (\$000) |
| 2006 | \$ 502 | \$ 373 | \$ 2,875 | \$ 4,616 |
| 2007 | 529 | 345 | 3,032 | 4,476 |
| 2008 | 556 | 315 | 3,195 | 4,327 |
| 2009 | 586 | 283 | 3,004 | 4,168 |
| 2010 | 618 | 250 | 6,428 | 3,879 |
| 2011-2015 | 3,604 | 702 | 67,209 | 6,048 |
| 2016 | 832 | 21 | 832 | 21 |
| | <u>\$ 7,227</u> | <u>\$ 2,289</u> | <u>\$ 86,575</u> | <u>\$ 27,535</u> |
| Interest Rates | 5.125-5.5% | | | |

Early Retirement of Debt

During the year ended June 30, 2005, the Authority used proceeds from the sale of the Enron claim and other available bond funds (see Note 12) to defease Mid-Connecticut Project debt; excess funds in the Montville Landfill Postclosure Reserve to call Southeast Project debt; and the Debt Service Reserve Fund to call Wallingford Project debt as follows:

| Description | Interest Rates | Amount (\$000) |
|-----------------------|----------------|-------------------|
| Bonds Defeased | | |
| Mid-Connecticut | 4.25% - 6.25% | \$ 96,820 |
| Bonds Called | | |
| Southeast | 7.70% | 2,045 |
| Wallingford | 6.85% | 500 |
| | | <u>\$ 99,365</u> |



A portion of the proceeds from the sale of the Enron claim were used to purchase U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future payments on certain Mid-Connecticut bonds. Thus, those Mid-Connecticut bonds are legally defeased and the liability for those bonds has been removed from the accompanying balance sheet. In March 2005, the Authority legally defeased \$96,820,000 of certain Mid-Connecticut bonds. As of June 30, 2005, \$96,820,000 remain payable from the irrevocable trust escrow to bondholders.

The Authority recognized \$6,128 in the accompanying statement of revenues, expenses and change in net assets. This amount represents the write-off of unamortized amounts related to the retired/defeased bonds payable, including bond issuance costs and other deferred amounts.

The following is a summary of changes in the State loans payable for the years ended June 30, 2004 and 2005.

B. State Loans Payable

During April 2002, the Connecticut General Assembly passed Public Act No. 02-46 authorizing a loan by the State to the Authority of up to \$115 million in support of debt service payments on the Mid-Connecticut facility bonds. Through June 30, 2005, the Authority has drawn down \$21.5 million in loan advances from the State. All loans received from the State must be fully repaid, with interest, by 2012. The interest rate, as determined by the Office of the State Treasurer, is adjusted monthly based on the State's base rate (STIF) plus twenty-five basis points and may not exceed six percent. The interest rate for June 2005 was 3.51%.

| | Balance at July 1, 2003 (\$000) | Increases (\$000) | Decreases (\$000) | Balance at June 30, 2004 (\$000) | Increases (\$000) | Decreases (\$000) | Balance at June 30, 2005 (\$000) | Amounts Due Within One Year (\$000) |
|------------------------------------|---------------------------------------|----------------------|----------------------|--|----------------------|----------------------|--|--|
| State loans payable - principal | \$ 2,000 | \$ 10,842 | \$ (752) | \$ 12,090 | \$ 8,659 | \$ (2,191) | \$ 18,558 | \$ 2,619 |



Maturities of the State loans payable and related interest are as follows:

| Year Ending June 30 | Principal (\$000) | Interest (\$000) |
|------------------------|----------------------|---------------------|
| 2006 | \$ 2,619 | \$ 621 |
| 2007 | 2,619 | 525 |
| 2008 | 2,619 | 432 |
| 2009 | 2,619 | 338 |
| 2010 | 2,619 | 244 |
| 2011 – 2013 | <u>5,463</u> | <u>213</u> |
| Total | <u>\$ 18,558</u> | <u>\$ 2,373</u> |

Interest rate is assumed @ 3.51%

5. LONG-TERM LIABILITIES FOR CLOSURE AND POSTCLOSURE 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 which may extend to thirty years after closure.

GASB Statement No. 18 "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", applies to closure and postclosure care costs which are paid near or after the date a landfill stops accepting waste. In accordance with GASB Statement No. 18, the Authority reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of the balance sheet date. This amount increases the liability on the balance sheet for closure and postclosure care of landfills. These costs are generally paid when the landfill is closed and may continue for up to thirty years thereafter.

The liability for these costs is reduced when the costs are actually incurred.

Actual costs may be higher due to inflation or changes in permitted capacity, technology or regulation.

The closure and postclosure care liabilities including the amounts paid and accrued for fiscal 2004 and 2005 for the landfills, are presented in the following table:



| Project/Landfill | Liability at July 1, 2003 (\$000) | Accrued (\$000) | Paid (\$000) | Liability at June 30, 2004 (\$000) | Accrued (\$000) | Paid (\$000) | Liability at June 30, 2005 (\$000) | Amounts Due Within One Year (\$000) |
|------------------|-----------------------------------|-----------------|-----------------|------------------------------------|-----------------|-----------------|------------------------------------|-------------------------------------|
| Mid-Connecticut: | | | | | | | | |
| Hartford | \$ 6,336 | \$ 190 | \$ - | \$ 6,526 | \$ 281 | \$ - | \$ 6,807 | \$ - |
| Ellington | 3,202 | 277 | (161) | 3,318 | 104 | (283) | 3,139 | 209 |
| Bridgeport: | | | | | | | | |
| Shelton | 10,255 | 1,097 | (367) | 10,985 | (180) | (409) | 10,396 | 1,120 |
| Waterbury | 956 | 61 | - | 1,017 | - | - | 1,017 | - |
| Wallingford | <u>5,203</u> | <u>264</u> | <u>(164)</u> | <u>5,303</u> | <u>(25)</u> | <u>(160)</u> | <u>5,118</u> | <u>200</u> |
| Total | <u>\$25,952</u> | <u>\$ 1,889</u> | <u>\$ (692)</u> | <u>\$ 27,149</u> | <u>\$ 180</u> | <u>\$ (852)</u> | <u>\$ 26,477</u> | <u>\$ 1,529</u> |

The estimated remaining costs to be recognized in the future as closure and postclosure care of landfill expense, the percent of landfill capacity used and the remaining years of life for open landfills at June 30, 2005 are scheduled below:

| Project/Landfill | Remaining Costs to be Recognized (\$000) | Capacity Used Landfill Area | | Estimated Years of Remaining Landfill Area | |
|------------------------------|--|-----------------------------|-------|--|-------|
| | | Ash | Other | Ash | Other |
| Mid-Connecticut- Hartford | \$ 892 | 69% | 98% | 3 | 1 |
| Bridgeport-Waterbury | <u>126</u> | --- | 89% | --- | 3 |
| Total | <u>\$ 1,018</u> | | | | |

The Connecticut Department of Environmental Protection ("CTDEP") requires that certain financial assurance mechanisms be maintained by the Authority to ensure payment of closure and postclosure costs related to certain landfills. Additionally, DEP requires that the Authority budget for anticipated closure costs for Mid-Connecticut's Hartford Landfill.

The Authority has placed funds in trust accounts for financial assurance purposes. The Mid-Connecticut-Ellington Landfill account is valued at \$429,000 and \$421,000 at June 30, 2005 and 2004, respectively. The Bridgeport-Waterbury Landfill account is valued at \$152,000 and \$150,000 at June 30, 2005 and 2004, respectively. The Wallingford Landfill account is valued at \$134,000 and \$132,000 at



June 30, 2005 and 2004, respectively. These trust accounts are reflected as restricted assets in the accompanying balance sheets.

At June 30, 2005, a letter of credit for \$305,000 was outstanding for financial assurance of the Bridgeport-Shelton Landfill. No funds were drawn on this letter during fiscal year 2005.

In addition to the above trust accounts and letter of credit, the Authority satisfies certain financial assurance requirements at June 30, 2005 and 2004 by meeting specified criteria pursuant to Section 258.74 of the federal Environmental Protection Agency Subtitle D regulations.

6. MAJOR CUSTOMERS

Energy generation revenues from CL&P totaled 11% of the Authority's operating revenues for each of the fiscal years ended June 30, 2005 and 2004.

Service charge revenues from Waste Management of Connecticut, Inc. totaled 11% and 12 % of the Authority's operating revenues for each of the fiscal years ended June 30, 2005 and 2004, respectively.

7. RETIREMENT PLAN

The Authority is the Administrator of its 401(k) Employee Savings Plan. This defined contribution retirement plan covers all eligible employees. To be eligible, the employee must be 18 years of age and have been an employee for six months.

Under the Amended and Restated 401(k) Employee Savings Plan, effective July 1, 2000, Authority contributions are 5 percent of payroll plus a dollar for dollar match of employees' contributions up to 5 percent. Authority contributions for the years ended June 30, 2005 and 2004 amounted to \$337,000 and \$275,000, respectively. Employees contributed \$289,000 to the plan in fiscal year 2005 and \$252,000 in fiscal year 2004.

8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority endeavors to purchase commercial insurance for all insurable risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. In fiscal year 2005, the Authority increased the overall property insurance limit from \$305 million to \$315 million to reflect an increase in overall property values. This provides 100% of the replacement cost value for the Mid-Connecticut Power Block Facility and Energy Generating Facility, plus business interruption and extra expense values for the Mid-Connecticut project. This is the Authority's highest valued single facility. The \$315 million applies on a blanket basis for property damage to all locations.

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. In fiscal year 2005, CRRRA purchased an extended policy covering our employees from July 1, 2004 through October 1, 2005. The deposit contribution (premium) paid for this policy was \$73,000. The premium for the previous policy for the period from July 1, 2003 through July 1, 2004 was \$49,000.

9. COMMITMENTS

The Authority has various operating leases for office space, land, landfills and office equipment. The following schedule shows the composition of total rental expense for all operating leases:



| Fiscal year | 2005 (\$000) | 2004 (\$000) |
|--------------------|-----------------|-----------------|
| Minimum rentals | \$ 638 | \$ 927 |
| Contingent rentals | 120 | - |
| Total | <u>\$ 758</u> | <u>\$ 927</u> |

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, 2005 and 2004, the PILOT payments totaled \$7,761,000 and \$7,512,000, respectively. Future minimum rental commitments under non-cancelable operating leases and future PILOT payments as of June 30, 2005 are as follows:

| Fiscal Year | Lease Amount (\$000) | PILOT Amount (\$000) |
|-------------|-------------------------|-------------------------|
| 2006 | \$ 632 | \$ 7,983 |
| 2007 | 628 | 8,212 |
| 2008 | 644 | 8,449 |
| 2009 | 294 | 7,410 |
| 2010 | 114 | 6,325 |
| 2011-2015 | 241 | 12,797 |
| Thereafter | <u>0</u> | <u>1,985</u> |
| Total | <u>\$ 2,553</u> | <u>\$ 53,161</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 included in solid waste operations and maintenance and utilities expense for the years ended June 30, 2005 and 2004 was as follows:

| Project | 2005 (\$000) | 2004 (\$000) |
|-----------------|-------------------|-------------------|
| Mid-Connecticut | \$ 44,154 | \$ 42,789 |
| Bridgeport | 39,682 | 37,693 |
| Wallingford | 13,826 | 13,079 |
| Southeast | <u>8,690</u> | <u>9,415</u> |
| Total | <u>\$ 106,352</u> | <u>\$ 102,976</u> |

10. OTHER FINANCING

The Authority has issued several bonds pursuant to Indenture Agreements to fund the construction of waste processing facilities built and operated by independent contractors. 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.

The Authority is not involved in the repayment of debt on these issues except for the portion of the bonds allocable to Authority purposes. In the event of default, and except in cases where the State has a contingent liability discussed below, 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 in its financial statements. The principal amounts of these bond issues outstanding at June 30, 2005 (excluding portions allocable to Authority purposes) are as follows:

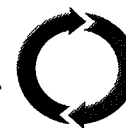


| Project | Amount (\$000) |
|--|-------------------|
| Bridgeport - 1999 Series A | \$ 65,320 |
| Wallingford - 1998 Series A | 14,867 |
| Southeast - | |
| 1992 Series A (Corp. Credit) | 30,000 |
| 1998 Series A (Project) | 57,713 |
| 2001 Series A (American Ref- Fuel Company LLC - I) | 6,750 |
| 2001 Series A (American Ref- Fuel Company LLC - II) | 6,750 |
| | 101,213 |
| Total | \$ 181,400 |

The Southeast 1998 Series A Project bond issue is secured by a special capital reserve fund. The State is contingently liable for any deficiencies in the special capital reserve fund for this bond issue.

11. SEGMENT INFORMATION

The Authority has four segments that operate resources recovery and recycling facilities and landfills throughout the State and are required to be self-supporting through user service fees and sales of electricity. The Authority has issued various revenue bonds to provide financing for the design, development and construction of resources recovery and recycling facilities and landfills throughout the State. These bonds are paid solely from the revenues generated from the operations of the projects and other receipts, accounts and monies pledged in the respective bond indentures. Financial segment information is presented below as of and for the year ended June 30, 2005.



| | Mid-Connecticut (\$000) | Bridgeport (\$000) | Wallingford (\$000) | Southeast (\$000) |
|--|----------------------------|-----------------------|------------------------|----------------------|
| Condensed Balance Sheets | | | | |
| Assets: | | | | |
| Current unrestricted assets | \$ 43,811 | \$ 16,656 | \$ 24,543 | \$ 7,562 |
| Current restricted assets | 17,079 | 1,763 | 1,894 | 2,469 |
| Total current assets | <u>60,890</u> | <u>18,419</u> | <u>26,437</u> | <u>10,031</u> |
| Non-current assets: | | | | |
| Restricted cash and cash equivalents | 64,301 | 1,373 | 14,723 | 1,055 |
| Capital assets, net | 161,572 | 19,968 | 1,979 | - |
| Other assets, net | 998 | 122 | 1,171 | 4,930 |
| Total non-current assets | <u>226,871</u> | <u>21,463</u> | <u>17,873</u> | <u>5,985</u> |
| Total assets | <u>\$ 287,761</u> | <u>\$ 39,882</u> | <u>\$ 44,310</u> | <u>\$ 16,016</u> |
| Liabilities: | | | | |
| Current liabilities | \$ 16,762 | \$ 9,353 | \$ 3,687 | \$ 3,174 |
| Long-term liabilities | 94,223 | 15,824 | 6,963 | 7,685 |
| Total liabilities | <u>110,985</u> | <u>25,177</u> | <u>10,650</u> | <u>10,859</u> |
| Net Assets: | | | | |
| Invested in capital assets, net of related debt | 86,710 | 13,761 | - | - |
| Restricted | 44,704 | 1,980 | 14,118 | 260 |
| Unrestricted | 45,362 | (1,036) | 19,542 | 4,897 |
| Total net assets | <u>176,776</u> | <u>14,705</u> | <u>33,660</u> | <u>5,157</u> |
| Total liabilities and net assets | <u>\$ 287,761</u> | <u>\$ 39,882</u> | <u>\$ 44,310</u> | <u>\$ 16,016</u> |
| Condensed Statements of Revenues, Expenses, and Changes in Net Assets | | | | |
| Operating revenues | \$ 86,571 | \$ 50,027 | \$ 21,973 | \$ 11,809 |
| Operating expenses | (66,194) | (45,599) | (16,719) | (10,359) |
| Depreciation and amortization expense | (16,080) | (858) | (309) | (448) |
| Operating income | <u>4,297</u> | <u>3,570</u> | <u>4,945</u> | <u>1,002</u> |
| Non-operating revenues (expenses): | | | | |
| Enron claim settlement | 82,760 | - | - | - |
| Investment income | 3,063 | 286 | 796 | 308 |
| Other income (expenses) | (89) | (1,870) | (184) | 500 |
| Interest expense | (8,819) | (378) | (160) | (665) |
| Net non-operating revenues (expense) | <u>76,915</u> | <u>(1,962)</u> | <u>452</u> | <u>143</u> |
| Income before special items | 81,212 | 1,608 | 5,397 | 1,145 |
| Special items: | | | | |
| Gain on sale of Enron claim | 28,502 | - | - | - |
| Early retirement/defeasance of debt | (6,081) | - | (47) | - |
| Increase in net assets | <u>103,633</u> | <u>1,608</u> | <u>5,350</u> | <u>1,145</u> |
| Total net assets, July 1, 2004 | <u>73,143</u> | <u>13,097</u> | <u>28,310</u> | <u>4,012</u> |
| Total net assets, June 30, 2005 | <u>\$ 176,776</u> | <u>\$ 14,705</u> | <u>\$ 33,660</u> | <u>\$ 5,157</u> |
| Condensed Statement of Cash Flows | | | | |
| Net cash provided by (used in): | | | | |
| Operating activities | \$ 20,404 | \$ 4,061 | \$ 4,235 | \$ 1,352 |
| Investing activities | 114,232 | 283 | 788 | 231 |
| Capital and related financing activities | (122,212) | (2,605) | (2,232) | (3,290) |
| Non-capital financing activities | (32) | (17) | (7) | (9) |
| Net increase (decrease) | <u>12,392</u> | <u>1,722</u> | <u>2,784</u> | <u>(1,716)</u> |
| Cash and cash equivalents, July 1, 2004 | <u>97,403</u> | <u>12,970</u> | <u>34,800</u> | <u>7,445</u> |
| Cash and cash equivalents, June 30, 2005 | <u>\$ 109,795</u> | <u>\$ 14,692</u> | <u>\$ 37,584</u> | <u>\$ 5,729</u> |



12. SIGNIFICANT EVENTS

In connection with the Mid-Connecticut Project and the Enron bankruptcy, the Authority filed proofs of claim against Enron Power Marketing, Inc. and Enron Corporation, seeking to recover losses. On June 29, 2004, Enron agreed to the proposed settlement of the claims that were filed, pending approval from the United States Bankruptcy court. On August 20, 2004, the Authority sold its Enron bankruptcy claims to a major financial institution through a competitive bid auction. This institution agreed to pay the Authority approximately \$111.2 million which resulted in a gain on sale of the Enron claims of \$28.5 million. On January 20, 2005, the United States Bankruptcy court approved the Enron settlement agreement. On February 1, 2005, \$111.7 million in funds (representing the estimated value of the Enron claims of \$82.8 million and \$28.5 million gain from the sale of the Enron claims plus \$424,926 of interest income) was released to the Authority. On February 24, 2005, the Board of Directors approved several resolutions regarding the distribution of the proceeds from the sale of the Enron claims. On March 11, 2005, using the proceeds from the sale of the Enron claims and other available bond funds, the Authority fully defeased its outstanding Mid-Connecticut Project 1997 Series A Bonds and 2001 Series A Bonds and partially defeased its outstanding 1996 Series A Bonds. On March 24, 2005, using the remaining proceeds from the sale of the Enron claims, the Authority established an irrevocable escrow fund for the future repayment of the outstanding State loan borrowings.

During fiscal 2005, the Authority's Bridgeport Project entered into a Settlement Agreement related to an August 1999 bond refinancing with a contractor. Under this agreement, the Bridgeport Project will pay \$1,850,000 in fiscal 2006.

13. CONTINGENCIES

In December 2003, the Towns of New Hartford and Barkhamsted filed suit against the Authority, former board members and delegates,

the Authority's former President, and others, seeking alleged damages resulting from the Enron transaction (and, with regard to some of the defendants, other allegedly improper transactions), as well as equitable relief. In addition to vigorously contesting these claims on its own behalf, the Authority, as required by statute, is defending and indemnifying its former President and board members. On August 10, 2005, the Motions to Dismiss all of the non-Authority defendants were granted; on August 30, 2005, plaintiffs filed an appeal. On August 11, 2005, the court set forth a scheduling order on Class Certification. The matter is too preliminary to estimate any potential exposure.

In April 2001, numerous commercial and residential neighbors of the Hartford Landfill filed suit against the Authority, claiming that as a result of noxious odors emanating from the landfill, bird excrement from birds attracted to the landfill, and an "unsightly 135 foot dirt mound" in the landfill, the plaintiffs have sustained a diminution in the value of their real properties, loss of enjoyment of their properties, clean-up costs relative to bird droppings, and, in one case, loss of business income, totaling approximately \$32,200,000. The total of Plaintiffs' claims exceeds the amount of the Authority's insurance coverage (\$31 million); however, management believes that it is more probable than not that the Authority's exposure is well within its policy limits.

In August 2003, the U.S. Bankruptcy Court for the Northern District of Illinois entered a judgment order in favor of the Authority and against Resource Technology Corporation ("RTC") on all counts of the complaint of RTC against the Authority. In June 2005, after the trustee in bankruptcy for RTC abandoned certain settlement efforts between the parties, the Authority filed a motion to finalize the judgment order on liability issues with respect to RTC's claims against the Authority. The Bankruptcy Court granted the Authority's motion and rendered a final and appealable judgment order in favor of the Authority on RTC's claims. The trustee for RTC took an appeal from that final judgment order, and the appeal is now pending. Other than legal fees for



which the Authority may be responsible, management believes that the outcome of this matter will not have a material adverse effect on the Authority's financial position.

The Authority completed two arbitration hearings with the Metropolitan District Commission (the "MDC") during fiscal year 2005 on claims asserted by both parties. The first arbitration hearing was held in the fall of 2004 regarding the Authority's right to hire replacement workers at the Mid-Connecticut Project transfer stations and for transportation services. The arbitrators ruled that the Authority has the right to replace the MDC workers. The MDC did not seek damages. A second arbitration hearing was held in the spring of 2005, to resolve certain claims, including non-payment of two MDC invoices and the Authority's claim that it was being overcharged by the MDC for indirect costs. Pursuant to the 1999 ruling of a previous arbitration panel, the Authority created and maintained an escrow account, setting aside 25% of the indirect costs invoiced by the MDC. The balance of the escrow account, which was approximately \$5.0 million as of June 30, 2005, is included in the current restricted cash and cash equivalents in the accompanying balance sheets. In July 2005, the second arbitration panel ruled in favor of the Authority stating that due to the overcharges the Authority did not have to pay the two MDC invoices and is entitled to retain 100% of the escrow account. The MDC has since filed an action to vacate the ruling of the arbitrators. The Authority plans to contest this action.

The Authority has disputed matters with several parties related to its recycling programs, including a lawsuit against the Town of Greenwich for the Town's failure to deliver all of its collected fiber recyclables to the Authority's recycling facility. Other than legal fees for which the Authority is responsible, management believes that the outcome of these matters will not have a material adverse effect on the Authority's financial position.

The Authority, through the Connecticut Attorney General's office, is pursuing recovery of lost monies from the transaction with Enron

and its subsidiaries in federal and state courts from its former law firms, financial institutions, rating agencies, Enron and Enron related parties. Other than the legal fees and costs for which the Authority may be responsible, management is uncertain of the amounts that may be realized from these claims.

Unasserted Claims and Assessments:

In Spring of 2005, TRC Companies, Inc. ("TRC") proposed to transfer polluted soil to the Authority's South Meadows Station to be used as fill and cover in connection with the ongoing remediation of the South Meadows property. The Authority rejected TRC's proposal. TRC has indicated an objection to the Authority's position and could potentially assert a claim in arbitration that the Authority wrongfully rejected the transfer of said material, thereby causing TRC to incur substantial damages in procuring alternative materials. At this time, management does not believe that TRC will pursue this matter.

In March of 2005, the Authority received a letter from one of the law firms hired by the Attorney General's office to represent the Authority in pursuit of its Enron-related losses. The law firm claims that the Authority owes it \$163,183, based upon an alleged agreement between the law firm and the Authority that the law firm would give the Authority a \$20,000 credit and freeze all of its attorney and paralegal rates at their 2002 levels, and would recover the discounts given once the litigation with Enron was concluded. The Authority has reviewed the evidence supplied by the law firm of the said agreement, as well as its own files, and has discussed the matter with the Attorney General's office. Apart from the referenced \$20,000, management believes that there is inadequate evidence to support the law firm's claim for payment. However, it is possible that the law firm will not accept the Authority's conclusion, and will pursue this matter.

By letter dated July 7, 2004, attorneys for the Organized North Easterners and Clay Hill and North End, Inc. ("ONE/CHANE") sent a letter to the Authority claiming entitlement to grant



money of over \$5,000,000, allegedly arising out of a Community Support Agreement between the Authority and ONE/CHANE dated October 6, 1999 and relating to a possible expansion of the Hartford landfill. The expansion never occurred, and the Authority has informed ONE/CHANE that no money is due it under the agreement. ONE/CHANE has not instituted suit on its claims, and at this time, management does not believe that it intends to do so.

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 litigation has been on hold while allocation of responsibility among the hundreds of alleged defendants is reviewed; a draft report is anticipated shortly, and counsel believes that mediation may follow. The matter is too preliminary to estimate any potential exposure, but management believes that, other than any insurance deductible for which the Authority may be responsible, the outcome of these claims will not have a material adverse effect on the Authority's financial position.

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



Connecticut Resources Recovery Authority

COMBINING SCHEDULE OF BALANCE SHEETS

AS OF JUNE 30, 2005

(In Thousands)

EXHIBIT A

Page 1 of 2

| ASSETS | General Fund | Mid-Connecticut Project | Bridgeport Project | Wallingford Project | Southeast Project | Eliminations | Total 2005 |
|---|-----------------|-------------------------|--------------------|---------------------|-------------------|-------------------|-------------------|
| CURRENT ASSETS | | | | | | | |
| Unrestricted Assets: | | | | | | | |
| Cash and cash equivalents | \$ 1,205 | \$ 28,506 | \$ 11,560 | \$ 21,065 | \$ 2,337 | \$ - | \$ 64,673 |
| Accounts receivable, net of allowance | 137 | 9,626 | 4,959 | 3,188 | 5,225 | - | 23,135 |
| Inventory | - | 3,796 | - | - | - | - | 3,796 |
| Prepaid expenses | 59 | 756 | 137 | 290 | - | - | 1,242 |
| Due from other funds | - | 1,127 | - | - | - | (1,127) | - |
| Total Unrestricted Assets | 1,401 | 43,811 | 16,656 | 24,543 | 7,562 | (1,127) | 92,846 |
| Restricted Assets: | | | | | | | |
| Cash and cash equivalents | 20 | 16,942 | 1,758 | 1,843 | 2,337 | - | 22,900 |
| Accrued interest receivable | - | 137 | 5 | 51 | 132 | - | 325 |
| Total Restricted Assets | 20 | 17,079 | 1,763 | 1,894 | 2,469 | - | 23,225 |
| Total Current Assets | 1,421 | 60,890 | 18,419 | 26,437 | 10,031 | (1,127) | 116,071 |
| NON-CURRENT ASSETS | | | | | | | |
| Restricted cash and cash equivalents | | | | | | | |
| Capital assets: | - | 64,301 | 1,373 | 14,723 | 1,055 | - | 81,452 |
| Depreciable: | | | | | | | |
| Plant | 864 | 162,039 | 25,178 | - | - | - | 188,081 |
| Equipment | 859 | 202,261 | 2,816 | - | - | - | 205,936 |
| | 1,723 | 364,300 | 27,994 | - | - | - | 394,017 |
| Less: accumulated depreciation | (828) | (213,394) | (23,226) | - | - | - | (237,448) |
| Total Depreciable, net | 895 | 150,906 | 4,768 | - | - | - | 156,569 |
| Nondepreciable: | | | | | | | |
| Land | - | 10,595 | 15,200 | 1,979 | - | - | 27,774 |
| Construction in progress | - | 71 | - | - | - | - | 71 |
| Total Nondepreciable | - | 10,666 | 15,200 | 1,979 | - | - | 27,845 |
| Development and bond issuance costs, net | - | 998 | 122 | 1,171 | 4,930 | - | 7,221 |
| Total Non-Current Assets | 895 | 226,871 | 21,463 | 17,873 | 5,985 | - | 273,087 |
| TOTAL ASSETS | \$ 2,316 | \$ 287,761 | \$ 39,882 | \$ 44,310 | \$ 16,016 | \$ (1,127) | \$ 389,158 |



Connecticut Resources Recovery Authority

COMBINING SCHEDULE OF BALANCE SHEETS AS OF JUNE 30, 2005 (In Thousands)

EXHIBIT A
Page 2 of 2

| | General Fund | Mid-Connecticut Project | Bridgeport Project | Wallingford Project | Southeast Project | Eliminations | Total 2005 |
|---|-----------------|-------------------------|--------------------|---------------------|-------------------|-------------------|-------------------|
| LIABILITIES AND NET ASSETS | | | | | | | |
| CURRENT LIABILITIES | | | | | | | |
| Current portion of: | | | | | | | |
| Bonds payable, net | \$ - | \$ - | \$ 1,761 | \$ 626 | \$ 379 | \$ - | \$ 2,766 |
| State loans payable | - | 2,619 | - | - | - | - | 2,619 |
| Closure and postclosure care of landfills | - | 209 | 1,120 | 200 | - | - | 1,529 |
| Accounts payable and accrued expenses | 719 | 9,306 | 6,472 | 2,861 | 2,663 | - | 22,021 |
| Due to other funds | 1,127 | - | - | - | - | (1,127) | - |
| Other | - | 4,628 | - | - | 132 | - | 4,760 |
| Total Current Liabilities | 1,846 | 16,762 | 9,353 | 3,687 | 3,174 | (1,127) | 33,695 |
| LONG-TERM LIABILITIES | | | | | | | |
| Bonds payable, net | - | 68,547 | 5,531 | 2,045 | 6,104 | - | 82,227 |
| State loans payable | - | 15,939 | - | - | - | - | 15,939 |
| Closure and postclosure care of landfills | - | 9,737 | 10,293 | 4,918 | - | - | 24,948 |
| Other | - | - | - | - | 1,581 | - | 1,581 |
| Total Long-Term Liabilities | - | 94,223 | 15,824 | 6,963 | 7,685 | - | 124,695 |
| TOTAL LIABILITIES | 1,846 | 110,985 | 25,177 | 10,650 | 10,859 | (1,127) | 158,390 |
| NET ASSETS | | | | | | | |
| Invested in Capital Assets, net of related debt | - | 86,710 | 13,761 | - | - | - | 100,471 |
| Restricted: | | | | | | | |
| Energy generating facility | - | 20,809 | - | - | - | - | 20,809 |
| Debt service reserve funds | - | 18,089 | 971 | - | 69 | - | 19,129 |
| Tip fee stabilization | - | - | - | 13,875 | - | - | 13,875 |
| Debt service funds | - | 165 | 854 | - | - | - | 1,019 |
| Operating and maintenance | - | 1,512 | - | - | - | - | 1,512 |
| Equipment replacement | - | 1,512 | - | - | - | - | 1,512 |
| Select Energy escrow | - | 1,000 | - | - | - | - | 1,000 |
| Landfill custodian accounts | - | 429 | 152 | 134 | - | - | 715 |
| Regional recycling center equipment | - | 374 | - | - | - | - | 374 |
| Recycling education fund | - | 346 | - | - | - | - | 346 |
| Revenue fund | - | 344 | - | - | - | - | 344 |
| State loan | - | 124 | - | - | - | - | 124 |
| Other | 20 | - | 3 | 109 | 191 | - | 323 |
| Total Restricted | 20 | 44,704 | 1,980 | 14,118 | 260 | - | 61,082 |
| Unrestricted | 450 | 45,362 | (1,036) | 19,542 | 4,897 | - | 69,215 |
| Total Net Assets | 470 | 176,776 | 14,705 | 33,660 | 5,157 | - | 230,768 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 2,316 | \$ 287,761 | \$ 39,882 | \$ 44,310 | \$ 16,016 | \$ (1,127) | \$ 389,158 |



Connecticut Resources Recovery Authority

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2005 (In Thousands)

EXHIBIT B

| | General Fund | Mid-Connecticut Project | Bridgeport Project | Wallingford Project | Southeast Project | Eliminations | Total 2005 |
|--|---------------|-------------------------|--------------------|---------------------|-------------------|----------------|-------------------|
| Operating Revenues | | | | | | | |
| Service charges: | | | | | | | |
| Members | \$ - | \$ 42,133 | \$ 30,535 | \$ 8,560 | \$ 10,666 | \$ - | \$ 91,894 |
| Others | - | 18,259 | 12,207 | 53 | 1,143 | (1,439) | 30,223 |
| Energy generation | - | 20,496 | - | 13,302 | - | - | 33,798 |
| Ash disposal reimbursement | - | - | 4,025 | - | - | - | 4,025 |
| Other operating revenues | - | 5,683 | 3,260 | 58 | - | - | 9,001 |
| Total operating revenues | - | <u>86,571</u> | <u>50,027</u> | <u>21,973</u> | <u>11,809</u> | <u>(1,439)</u> | <u>168,941</u> |
| Operating Expenses | | | | | | | |
| Solid waste operations | 11 | 59,094 | 44,356 | 16,196 | 10,176 | (1,439) | 128,394 |
| Depreciation and amortization | 169 | 16,080 | 858 | 309 | 448 | - | 17,864 |
| Maintenance and utilities | - | 1,730 | 301 | 6 | - | - | 2,037 |
| Closure and postclosure care of landfills | - | 385 | (180) | (25) | - | - | 180 |
| Project administration | - | 4,985 | 1,122 | 542 | 183 | - | 6,832 |
| Total operating expenses | <u>180</u> | <u>82,274</u> | <u>46,457</u> | <u>17,028</u> | <u>10,807</u> | <u>(1,439)</u> | <u>155,307</u> |
| Operating Income (Loss) | <u>(180)</u> | <u>4,297</u> | <u>3,570</u> | <u>4,945</u> | <u>1,002</u> | <u>-</u> | <u>13,634</u> |
| Non-Operating Revenues and (Expenses) | | | | | | | |
| Enron claim | - | 82,760 | - | - | - | - | 82,760 |
| Investment income | 18 | 3,063 | 286 | 796 | 308 | - | 4,471 |
| Other income (expenses) | 361 | (89) | (1,870) | (184) | 500 | - | (1,282) |
| Interest expense | - | (8,819) | (378) | (160) | (665) | - | (10,022) |
| Net Non-Operating Revenues and (Expenses) | <u>379</u> | <u>76,915</u> | <u>(1,962)</u> | <u>452</u> | <u>143</u> | <u>-</u> | <u>75,927</u> |
| Income before Special Items | 199 | 81,212 | 1,608 | 5,397 | 1,145 | - | 89,561 |
| Special items: | | | | | | | |
| Gain on sale of Enron claim | - | 28,502 | - | - | - | - | 28,502 |
| Early retirement/defeasance of debt | - | (6,081) | - | (47) | - | - | (6,128) |
| Total special items | - | <u>22,421</u> | - | <u>(47)</u> | - | - | <u>22,374</u> |
| Increase in Net Assets | 199 | 103,633 | 1,608 | 5,350 | 1,145 | - | 111,935 |
| Total Net Assets, beginning of year | 271 | 73,143 | 13,097 | 28,310 | 4,012 | - | 118,833 |
| Total Net Assets, end of year | <u>\$ 470</u> | <u>\$ 176,776</u> | <u>\$ 14,705</u> | <u>\$ 33,660</u> | <u>\$ 5,157</u> | <u>\$ -</u> | <u>\$ 230,768</u> |



Connecticut Resources Recovery Authority

COMBINING SCHEDULE OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2005

EXHIBIT C
Page 1 of 2

(In Thousands)

| | General Fund | Mid-Connecticut Project | Bridgeport Project | Wallingford Project | Southeast Project | Eliminations | Total 2005 |
|---|--------------|-------------------------|--------------------|---------------------|-------------------|--------------|------------|
| Cash Flows From Operating Activities | | | | | | | |
| Payments received from providing services | \$ - | \$ 85,175 | \$ 50,341 | \$ 21,910 | \$ 12,568 | \$ - | \$ 169,994 |
| Payments received from other funds | 32 | 194 | - | - | - | (226) | - |
| Payments to suppliers for goods and services | (379) | (61,997) | (45,609) | (16,173) | (11,105) | - | (135,263) |
| Payments to employees for services | - | (2,936) | (671) | (325) | (111) | - | (4,043) |
| Payments to municipalities for rebates | - | - | - | (1,177) | - | - | (1,177) |
| Payments to other funds | (194) | (32) | - | - | - | 226 | - |
| Net Cash Provided by (Used in) Operating Activities | (541) | 20,404 | 4,061 | 4,235 | 1,352 | - | 29,511 |
| Cash Flows From Investing Activities | | | | | | | |
| Proceeds from sale of Enron claim | - | 111,262 | - | - | - | - | 111,262 |
| Interest on investments | 18 | 2,970 | 283 | 788 | 231 | - | 4,290 |
| Net Cash Provided by Investing Activities | 18 | 114,232 | 283 | 788 | 231 | - | 115,552 |
| Cash Flows From Capital and Related Financing Activities | | | | | | | |
| Proceeds from State loans | - | 8,659 | - | - | - | - | 8,659 |
| Proceeds from sales of equipment | 2 | 15 | - | - | - | - | 17 |
| Payments for landfill closure and postclosure care liabilities | - | (283) | (409) | (160) | - | - | (852) |
| Acquisition and construction of capital assets | 13 | (2,181) | (81) | - | - | - | (2,249) |
| Early retirement/defeasance of debt | - | (4,454) | - | (47) | - | - | (4,501) |
| Interest paid on long-term debt | - | (9,204) | (445) | (165) | (559) | - | (10,373) |
| Principal paid on long-term debt | - | (114,764) | (1,670) | (1,860) | (2,731) | - | (121,025) |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | 15 | (122,212) | (2,605) | (2,232) | (3,290) | - | (130,324) |
| Cash Flows From Non-Capital Financing Activities | | | | | | | |
| Other interest and fees | 158 | (32) | (17) | (7) | (9) | - | 93 |
| Net Cash Provided by (Used in) Non-Capital Financing Activities | 158 | (32) | (17) | (7) | (9) | - | 93 |



Connecticut Resources Recovery Authority

COMBINING SCHEDULE OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2005 (In Thousands)

EXHIBIT C
Page 2 of 2

| | Administrative Pool | Mid-Connecticut Project | Bridgeport Project | Wallingford Project | Southeast Project | Eliminations | Total 2005 |
|--|------------------------|----------------------------|-----------------------|------------------------|----------------------|--------------|---------------|
| Net increase (decrease) in cash and cash equivalents | \$ (350) | \$ 12,392 | \$ 1,722 | \$ 2,784 | \$ (1,716) | \$ - | \$ 14,832 |
| Cash and cash equivalents, beginning of year | 1,575 | 97,403 | 12,970 | 34,800 | 7,445 | - | 154,193 |
| Cash and cash equivalents, end of year | \$ 1,225 | \$ 109,795 | \$ 14,692 | \$ 37,584 | \$ 5,729 | \$ - | \$ 169,025 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities: | | | | | | | |
| Operating income (loss) | \$ (180) | \$ 4,297 | \$ 3,570 | \$ 4,945 | \$ 1,002 | \$ - | \$ 13,634 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | | | |
| Depreciation of capital assets | 169 | 15,789 | 828 | - | - | - | 16,786 |
| Amortization of development and bond issuance costs | - | 291 | 30 | 309 | 448 | - | 1,078 |
| Provision for closure and postclosure care of landfills | - | 385 | (180) | (25) | - | - | 180 |
| Other income (expenses) | 110 | - | (1,850) | (177) | 508 | - | (1,409) |
| Changes in assets and liabilities: | | | | | | | |
| (Increase) decrease in: | | | | | | | |
| Accounts receivable, net | (137) | (1,429) | 304 | (1,071) | 251 | - | (2,082) |
| Inventory | - | (255) | - | - | - | - | (255) |
| Prepaid expenses | (30) | 309 | (80) | 13 | - | - | 212 |
| (Increase) decrease in: | | | | | | | |
| Due from other funds | 32 | 194 | - | - | - | 226 | - |
| Accounts payable and accrued expenses | (311) | 855 | 1,439 | 241 | (857) | - | 1,367 |
| Due to other funds | (194) | (32) | - | - | - | (226) | - |
| Net Cash Provided by (Used in) Operating Activities | \$ (541) | \$ 20,404 | \$ 4,061 | \$ 4,235 | \$ 1,352 | \$ - | \$ 29,511 |



Connecticut Resources Recovery Authority

**COMBINING SCHEDULE OF NET ASSETS
AS OF JUNE 30, 2005
(In Thousands)**

**EXHIBIT D
Page 1 of 2**

| | General Fund | Mid-Connecticut Project | Bridgeport Project | Wallingford Project | Southeast Project | Total 2005 |
|--|--------------|-------------------------|--------------------|---------------------|-------------------|------------------|
| Net assets invested in capital assets, net of related debt | \$ - | \$ 86,710 | \$ 13,761 | \$ - | \$ - | \$ 100,471 |
| Restricted net assets: | | | | | | |
| Current restricted cash and cash equivalents: | | | | | | |
| Revenue fund | - | 6,786 | - | 1,358 | 1,854 | 9,998 |
| MDC arbitration escrow | - | 4,904 | - | - | - | 4,904 |
| Debt service funds | - | 638 | 1,299 | 444 | 326 | 2,707 |
| State loans | - | 2,619 | - | - | - | 2,619 |
| Select Energy escrow | - | 1,000 | - | - | - | 1,000 |
| Collection and paying agency account | - | - | 441 | - | - | 441 |
| RRC container equipment | - | 402 | - | - | - | 402 |
| Recycling education fund | - | 346 | - | - | - | 346 |
| Customer guarantee of payment | - | 205 | 18 | 41 | - | 264 |
| Montville landfill postclosure | - | - | - | - | 157 | 157 |
| Town of Ellington trust - pooled funds | - | 42 | - | - | - | 42 |
| Mercury public awareness | 20 | - | - | - | - | 20 |
| Total current restricted cash and cash equivalents | 20 | 16,942 | 1,758 | 1,843 | 2,337 | 22,900 |
| Non-current restricted cash and cash equivalents: | | | | | | |
| Debt service reserve funds | - | 23,976 | 1,218 | 605 | 901 | 26,700 |
| Energy generating facility | - | 20,809 | - | - | - | 20,809 |
| State loans | - | 16,063 | - | - | - | 16,063 |
| Tip fee stabilization | - | - | - | 13,875 | - | 13,875 |
| Equipment replacement | - | 1,512 | - | - | - | 1,512 |
| Operating and maintenance | - | 1,512 | - | - | - | 1,512 |
| DEP trust - landfills | - | 429 | 152 | 134 | - | 715 |
| Rebate funds | - | - | 3 | 109 | 154 | 266 |
| Total non-current restricted cash and cash equivalents | - | 64,301 | 1,373 | 14,723 | 1,055 | 81,452 |
| Less liabilities to be paid with current restricted assets: | | | | | | |
| Bonds payable, net | - | - | 445 | 444 | 326 | 1,215 |
| State loans payable | - | 2,619 | - | - | - | 2,619 |
| MDC arbitration escrow | - | 4,628 | - | - | - | 4,628 |
| Montville landfill postclosure | - | - | - | - | 132 | 132 |
| Other | - | 7,466 | 459 | 1,399 | 1,842 | 11,166 |
| Total liabilities to be paid with current restricted assets | - | 14,713 | 904 | 1,843 | 2,300 | 19,760 |
| Less liabilities to be paid with non-current restricted assets: | | | | | | |
| Bonds payable, net | - | 5,887 | 247 | 605 | 832 | 7,571 |
| State loans payable | - | 15,939 | - | - | - | 15,939 |
| Total liabilities to be paid with non-current restricted assets | - | 21,826 | 247 | 605 | 832 | 23,510 |
| Total restricted net assets | \$ 20 | \$ 44,704 | \$ 1,980 | \$ 14,118 | \$ 260 | \$ 61,082 |



Connecticut Resources Recovery Authority

**COMBINING SCHEDULE OF NET ASSETS
AS OF JUNE 30, 2005
(In Thousands)**

**EXHIBIT D
Page 2 of 2**

| | General Fund | Mid-Connecticut Project | Bridgeport Project | Wallingford Project | Southeast Project | Total 2005 |
|---|---------------|-------------------------|--------------------|---------------------|-------------------|-------------------|
| Unrestricted net assets: | | | | | | |
| Designated for: | | | | | | |
| Postclosure care of landfills | \$ - | \$ 2,946 | \$ 3,790 | \$ 6,458 | \$ - | \$ 13,194 |
| Closure care of landfills | - | 7,844 | 308 | - | - | 8,152 |
| Future loss contingencies | - | 5,345 | - | 1,047 | 252 | 6,644 |
| Waste processing facility modifications | - | 4,336 | - | - | - | 4,336 |
| Rolling stock | - | 3,539 | - | - | - | 3,539 |
| Recycling | - | 1,930 | - | - | - | 1,930 |
| Future use | - | - | 514 | - | - | 514 |
| Benefit fund | 240 | - | - | - | - | 240 |
| South Meadows site remediation | - | 246 | - | - | - | 246 |
| Undesignated | 210 | 19,176 | (5,648) | 12,037 | 4,645 | 30,420 |
| Total unrestricted net assets | 450 | 45,362 | (1,036) | 19,542 | 4,897 | 69,215 |
| Total Net Assets | \$ 470 | \$ 176,776 | \$ 14,705 | \$ 33,660 | \$ 5,157 | \$ 230,768 |



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Statistical Section



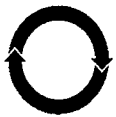
Connecticut Resources Recovery Authority

Exhibit 1 - Historical Waste Summary

| Exhibit 1A Fiscal Year | Total Municipal Solid Waste Deliveries (tons) | | | Total |
|---------------------------|---|------------|-------------|-----------|
| | Mid-Connecticut | Bridgeport | Wallingford | |
| 1996 | 743,289 | 773,399 | 140,007 | 1,906,022 |
| 1997 | 841,886 | 766,009 | 139,300 | 1,992,375 |
| 1998 | 832,033 | 752,120 | 147,756 | 1,983,543 |
| 1999 | 801,563 | 758,346 | 153,277 | 1,961,484 |
| 2000 | 826,577 | 711,536 | 152,610 | 1,936,361 |
| 2001 | 880,708 | 704,036 | 142,403 | 1,966,487 |
| 2002 | 887,764 | 722,574 | 154,722 | 2,011,919 |
| 2003 | 907,060 | 752,308 | 154,796 | 2,074,106 |
| 2004 | 856,143 | 735,417 | 153,623 | 2,006,213 |
| 2005 | 854,571 | 724,432 | 153,809 | 1,994,291 |

| Exhibit 1B Fiscal Year | Member Municipal Solid Waste Deliveries (tons) | | | Total |
|---------------------------|--|------------|-------------|-----------|
| | Mid-Connecticut | Bridgeport | Wallingford | |
| 1996 | 441,150 | 340,759 | 107,884 | 1,029,509 |
| 1997 | 524,799 | 329,428 | 105,912 | 1,100,706 |
| 1998 | 551,860 | 325,798 | 128,987 | 1,155,077 |
| 1999 | 555,123 | 320,517 | 138,704 | 1,177,586 |
| 2000 | 596,626 | 345,905 | 143,760 | 1,259,272 |
| 2001 | 622,837 | 365,921 | 136,367 | 1,302,325 |
| 2002 | 641,677 | 371,616 | 151,230 | 1,334,861 |
| 2003 | 656,959 | 383,196 | 152,497 | 1,364,749 |
| 2004 | 614,229 | 412,607 | 151,151 | 1,354,712 |
| 2005 | 598,449 | 419,176 | 152,871 | 1,348,251 |

| Exhibit 1C Fiscal Year | Contract Solid Waste Deliveries (tons) | | | Total |
|---------------------------|--|------------|-------------|---------|
| | Mid-Connecticut | Bridgeport | Wallingford | |
| 1996 | 95,074 | ----- | 4,695 | 99,769 |
| 1997 | 104,598 | ----- | 4,561 | 109,159 |
| 1998 | 139,302 | ----- | 4,672 | 143,974 |
| 1999 | 159,385 | ----- | 5,290 | 164,675 |
| 2000 | 185,735 | 234,820 | 15,296 | 435,851 |
| 2001 | 222,021 | 250,177 | 18,936 | 491,134 |
| 2002 | 229,667 | 263,223 | 28,779 | 521,669 |
| 2003 | 237,096 | 228,358 | 22,955 | 488,409 |
| 2004 | 229,562 | 180,480 | 19,874 | 429,916 |
| 2005 | 243,384 | 196,704 | 18,168 | 458,256 |



Connecticut Resources Recovery Authority

Exhibit 1 Continued - Historical Waste Summary

| Exhibit 1D Fiscal Year | Short-Term Waste Deliveries (tons) | | | | Total |
|---------------------------|------------------------------------|------------|-------------|-----------|---------|
| | Mid-Connecticut | Bridgeport | Wallingford | Southeast | |
| 1996 | 207,065 | 432,640 | 32,123 | 104,916 | 776,744 |
| 1997 | 212,489 | 436,581 | 33,388 | 100,052 | 782,510 |
| 1998 | 140,871 | 426,322 | 18,769 | 98,530 | 684,492 |
| 1999 | 87,055 | 437,829 | 14,573 | 79,766 | 619,223 |
| 2000 | 44,216 | 130,811 | 8,850 | 57,361 | 241,238 |
| 2001 | 35,850 | 87,938 | 6,036 | 43,204 | 173,028 |
| 2002 | 16,421 | 87,735 | 3,492 | 47,742 | 155,390 |
| 2003 | 13,005 | 140,754 | 2,299 | 64,890 | 220,948 |
| 2004 | 12,352 | 142,330 | 2,472 | 64,431 | 221,585 |
| 2005 | 12,737 | 108,552 | 938 | 65,556 | 187,783 |

| Exhibit 1E Fiscal Year | Municipal Solid Waste Processed (tons) | | | | Total |
|---------------------------|--|------------|-------------|-----------|-----------|
| | Mid-Connecticut | Bridgeport | Wallingford | Southeast | |
| 1996 | 718,789 | 773,399 | 141,600 | 249,703 | 1,883,491 |
| 1997 | 803,123 | 766,009 | 138,550 | 245,611 | 1,953,293 |
| 1998 | 784,477 | 753,197 | 143,084 | 251,200 | 1,931,958 |
| 1999 | 777,201 | 758,346 | 142,335 | 247,556 | 1,925,438 |
| 2000 | 839,134 | 711,536 | 142,620 | 242,790 | 1,936,080 |
| 2001 | 852,372 | 719,472 | 138,526 | 241,366 | 1,951,736 |
| 2002 | 791,487 | 723,207 | 144,747 | 244,775 | 1,904,216 |
| 2003 | 820,692 | 742,602 | 149,337 | 258,677 | 1,971,308 |
| 2004 | 809,215 | 733,771 | 142,083 | 259,822 | 1,944,891 |
| 2005 | 797,644 | 717,704 | 149,279 | 258,468 | 1,923,095 |

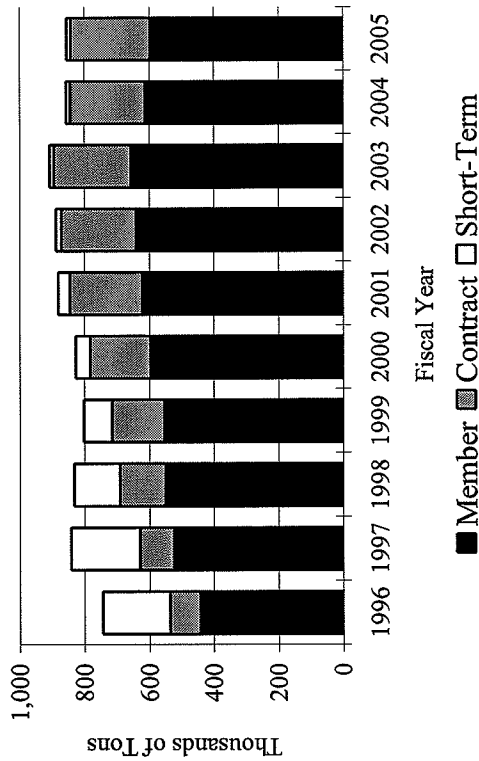
| Exhibit 1F Fiscal Year | Recyclables Processed (tons) | | | Total |
|---------------------------|------------------------------|------------|-------------|---------|
| | Mid-Connecticut | Bridgeport | Wallingford | |
| 1996 | 56,598 | 58,194 | 114,792 | 114,792 |
| 1997 | 59,677 | 60,320 | 119,997 | 119,997 |
| 1998 | 67,756 | 59,827 | 127,583 | 127,583 |
| 1999 | 76,735 | 57,415 | 134,150 | 134,150 |
| 2000 | 67,361 | 60,405 | 127,766 | 127,766 |
| 2001 | 75,709 | 63,849 | 139,558 | 139,558 |
| 2002 | 69,131 | 58,999 | 128,130 | 128,130 |
| 2003 | 79,476 | 60,991 | 140,467 | 140,467 |
| 2004 | 77,406 | 63,490 | 140,896 | 140,896 |
| 2005 | 78,485 | 61,467 | 139,952 | 139,952 |



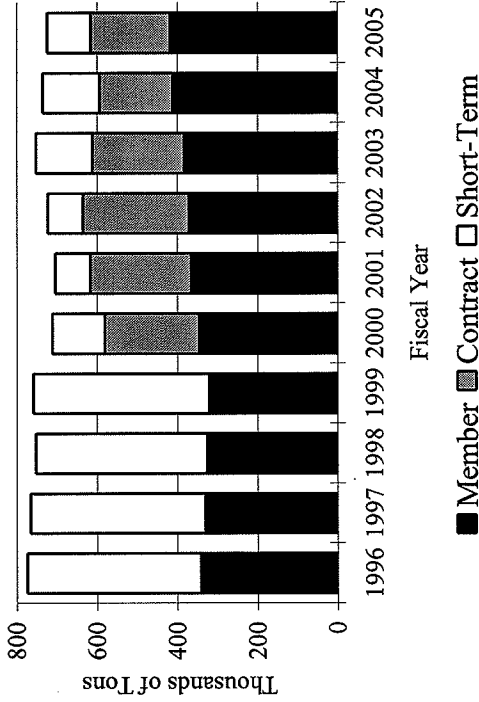
Connecticut Resources Recovery Authority

Exhibit 2 - Waste Delivery Summary

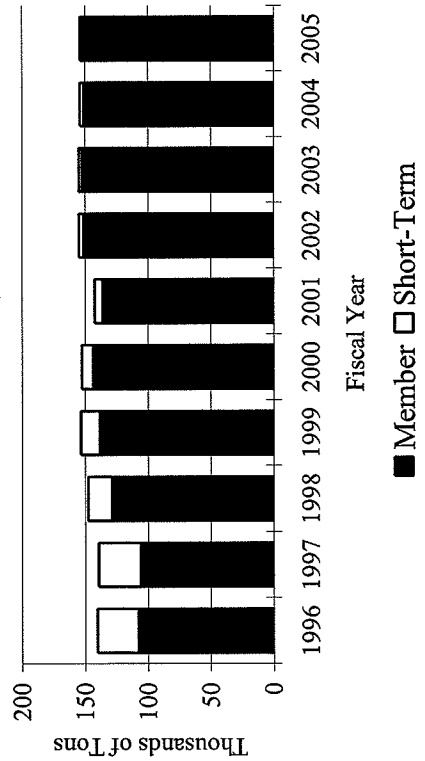
Mid-Connecticut Project



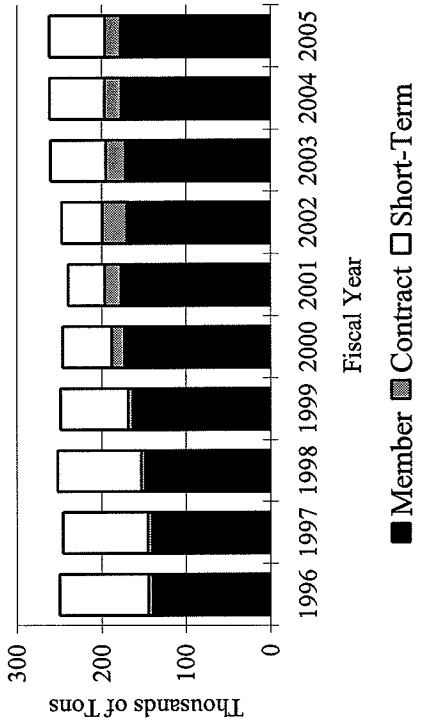
Bridgeport Project

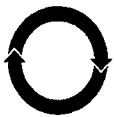


Wallingford Project



Southeast Project





Connecticut Resources Recovery Authority

Exhibit 3 - Energy Generation, Net of In-plant Usage
(Total annual megawatts) (1)

| Fiscal Year | Mid-Connecticut | Bridgeport | Wallingford | Southeast |
|-------------|-----------------|------------|-------------|-----------|
| 1996 | 428,339 | 499,210 | 56,672 | 126,226 |
| 1997 | 455,206 | 488,650 | 57,423 | 128,546 |
| 1998 | 450,381 | 435,517 | 58,862 | 128,677 |
| 1999 | 444,149 | 493,267 | 60,346 | 134,217 |
| 2000 | 469,385 | 472,565 | 60,183 | 131,059 |
| 2001 | 471,852 | 484,916 | 60,044 | 123,357 |
| 2002 | 453,745 | 480,673 | 66,326 | 134,773 |
| 2003 | 446,884 | 476,304 | 66,511 | 138,181 |
| 2004 | 438,887 | 479,671 | 65,178 | 138,407 |
| 2005 | 413,654 | 454,600 | 67,248 | 131,884 |

(1) Total annual megawatts / 365 days / 24 hours = Annual hourly average rate.

Exhibit 4 - Top Five Sources of Member Waste (1)

| Mid-Connecticut | Bridgeport | Wallingford | Southeast |
|-----------------|--------------|---------------|--------------|
| Hartford | Bridgeport | Wallingford | Groton |
| 12.49% | 9.54% | 26.67% | 13.19% |
| W. Hartford | Fairfield | Hamden | Norwich |
| 5.68% | 7.49% | 21.89% | 12.90% |
| E. Hartford | Greenwich | Meriden | New London |
| 4.23% | 7.42% | 21.74% | 9.60% |
| Enfield | Norwalk | North Haven | Montville |
| 3.77% | 6.51% | 16.66% | 7.79% |
| Torrington | Milford | Cheshire | Waterford |
| <u>3.68%</u> | <u>5.91%</u> | <u>12.43%</u> | <u>6.16%</u> |
| 29.85% | 36.87% | 99.39% | 49.64% |

(1) Percentage represents ratio of Member Deliveries / Total Project Deliveries.



Connecticut Resources Recovery Authority

Exhibit 5 - Per Ton Service Charge for Member Waste

| Fiscal Year | Mid-Connecticut | Bridgeport | Wallingford | Southeast |
|-------------|-----------------|------------|-------------|-----------|
| 1996 | \$55.00 | \$79.00 | \$75.00 | \$86.00 |
| 1997 | \$51.00 | \$79.00 | \$71.00 | \$84.00 |
| 1998 | \$48.00 | \$85.00 | \$62.00 | \$79.00 |
| 1999 | \$48.00 | \$89.50 | \$60.00 | \$62.00 |
| 2000 | \$49.00 | \$70.00 | \$57.00 | \$59.00 |
| 2001 | \$50.00 | \$67.00 | \$56.00 | \$58.00 |
| 2002 | \$51.00 | \$67.00 | \$55.00 | \$57.00 |
| 2003 | \$57.00 | \$69.00 | \$55.00 | \$57.00 |
| 2004 | \$63.75 | \$71.00 | \$55.00 | \$60.00 |
| 2005 | \$70.00 | \$72.50 | \$56.00 | \$60.00 |

Exhibit 6 - Average Per Ton Short-Term Rate (Combined) (1)

| Fiscal Year | Rate |
|-------------|---------|
| 1996 | \$44.51 |
| 1997 | \$46.24 |
| 1998 | \$45.68 |
| 1999 | \$46.26 |
| 2000 | \$59.93 |
| 2001 | \$56.47 |
| 2002 | \$56.85 |
| 2003 | \$60.73 |
| 2004 | \$64.56 |
| 2005 | \$67.09 |

(1) Average includes contract and short-term solid waste deliveries, excludes Bridgeport Project and Southeast Project short-term waste revenues which accrue to the facility operator.



Connecticut Resources Recovery Authority

Exhibit 7 - Revenues by Source (1)

(Dollars in Thousands)

| Mid-Connecticut Project | | Member and Other | | Energy | | % of Annual | | Landfill Revenue | | % of Annual | | Recycling Revenue | | % of Annual | | Investment Income & Other Revenues | | % of Annual | |
|-------------------------|---------------|------------------|-------------|----------|-------------|-------------|-------------|------------------|-------------|-------------|-------------|-------------------|-------------|-------------|-------------|------------------------------------|-------------|-------------|-------------|
| Fiscal Year | Total Revenue | Service Charges | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual |
| 1996 | \$83,126 | \$37,578 | 45.21% | \$36,410 | 43.80% | \$2,099 | 2.53% | \$2,113 | 2.54% | \$4,926 | 5.93% | \$1,523 | 1.71% | \$5,450 | 6.11% | \$5,743 | 6.55% | \$5,480 | 6.42% |
| 1997 | \$89,157 | \$41,472 | 46.52% | \$38,707 | 43.41% | \$2,005 | 2.25% | \$1,527 | 1.74% | \$4,849 | 5.30% | \$1,394 | 1.63% | \$5,995 | 6.36% | \$3,534 | 4.78% | \$2,557 | 3.23% |
| 1998 | \$87,666 | \$40,029 | 45.66% | \$38,279 | 43.66% | \$2,088 | 2.38% | \$1,836 | 2.15% | \$2,248 | 2.46% | \$1,480 | 1.87% | \$2,573 | 3.03% | \$4,444 | 4.96% | | |
| 1999 | \$85,366 | \$38,918 | 45.59% | \$37,738 | 44.21% | \$1,621 | 1.77% | \$1,621 | 1.77% | \$2,232 | 2.37% | \$1,135 | 1.53% | \$1,844 | 2.17% | | | | |
| 2000 | \$91,518 | \$42,892 | 46.87% | \$39,908 | 43.61% | \$1,320 | 1.40% | \$1,320 | 1.40% | \$1,135 | 1.53% | \$1,480 | 1.87% | | | | | | |
| 2001 | \$94,266 | \$44,891 | 47.62% | \$39,828 | 42.25% | \$1,665 | 2.25% | \$1,139 | 1.44% | \$1,844 | 2.17% | \$3,061 | 3.41% | | | | | | |
| 2002 | \$73,958 | \$45,954 | 62.14% | \$21,670 | 29.30% | \$1,139 | 1.44% | \$1,139 | 1.44% | \$1,844 | 2.17% | | | | | | | | |
| 2003 | \$79,150 | \$52,442 | 66.26% | \$21,532 | 27.20% | \$1,133 | 1.34% | \$1,133 | 1.34% | \$1,844 | 2.17% | | | | | | | | |
| 2004 | \$84,857 | \$55,255 | 65.12% | \$24,052 | 28.34% | \$1,241 | 1.38% | \$1,241 | 1.38% | | | | | | | | | | |
| 2005 | \$89,634 | \$60,392 | 67.38% | \$20,496 | 22.87% | | | | | | | | | | | | | | |

| Bridgeport Project | | Member and Other | | Ash Disposal | | % of Annual | | Landfill Revenue | | % of Annual | | Recycling Revenue | | % of Annual | | Investment Income & Other Revenues | | % of Annual | |
|--------------------|---------------|------------------|-------------|--------------|-------------|-------------|-------------|------------------|-------------|-------------|-------------|-------------------|-------------|-------------|-------------|------------------------------------|-------------|-------------|-------------|
| Fiscal Year | Total Revenue | Service Charges | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual | Revenue | % of Annual |
| 1996 | \$35,238 | \$26,667 | 75.68% | \$4,602 | 13.06% | \$55 | 0.16% | \$2,074 | 5.89% | \$1,840 | 5.22% | \$1,111 | 3.31% | \$1,912 | 5.69% | \$1,864 | 5.40% | \$1,931 | 5.49% |
| 1997 | \$33,615 | \$25,735 | 76.56% | \$4,799 | 14.28% | \$58 | 0.17% | \$1,083 | 3.14% | \$1,842 | 3.93% | \$1,576 | 3.32% | \$1,818 | 3.83% | \$1,327 | 2.77% | \$1,244 | 2.56% |
| 1998 | \$34,540 | \$27,307 | 79.06% | \$4,263 | 12.34% | \$23 | 0.07% | \$975 | 2.77% | \$1,457 | 2.90% | \$1,003 | 2.09% | \$1,374 | 2.77% | \$1,374 | 2.77% | \$1,457 | 2.90% |
| 1999 | \$35,144 | \$28,249 | 80.38% | \$3,955 | 11.25% | \$34 | 0.10% | \$1,700 | 3.63% | \$1,842 | 3.93% | \$1,576 | 3.32% | \$1,818 | 3.83% | \$1,327 | 2.77% | \$1,244 | 2.56% |
| 2000 | \$46,846 | \$39,634 | 84.60% | \$3,670 | 7.83% | \$0 | 0.00% | \$1,700 | 3.63% | \$1,842 | 3.93% | \$1,576 | 3.32% | \$1,818 | 3.83% | \$1,327 | 2.77% | \$1,244 | 2.56% |
| 2001 | \$47,492 | \$40,377 | 85.02% | \$3,721 | 7.84% | \$0 | 0.00% | \$1,700 | 3.63% | \$1,842 | 3.93% | \$1,576 | 3.32% | \$1,818 | 3.83% | \$1,327 | 2.77% | \$1,244 | 2.56% |
| 2002 | \$47,883 | \$41,608 | 86.90% | \$3,945 | 8.24% | \$0 | 0.00% | \$1,700 | 3.63% | \$1,842 | 3.93% | \$1,576 | 3.32% | \$1,818 | 3.83% | \$1,327 | 2.77% | \$1,244 | 2.56% |
| 2003 | \$48,575 | \$41,357 | 85.14% | \$4,033 | 8.30% | \$0 | 0.00% | \$1,941 | 4.00% | \$1,457 | 2.90% | \$1,003 | 2.09% | \$1,374 | 2.77% | \$1,374 | 2.77% | \$1,457 | 2.90% |
| 2004 | \$49,666 | \$41,654 | 83.87% | \$4,031 | 8.12% | \$0 | 0.00% | \$2,607 | 5.25% | \$2,607 | 5.25% | \$2,607 | 5.25% | \$2,607 | 5.25% | \$2,607 | 5.25% | \$2,607 | 5.25% |
| 2005 | \$50,313 | \$42,742 | 84.95% | \$4,025 | 8.00% | \$0 | 0.00% | \$2,089 | 4.15% | \$2,089 | 4.15% | \$2,089 | 4.15% | \$2,089 | 4.15% | \$2,089 | 4.15% | \$2,089 | 4.15% |

(1) Excludes non-operating revenues except investment income.



Connecticut Resources Recovery Authority

Exhibit 7 Continued - Revenues by Source (1)

(Dollars in Thousands)

| Wallingford Project | | Member and Other Service Charges | % of Annual | Energy Revenue | % of Annual | Investment Income & Other Operating Revenues | % of Annual |
|----------------------------|---------------|----------------------------------|-------------|----------------|-------------|--|-------------|
| Fiscal Year | Total Revenue | | | | | | |
| 1996 | \$17,180 | \$9,620 | 56.00% | \$6,907 | 40.20% | \$653 | 3.80% |
| 1997 | \$16,707 | \$9,092 | 54.42% | \$6,807 | 40.74% | \$808 | 4.84% |
| 1998 | \$17,325 | \$9,073 | 52.37% | \$7,468 | 43.11% | \$784 | 4.53% |
| 1999 | \$20,476 | \$9,148 | 44.68% | \$10,596 | 51.75% | \$732 | 3.57% |
| 2000 | \$22,683 | \$8,723 | 38.46% | \$12,862 | 56.70% | \$1,098 | 7.25% |
| 2001 | \$22,275 | \$7,993 | 35.88% | \$12,813 | 57.52% | \$1,469 | 7.25% |
| 2002 | \$22,279 | \$8,528 | 38.28% | \$13,062 | 58.63% | \$689 | 3.09% |
| 2003 | \$22,085 | \$8,523 | 38.59% | \$13,107 | 59.35% | \$455 | 2.06% |
| 2004 | \$21,846 | \$8,455 | 38.70% | \$12,946 | 59.26% | \$445 | 2.04% |
| 2005 | \$22,769 | \$8,613 | 37.83% | \$13,302 | 58.42% | \$854 | 3.75% |

Southeast Project

| Southeast Project | | Member and Other Service Charges | % of Annual | Investment Income & Other Operating Revenues | % of Annual |
|--------------------------|---------------|----------------------------------|-------------|--|-------------|
| Fiscal Year | Total Revenue | | | | |
| 1996 | \$15,404 | \$15,055 | 97.73% | \$349 | 2.27% |
| 1997 | \$14,987 | \$14,765 | 98.52% | \$222 | 1.48% |
| 1998 | \$14,367 | \$13,902 | 96.76% | \$465 | 3.24% |
| 1999 | \$12,977 | \$12,521 | 96.49% | \$456 | 3.51% |
| 2000 | \$11,625 | \$11,042 | 94.98% | \$583 | 5.02% |
| 2001 | \$11,959 | \$11,445 | 95.70% | \$514 | 4.30% |
| 2002 | \$11,517 | \$11,334 | 98.41% | \$183 | 1.59% |
| 2003 | \$11,283 | \$11,185 | 99.13% | \$98 | 0.87% |
| 2004 | \$11,968 | \$11,889 | 99.34% | \$79 | 0.66% |
| 2005 | \$12,117 | \$11,809 | 97.46% | \$308 | 2.54% |

(1) Excludes non-operating revenues except investment income.



Connecticut Resources Recovery Authority

Exhibit 8 - Expenses by Function (1)

(Dollars in Thousands)

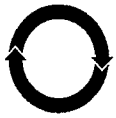
Mid-Connecticut Project

| Fiscal Year | Total Expenses | Solid Waste Operations | % of Annual | Maintenance & Utilities | % of Annual | Project Administration | % of Annual | Landfill Closure & Postclosure | % of Annual | Debt Service | % of Annual |
|-------------|----------------|------------------------|-------------|-------------------------|-------------|------------------------|-------------|--------------------------------|-------------|--------------|-------------|
| | | | | | | | | | | | |
| 1996 | \$84,173 | \$35,056 | 41.65% | \$8,065 | 9.58% | \$2,635 | 3.13% | \$367 | 0.44% | \$38,050 | 45.20% |
| 1997 | \$89,675 | \$38,315 | 42.73% | \$7,555 | 8.42% | \$2,707 | 3.02% | \$4,510 | 5.03% | \$36,588 | 40.80% |
| 1998 | \$82,375 | \$41,251 | 50.08% | \$6,983 | 8.48% | \$2,999 | 3.64% | (\$1,188) | -1.44% | \$32,330 | 39.25% |
| 1999 | \$80,041 | \$41,538 | 51.91% | \$6,973 | 8.71% | \$4,032 | 5.04% | \$328 | 0.41% | \$27,170 | 33.94% |
| 2000 | \$84,204 | \$49,829 | 59.18% | \$2,075 | 2.46% | \$4,693 | 5.57% | \$218 | 0.26% | \$27,389 | 32.53% |
| 2001 | \$88,073 | \$53,733 | 61.02% | \$1,651 | 1.87% | \$5,213 | 5.92% | (\$85) | -0.10% | \$27,561 | 31.29% |
| 2002 | \$90,813 | \$56,914 | 62.67% | \$1,289 | 1.42% | \$4,733 | 5.21% | \$587 | 0.65% | \$27,290 | 30.05% |
| 2003 | \$94,081 | \$61,000 | 64.84% | \$1,144 | 1.22% | \$3,782 | 4.02% | \$2,005 | 2.13% | \$26,150 | 27.80% |
| 2004 | \$91,783 | \$58,675 | 63.93% | \$1,481 | 1.61% | \$4,381 | 4.77% | \$467 | 0.51% | \$26,779 | 29.18% |
| 2005 | \$92,957 | \$59,094 | 63.57% | \$1,730 | 1.86% | \$4,985 | 5.36% | \$385 | 0.41% | \$26,763 | 28.79% |

Bridgeport Project

| Fiscal Year | Total Expenses | Solid Waste Operations | % of Annual | Maintenance & Utilities | % of Annual | Project Administration | % of Annual | Landfill Closure & Postclosure | % of Annual | Debt Service | % of Annual |
|-------------|----------------|------------------------|-------------|-------------------------|-------------|------------------------|-------------|--------------------------------|-------------|--------------|-------------|
| | | | | | | | | | | | |
| 1996 | \$35,462 | \$24,993 | 70.48% | \$289 | 0.81% | \$1,267 | 3.57% | \$2,740 | 7.73% | \$6,173 | 17.41% |
| 1997 | \$37,101 | \$25,159 | 67.81% | \$400 | 1.08% | \$1,320 | 3.56% | \$4,048 | 10.91% | \$6,174 | 16.64% |
| 1998 | \$35,634 | \$26,830 | 75.29% | \$179 | 0.50% | \$1,144 | 3.21% | \$572 | 1.61% | \$6,909 | 19.39% |
| 1999 | \$34,334 | \$28,700 | 83.59% | \$89 | 0.26% | \$778 | 2.27% | \$489 | 1.42% | \$4,278 | 12.46% |
| 2000 | \$49,112 | \$38,117 | 77.61% | \$262 | 0.53% | \$1,101 | 2.24% | \$5,685 | 11.58% | \$3,947 | 8.04% |
| 2001 | \$49,205 | \$42,341 | 86.05% | \$926 | 1.88% | \$1,136 | 2.31% | \$1,894 | 3.85% | \$2,908 | 5.91% |
| 2002 | \$50,894 | \$44,277 | 87.00% | \$1,849 | 3.63% | \$996 | 1.96% | \$400 | 0.79% | \$3,372 | 6.63% |
| 2003 | \$46,798 | \$43,555 | 93.07% | (\$280) | -0.60% | \$801 | 1.71% | \$625 | 1.34% | \$2,097 | 4.48% |
| 2004 | \$46,562 | \$42,228 | 90.69% | \$241 | 0.52% | \$861 | 1.85% | \$1,158 | 2.49% | \$2,074 | 4.45% |
| 2005 | \$47,647 | \$44,356 | 93.09% | \$301 | 0.63% | \$1,122 | 2.35% | (\$180) | -0.38% | \$2,048 | 4.30% |

(1) Excludes depreciation and amortization and non-operating expenses; debt service includes principal.



Connecticut Resources Recovery Authority

Exhibit 8 Continued - Expenses by Function (1)

(Dollars in Thousands)

Wallingford Project

| Fiscal Year | Total Expenses | Solid Waste Operations | % of Annual | Maintenance & Utilities | % of Annual | Project Administration | % of Annual | Landfill Closure & Postclosure | % of Annual | Debt Service | % of Annual |
|-------------|----------------|------------------------|-------------|-------------------------|-------------|------------------------|-------------|--------------------------------|-------------|--------------|-------------|
| | | | | | | | | | | | |
| 1996 | \$14,914 | \$13,226 | 88.68% | \$48 | 0.32% | \$547 | 3.67% | (\$17) | -0.11% | \$1,110 | 7.44% |
| 1997 | \$18,140 | \$14,584 | 80.40% | \$16 | 0.09% | \$552 | 3.04% | \$1,872 | 10.32% | \$1,116 | 6.15% |
| 1998 | \$15,485 | \$14,395 | 92.96% | \$5 | 0.03% | \$545 | 3.52% | (\$572) | -3.69% | \$1,112 | 7.18% |
| 1999 | \$16,458 | \$14,313 | 86.97% | \$5 | 0.03% | \$462 | 2.81% | \$607 | 3.69% | \$1,071 | 6.51% |
| 2000 | \$15,538 | \$13,914 | 89.55% | \$3 | 0.02% | \$564 | 3.63% | \$286 | 1.84% | \$771 | 4.96% |
| 2001 | \$16,208 | \$13,916 | 85.86% | \$1,480 | 9.13% | \$538 | 3.32% | (\$631) | -3.89% | \$905 | 5.58% |
| 2002 | \$19,101 | \$14,753 | 77.24% | \$0 | 0.00% | \$459 | 2.40% | (\$140) | -0.73% | \$4,029 | 21.09% |
| 2003 | \$20,204 | \$15,296 | 75.71% | \$93 | 0.46% | \$439 | 2.17% | \$1,488 | 7.36% | \$2,888 | 14.29% |
| 2004 | \$18,165 | \$15,864 | 87.33% | (\$25) | -0.14% | \$469 | 2.58% | \$264 | 1.45% | \$1,593 | 8.77% |
| 2005 | \$18,239 | \$16,196 | 88.80% | \$6 | 0.03% | \$542 | 2.97% | (\$25) | -0.14% | \$1,520 | 8.33% |

Southeast Project

| Fiscal Year | Total Expenses | Solid Waste Operations | % of Annual | Maintenance & Utilities | % of Annual | Project Administration | % of Annual | Debt Service | % of Annual |
|-------------|----------------|------------------------|-------------|-------------------------|-------------|------------------------|-------------|--------------|-------------|
| | | | | | | | | | |
| 1996 | \$15,088 | \$11,822 | 78.35% | \$1 | 0.01% | \$343 | 2.27% | \$2,922 | 19.37% |
| 1997 | \$15,291 | \$10,937 | 71.53% | \$0 | 0.00% | \$293 | 1.92% | \$4,061 | 26.56% |
| 1998 | \$15,062 | \$11,945 | 79.31% | \$0 | 0.00% | \$327 | 2.17% | \$2,790 | 18.52% |
| 1999 | \$15,672 | \$10,485 | 66.90% | \$0 | 0.00% | \$221 | 1.41% | \$4,966 | 31.69% |
| 2000 | \$13,176 | \$11,643 | 88.37% | \$0 | 0.00% | \$190 | 1.44% | \$1,343 | 10.19% |
| 2001 | \$13,299 | \$11,721 | 88.13% | \$0 | 0.00% | \$255 | 1.92% | \$1,323 | 9.95% |
| 2002 | \$13,923 | \$12,391 | 89.00% | \$0 | 0.00% | \$269 | 1.93% | \$1,263 | 9.07% |
| 2003 | \$12,379 | \$10,678 | 86.26% | \$119 | 0.96% | \$183 | 1.48% | \$1,399 | 11.30% |
| 2004 | \$12,128 | \$10,570 | 87.15% | \$0 | 0.00% | \$169 | 1.39% | \$1,389 | 11.45% |
| 2005 | \$11,710 | \$10,176 | 86.90% | \$0 | 0.00% | \$183 | 1.56% | \$1,351 | 11.54% |

(1) Excludes depreciation and amortization and non-operating expenses; debt service includes principal.



Connecticut Resources Recovery Authority

Exhibit 9 - Revenue Bond Coverage Ratios (Combined)

(Dollars in Thousands)

| Fiscal Year | Gross Revenues (1) | Operating Expenses (2) | Net Revenue Available for Debt Service | Debt Service Requirements | | | Total | Coverage (3) |
|-------------|--------------------|------------------------|--|---------------------------|-----------|-----------|-------|--------------|
| | | | | Principal | Interest | | | |
| 1996 | \$ 151,468 | \$ 101,592 | \$ 49,876 | \$ 23,473 | \$ 24,782 | \$ 48,255 | 1.03 | |
| 1997 | \$ 155,036 | \$ 112,458 | \$ 42,578 | \$ 27,387 | \$ 20,552 | \$ 47,939 | 0.89 | |
| 1998 | \$ 154,537 | \$ 107,328 | \$ 47,209 | \$ 24,173 | \$ 18,968 | \$ 43,141 | 1.09 | |
| 1999 | \$ 154,480 | \$ 109,065 | \$ 45,415 | \$ 19,943 | \$ 17,542 | \$ 37,485 | 1.21 | |
| 2000 | \$ 173,257 | \$ 128,593 | \$ 44,664 | \$ 17,172 | \$ 16,278 | \$ 33,450 | 1.34 | |
| 2001 | \$ 179,840 | \$ 137,056 | \$ 42,784 | \$ 17,234 | \$ 15,776 | \$ 33,010 | 1.30 | |
| 2002 | \$ 161,901 | \$ 141,082 | \$ 20,819 | \$ 21,498 | \$ 13,970 | \$ 35,468 | 0.59 | |
| 2003 | \$ 158,206 | \$ 138,272 | \$ 19,934 | \$ 19,024 | \$ 13,018 | \$ 32,042 | 0.62 | |
| 2004 | \$ 167,195 | \$ 135,482 | \$ 31,713 | \$ 19,353 | \$ 12,482 | \$ 31,835 | 1.00 | |
| 2005 | \$ 173,412 | \$ 137,443 | \$ 35,969 | \$ 21,660 (4) | \$ 10,022 | \$ 31,682 | 1.14 | |

- (1) Includes operating revenues and investment income, excludes non-operating revenues.
- (2) Excludes depreciation and amortization, write off of development costs and interest expense.
- (3) Does not include transfers from reserves and other sources to maintain coverage requirements.
- (4) Excludes early retirement of debt.



Connecticut Resources Recovery Authority

Exhibit 10 - Revenue Bond Ratings

| PROJECT | OUTSTANDING SERIES | MOODYS RATING | STANDARD & POORS RATING | FITCH RATING | BOND INSURER |
|-----------------|---|------------------|-------------------------------|-----------------|-----------------|
| Mid-Connecticut | 1996 Series A | Aaa | AAA | AAA | MBIA |
| Bridgeport | 1999 Series A | Aaa | AAA | AAA | MBIA |
| | 2000 Series A | A3/Aaa | A+/AAA | AAA | MBIA |
| Wallingford | 1998 Series A | Aaa | AAA | AAA | AMBAC |
| Southeast | 1998 Series A | Aaa | AAA | AAA | MBIA |
| | CORPORATE CREDIT REVENUE BONDS: * | | | | |
| | 1992 Series A - Corporate Credit Bonds | | | | |
| | 2001 Series A - Corporate Credit Bonds Covanta ARC LLC - I (f/k/a American Ref-Fuel Company LLC) | | | | |
| | 2001 Series A - Corporate Credit Bonds Covanta ARC LLC - II (f/k/a American Ref-Fuel Company LLC) | | | | |

* The Authority was a conduit issuer for these Bonds. They are not carried on the Authority's books.

Source: www2.standardandpoors.com
www.moodys.com
www.fitchratings.com



Connecticut Resources Recovery Authority

Exhibit 11 - Demographic Information

| Fiscal Year | Mid-Connecticut | | Bridgeport | | Wallingford | | Southeast | |
|-------------|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|------------|
| | Population Served | # of Towns | Population Served | # of Towns | Population Served | # of Towns | Population Served | # of Towns |
| 1996 | 1,049,516 | 64 | 636,438 | 18 | 198,760 | 5 | 277,022 | 17 |
| 1997 | 1,005,714 | 63 | 636,438 | 18 | 198,760 | 5 | 277,022 | 17 |
| 1998 | 1,018,728 | 63 | 640,525 | 18 | 198,851 | 5 | 269,866 | 16 |
| 1999 | 1,088,026 | 67 | 643,194 | 18 | 199,295 | 5 | 263,715 | 16 |
| 2000 | 1,137,468 | 66 | 627,153 | 18 | 209,877 | 5 | 294,111 | 17 |
| 2001 | 1,177,063 | 66 | 633,372 | 18 | 208,360 | 5 | 254,715 | 17 |
| 2002 | 1,184,419 | 70 | 678,550 | 18 | 212,984 | 5 | 258,382 | 15 |
| 2003 | 1,184,419 | 70 | 678,550 | 18 | 212,984 | 5 | 258,382 | 15 |
| 2004 | 1,193,139 | 70 | 680,745 | 18 | 214,584 | 5 | 261,260 | 15 |
| (1) 2005 | 1,199,845 | 70 | 683,657 | 18 | 215,195 | 5 | 264,468 | 15 |

Source: Department of Health Services
 (1) Estimated populations as of July 1, 2004



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