

ULSTER COUNTY RESOURCE
RECOVERY AGENCY
Financial Statements
December 31, 2011 and 2010
(With Independent Auditors' Reports Thereon)

ULSTER COUNTY RESOURCE RECOVERY AGENCY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Ulster County Resource Recovery Agency:

We have audited the accompanying financial statements of Ulster County Resource Recovery Agency (the Agency), a component unit of the County of Ulster, New York, as of and for the years ended December 31, 2011 and 2010, which comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2011 and 2010, and the respective changes in financial position, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 23, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, including compliance with investment guidelines for public authorities and the Agency's investment guidelines. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Toski & Co., CPAs, P.C.

Williamsville, New York
February 23, 2012

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis

December 31, 2011 and 2010

Introduction

The Ulster County Resource Recovery Agency (the Agency) continues its commitment to work with the County, Villages, Towns, and the City of Kingston to find ways to decrease expenses, increase revenues, and make operations more efficient while striving to provide quality solid waste management and recycling services.

The Ulster County Resource Recovery Agency is proud to present its financial statements for the fiscal year 2011. The following three financial statements are presented, including notes to the financial statements:

- Statements of net assets;
- Statements of revenue, expenses, and changes in net assets;
- Statements of cash flows, and notes to financial statements.

The following is a discussion and analysis of the Ulster County Resource Recovery Agency's financial performance providing a narrative overview of the activities for the year ended December 31, 2011. Readers should consider management's discussion and analysis in conjunction with the financial statements, which follow this section.

Financial Highlights

The Agency's net assets (deficit) balance decreased by \$800,000, from \$(8.0) million at December 31, 2010 to \$(7.2) million at December 31, 2011.

Total revenue in 2011 amounted to \$16.3 million, a \$230,000 increase from 2010. During 2011 the Agency experienced a decrease in Municipal Solid Waste (MSW) and Construction & Demolition (C&D) volume. The related decrease in tipping fee revenues was offset by an increase in fuel surcharge revenues. The Agency also experienced a decrease in recycling volumes due to a conversion by its customers to Single Stream Recycling (SSR) collection. However, market conditions for recycling commodities increased favorably compared to 2010, resulting in an increase of \$240,000 in recycling related revenues.

Total expenses of \$14.5 million in 2011 increased by \$830,000 when compared to 2010. The Agency realized a decrease in transportation related costs due to a decrease in volume. However, this was offset due to large increases in long hauler fuel costs, pension costs, and New York State Department of Environmental Conservation (NYSDEC) required expenditures.

ULSTER COUNTY RESOURCE RECOVERY AGENCY
Management's Discussion and Analysis, Continued

Overview of the Financial Statements

Statements of Net Assets

The statements of net assets presents the assets, liabilities, and net assets of the Agency at the end of each year. The purpose of the statements of net assets is to present to the readers of the financial statements a fiscal snapshot of the Agency. From the data presented, readers of the statements of net assets are able to determine the assets available to continue the operations of the Agency. They are also able to determine how much the Agency owes vendors, employees, and others. Finally, the statements of net assets provides a picture of the net assets (assets minus liabilities) and their availability for use by the Agency.

Condensed Statement of Net Assets

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Assets, other than capital assets	\$ 9,967,684	9,585,998
Capital assets	<u>10,131,174</u>	<u>10,163,301</u>
Total assets	\$ <u>20,098,858</u>	<u>19,749,299</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Current liabilities	5,054,352	3,989,390
Long-term liabilities	<u>22,249,505</u>	<u>23,751,410</u>
Total liabilities	<u>27,303,857</u>	<u>27,740,800</u>
Net assets:		
Investments in capital assets, net of capital lease	10,131,174	10,163,301
Unrestricted	2,351,097	3,006,388
Related to outstanding debt	(21,103,445)	(23,278,745)
Landfill postclosure care costs	(3,590,145)	(2,803,410)
Restricted	<u>5,006,320</u>	<u>4,920,965</u>
Total net assets (deficit)	<u>(7,204,999)</u>	<u>(7,991,501)</u>
Total liabilities and net assets	\$ <u>20,098,858</u>	<u>19,749,299</u>

Statements of Revenue, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the statements of net assets are based on the activity presented in the statements of revenue, expenses and changes in net assets. The purpose of the statement is to present the revenue received by the Agency, both operating and nonoperating, and the expenses paid by the Agency, operating and nonoperating, and any other revenue, expenses, gains and losses received or spent by the Agency.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis, Continued

Generally speaking, operating revenues are received for providing goods and services to the various private customers and municipalities that use the Agency's facilities. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Agency.

Statements of Revenue, Expenses,
and Changes in Net Assets

	<u>2011</u>	<u>2010</u>
Revenue:		
Program revenue:		
Grant revenue	\$ 30,024	167,784
Sales of recyclable materials	1,703,145	1,463,344
Solid waste service fees	13,046,628	12,914,289
County net service fees	1,366,153	1,382,894
Other revenue	38,735	27,040
General revenue:		
Investment income	115,966	116,630
Gain on disposal of assets	<u>4,402</u>	<u>2,132</u>
Total revenue	<u>16,305,053</u>	<u>16,074,113</u>
Expenses:		
Facilities and operations - cost of sales and service	10,020,015	9,183,230
General and administrative:		
Salaries and wages	1,812,799	1,642,098
Benefits	977,041	834,149
Administration	531,439	611,701
Depreciation	445,080	606,690
Amortization	61,676	62,708
Interest on long-term debt	<u>672,581</u>	<u>748,384</u>
Total expenses	<u>14,520,631</u>	<u>13,688,960</u>
Increase in net assets	1,784,422	2,385,153
(Increase) reduction in estimated liability for landfill postclosure care costs	(997,920)	1,215,601
Net assets (deficit) at beginning of year	<u>(7,991,501)</u>	<u>(11,592,255)</u>
Net assets (deficit) at end of year	\$ <u>(7,204,999)</u>	<u>(7,991,501)</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY
Management's Discussion and Analysis, Continued

Statements of Cash Flows

The final statement presented by the Agency is the statements of cash flows. The statements of cash flows presents detailed information about the cash activities of the Agency during the year. The first section of the statements of cash flows deals with operating cash flows and shows the net cash provided by the operating activities of the Agency. The second section reflects the cash flows from capital and related financing activities and shows capital construction and capital asset acquisition. The third section reflects principal/interest on capital debt.

Condensed Statements of Cash Flows

	<u>2011</u>	<u>2010</u>
Net cash provided by operating activities	\$ 3,589,315	2,691,555
Net cash used in capital and related financing activities	(3,494,265)	(3,218,009)
Net cash provided by investing activities	<u>115,937</u>	<u>116,627</u>
Net increase (decrease) in cash and equivalents	210,987	(409,827)
Cash and equivalents at beginning of year	<u>4,144,382</u>	<u>4,554,209</u>
Cash and equivalents at end of year	\$ <u>4,355,369</u>	<u>4,144,382</u>

Economic Outlook

The Agency's overall financial position improved during 2011, but continuing changes in the industry remain a concern. The Agency's use of contractual flow control has allowed and will allow volumes to remain high throughout 2012. Most of the Agency's revenue related contracts are due to expire at the end of 2012. These contracts are essential to the Agency in order to keep the net service fee from the County at the current levels. It is vital for the Agency to begin looking at renewing these contracts as part of an Agency-wide five year strategic management plan. If these contracts can't be renewed, other funding mechanisms such as Legislative flow control, user fee system, or Ad Valorem should be investigated. This can be done in conjunction with the Agency's new Solid Waste Management Plan.

Improvements in recycling markets during 2011 produced higher and more consistent returns from sales of recyclables. However, the continuing growth of SSR in Ulster County could leave the Agency with a Materials Recovery Facility (MRF) that is obsolete. The Agency has been able to offset some of the lost volume by bringing in out-of-county dual stream recycling, by introducing an onsite electronics recycling program, and by diverting more recyclable materials out of the waste stream (i.e. metals, cardboard, etc.).

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis, Continued

NYSDEC has continued conducting on-site monitoring of the Agency's facilities. This monitoring activity will continue in 2012 and possibly beyond. The Agency is responsible for the payment of these services. Monitoring of this type can lead to violations with regards to the Agency's transfer station permits, which in turn can have a negative financial impact on the Agency and its operations. The Agency has spent the past year working with the NYSDEC with no major findings.

Overall Analysis

The Agency and its operations are largely driven by volume. When compared to 2010, the Agency's tonnage decreased by 2.6%. This decrease did not have a major impact on revenues as a whole due to an increase in fuel related surcharges. The Agency was able to offset decreases in recycling volume created by an industry change to SSR by contracting with Westchester County, which supplied the Agency with a substantial volume of commingled recycling product. Due to favorable market conditions throughout 2011, the Agency was able generate an increase in Sale of Recyclable revenues for the year.

A significant increase in leachate volumes at the Agency operated closed landfills resulted in a large increase in long-term estimated liability post-closure care costs. This increase is believed to be associated with more precipitation than in the previous year. The Agency contracted with an engineering firm in 2008 to substantiate this belief. During 2011, the Agency contracted with a different engineering firm to continue this work. If this study determines that the leachate is primarily groundwater, the Agency will significantly lower costs and ultimately has a very large reduction in estimated post-closure care costs going forward.

Overall, the Agency was able to maintain a positive financial position throughout 2011, but needs to review all Agency operational options in order to continue this positive trend long-term.

Additional Information

The report is compiled for the use of the Agency's Governing Board, management, appropriate officials of the County of Ulster and State of New York, and members of the public interested in the Agency's affairs. Questions with regard to this financial report or requests for additional information may be addressed to the Controller, Ulster County Resource Recovery Agency, P.O. Box 6219, 999 Flatbush Road, Kingston, New York 12402.

ULSTER COUNTY RESOURCE RECOVERY AGENCY
 Statements of Net Assets
 December 31, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and equivalents	\$ 4,355,369	4,144,382
Investments	2,542,949	2,542,949
Receivables, net of allowance of \$92,000 in 2011 and \$73,000 in 2010	1,261,496	1,141,931
Accrued interest	38,718	38,689
Due from Ulster County	1,366,153	1,382,894
Prepaid expense	<u>396,287</u>	<u>323,737</u>
Total current assets	9,960,972	9,574,582
Discount at issue	6,712	11,416
Capital assets, net	<u>10,131,174</u>	<u>10,163,301</u>
Total assets	<u>\$ 20,098,858</u>	<u>19,749,299</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	1,180,360	820,004
Deferred revenue	817,260	374,777
Host community benefits payable	15,771	15,800
Other payables	130,847	69,447
Current installments of long-term debt	2,250,000	2,175,000
Current portion of landfill post closure care costs	211,185	155,745
Current portion of workers compensation assessment	29,600	-
Compensated absences	<u>419,329</u>	<u>378,617</u>
Total current liabilities	5,054,352	3,989,390
Long-term debt, excluding current installments	18,853,745	21,103,745
Landfill post closure care costs, excluding current portion	3,378,960	2,647,665
Workers compensation assessment, excluding current portion	<u>16,800</u>	<u>-</u>
Total liabilities	<u>27,303,857</u>	<u>27,740,800</u>
Net assets:		
Investments in capital assets, net of capital lease	10,131,174	10,163,301
Restricted for:		
General operating costs	1,366,153	1,382,894
Landfill closure	96,124	105,120
Debt repayment	3,544,043	3,432,951
Unrestricted (deficit)	<u>(22,342,493)</u>	<u>(23,075,767)</u>
Total net assets	<u>(7,204,999)</u>	<u>(7,991,501)</u>
Total liabilities and net assets	<u>\$ 20,098,858</u>	<u>19,749,299</u>

See notes to accompanying financial statements.

ULSTER COUNTY RESOURCE RECOVERY AGENCY
 Statements of Revenue, Expenses and Changes in Net Assets
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenue:		
Charges for sales and services:		
Sales of recyclable materials	\$ 1,703,145	1,463,344
Solid waste service fees	13,046,628	12,914,289
County net service fees	1,366,153	1,382,894
Other revenue	<u>38,735</u>	<u>27,040</u>
Total operating revenue	<u>16,154,661</u>	<u>15,787,567</u>
Operating expenses:		
Costs of sales and services	10,020,015	9,183,230
Salaries and wages	1,812,799	1,642,098
Benefits	977,041	834,149
Administration	531,439	611,701
Depreciation	445,080	606,690
Amortization	<u>61,676</u>	<u>62,708</u>
Total operating expenses	<u>13,848,050</u>	<u>12,940,576</u>
Operating income	<u>2,306,611</u>	<u>2,846,991</u>
Nonoperating revenue (expenses):		
Investment income	115,966	116,630
Grant revenue	30,024	167,784
Interest expense	(672,581)	(748,384)
Gain on disposal of assets	<u>4,402</u>	<u>2,132</u>
Total nonoperating revenue (expenses)	<u>(522,189)</u>	<u>(461,838)</u>
Increase in net assets	1,784,422	2,385,153
(Increase) reduction in estimated liability for landfill post closure care costs	(997,920)	1,215,601
Net assets (deficit) at beginning of year,	<u>(7,991,501)</u>	<u>(11,592,255)</u>
Net assets (deficit) at end of year	<u><u>\$ (7,204,999)</u></u>	<u><u>(7,991,501)</u></u>

See accompanying notes to financial statements.

ULSTER COUNTY RESOURCE RECOVERY AGENCY
 Statements of Cash Flows
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from services	\$ 16,494,320	15,235,790
Payments to suppliers	(10,215,251)	(10,085,676)
Payment to employees	<u>(2,689,754)</u>	<u>(2,458,559)</u>
Net cash provided by operating activities	<u>3,589,315</u>	<u>2,691,555</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(482,320)	(112,639)
Proceeds from disposal of assets	16,797	5,339
Grant revenue	30,024	167,784
Landfill post closure care costs	(211,185)	(155,745)
Principal paid on long-term debt	(2,175,000)	(2,374,364)
Interest paid on long-term debt	<u>(672,581)</u>	<u>(748,384)</u>
Net cash used in capital and related financing activities	<u>(3,494,265)</u>	<u>(3,218,009)</u>
Cash flows from investing activities - investment income received	<u>115,937</u>	<u>116,627</u>
Net increase (decrease) in cash and equivalents	210,987	(409,827)
Cash and equivalents at beginning of year	<u>4,144,382</u>	<u>4,554,209</u>
Cash and equivalents at end of year	<u>\$ 4,355,369</u>	<u>4,144,382</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	2,306,611	2,846,991
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	445,080	606,690
Amortization expense	61,676	62,708
Changes in:		
Receivables	(119,565)	(158,321)
Due from Ulster County	16,741	15,360
Prepaid expenses	(72,550)	(37,052)
Accounts payable and other payables	421,727	(253,673)
Workers compensation assessment	46,400	-
Deferred revenue	442,483	(408,816)
Compensated absences	<u>40,712</u>	<u>17,668</u>
Net cash provided by operating activities	<u>\$ 3,589,315</u>	<u>2,691,555</u>

See accompanying notes to financial statements.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements

December 31, 2011 and 2010

(1) Organization

The Ulster County Resource Recovery Agency (the Agency), a Public Benefit Corporation, was established on December 31, 1986, for the purpose of establishing a solid waste management plan, and to develop, finance, construct, and operate facilities and projects to implement the plan in the County of Ulster, New York (the County). On December 14, 1992, the Agency began landfill operations under its interim “landfill consolidation plan” at the Town of New Paltz landfill. In February 1993 and May 1993, commencement of landfill operations under this plan began at the towns of Ulster and Lloyd, respectively. All three landfill operations were closed as of December 31, 1996. As of January 1, 1997, the Agency started transporting solid waste to other counties.

(2) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

The Agency is governed by Article 13-g of the Public Authorities Law (Act) and other laws of the State of New York, as indicated in such Act. The governing body is referred to herein as the “Board of Directors.” The scope of activities included within the accompanying financial statements are those transactions which comprise Agency operations, and are governed by, or significantly influenced by, the Board of Directors.

The financial reporting entity includes all funds, functions and organizations over which the Agency officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. No other governmental organizations have been included or excluded from the reporting entity.

The Agency is considered a component unit of the County and is included in the financial statements of the County. The Agency’s Board of Directors is appointed by the Chairperson of the County Legislature and confirmed by the Legislature as a whole, for terms of three years. As such, the County can impose its will indirectly on the Agency.

The accompanying basic financial statements of the Agency have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(a) Financial Reporting Entity, Continued

The Agency reports as a special purpose government engaged in business-type activities, as defined by GASB Statement No. 34. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The basic financial statements of the Agency consist of statements of net assets, statements of revenue, expenses, and changes in net assets, that distinguishes between operating and nonoperating revenues and expenses, and statements of cash flows, using the direct method of presenting cash flows from operations. The business type activity presentation includes all of the Agency's funds and account groups.

The Agency's policy for defining operating activities in the statements of revenue, expenses, and changes in net assets are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities in accordance with GASB No. 34. These nonoperating activities include the Agency's operating revenues from net investment income, grant revenue, interest expense and gains from the disposal of assets.

GASB Statement No. 34 requires that resources be classified for accounting and financial reporting purposes into the following four net asset categories:

- Invested in capital assets, net of related debt - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets. See unrestricted below.
- Restricted - Net assets with constraints placed on their use either by (1) external groups such as creditors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted - All other categories of net assets. Included in unrestricted net assets are amounts not available for other purposes. The liability for debt is shown as a reduction of unrestricted since it was not possible to distinguish the amount that is related to capital assets.

(b) Budgetary Policies

The budget policies are as follows:

- Agency administration compiles a proposed budget for approval by the Board of Directors by August of each year for the ensuing year consistent with accounting principles generally accepted in the United States of America.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(b) Budgetary Policies, Continued

- The budget is then submitted to the County Executive for review. This is followed by a public hearing process. Finally, the budget is adopted in October of each year by the Board of Directors.

(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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(d) Cash and Equivalents

For financial statement purposes, the Agency considers all highly liquid investments with maturities of three months or less to be cash equivalents. Due to debt service reserve requirements, varying amounts of cash equivalents may need to be restricted throughout the year

(e) Receivables and Allowance for Doubtful Accounts

Receivables are stated at the amount management estimates will be collected on outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable.

(f) Capital Assets

Capital assets are stated at cost, or in the case of gifts, fair value at the date of the receipt. The Agency's policy is to capitalize equipment which has a cost in excess of \$1,000 and has a useful life of at least three years. Building renovations, building additions, machinery and equipment, heavy equipment, computers, software, vehicles, trailers, and furniture and fixtures with a unit cost of greater than \$1,000 are capitalized. Agency capital assets, with the exception of land, are depreciated on a straight-line basis over their useful lives, which range from 3 to 50 years.

(g) Interfund Transfers

During the course of operations, the Agency has numerous transactions between funds, including expenditures and transfers of revenues to provide services, construct assets, and repay debt. This interfund activity has no effect on the basic financial statements as a whole, and therefore, was eliminated from the entity wide financial statements.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(h) Fund Equity

Reserves and Designations - Portions of fund equity are segregated for future use; and are, therefore, not available for current appropriation or expenditure. Designation of unreserved fund balances in governmental funds indicates the utilization of these resources in the ensuing year's budget or tentative plans for future use.

Restricted/Unrestricted Resources - If an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the policy is to follow Board of Directors resolution when deciding which assets to use.

(i) Advertising Costs

Advertising costs are expensed as incurred.

(j) Subsequent Events

The Agency has evaluated events after December 31, 2011, and through February 23, 2012, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(3) Capital Assets

Capital asset activity for the years ended December 31, 2011 and 2010 is as follows:

	<u>2011</u>			
	<u>Beginning</u> <u>balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>balances</u>
Land	\$ 683,172	-	-	683,172
Buildings	10,049,866	217,886	(61,976)	10,205,776
Machinery and equipment	3,297,556	37,502	(116,440)	3,218,618
Trailers	446,675	-	(44,150)	402,525
Computers	36,517	7,761	(3,297)	40,981
Software	29,127	-	-	29,127
Vehicles	1,320,712	-	(47,632)	1,273,080
Furniture and fixtures	68,715	-	-	68,715
Infrastrure	-	6,046	-	6,046
Construction-in-process	39,221	213,125	-	252,346
Bond issuance costs	<u>569,722</u>	<u>-</u>	<u>-</u>	<u>569,722</u>
Total capital assets	<u>16,541,283</u>	<u>482,320</u>	<u>(273,495)</u>	<u>16,750,108</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(3) Capital Assets, Continued

Less accumulated depreciation and amortization

	2011			
	<u>Beginning balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balances</u>
Buildings	\$ 1,876,372	264,082	(49,581)	2,090,873
Machinery and equipment	2,446,595	98,102	(116,440)	2,428,257
Trailers	421,167	19,769	(44,150)	396,786
Computers	21,415	6,799	(3,297)	24,917
Software	28,589	538	-	29,127
Vehicles	1,133,988	53,833	(47,632)	1,140,189
Furniture and fixtures	58,951	1,806	-	60,757
Infrastructure	-	151	-	151
Bond issuance costs	<u>390,905</u>	<u>56,972</u>	<u>-</u>	<u>447,877</u>
Total accumulated depreciation and amortization	<u>6,377,982</u>	<u>502,052</u>	<u>(261,100)</u>	<u>6,618,934</u>
Capital assets, net	\$ <u>10,163,301</u>	<u>(19,732)</u>	<u>(12,395)</u>	<u>10,131,174</u>
	2010			
	<u>Beginning balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balances</u>
Land	\$ 683,172	-	-	683,172
Buildings	10,033,692	16,174	-	10,049,866
Machinery and equipment	3,257,668	59,135	(19,247)	3,297,556
Trailers	446,675	-	-	446,675
Computers	35,012	1,505	-	36,517
Software	29,127	-	-	29,127
Vehicles	1,390,437	28,687	(98,412)	1,320,712
Furniture and fixtures	68,715	-	-	68,715
Construction-in-process	32,083	7,138	-	39,221
Bond issuance costs	<u>569,722</u>	<u>-</u>	<u>-</u>	<u>569,722</u>
Total capital assets	<u>16,546,303</u>	<u>112,639</u>	<u>(117,659)</u>	<u>16,541,283</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(3) Capital Assets, Continued

Less accumulated depreciation and amortization

	2010			
	<u>Beginning balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balances</u>
Buildings	\$ 1,616,768	259,604	-	1,876,372
Machinery and equipment	2,219,611	243,024	(16,040)	2,446,595
Trailers	393,112	28,055	-	421,167
Computers	15,542	5,873	-	21,415
Software	27,510	1,079	-	28,589
Vehicles	1,165,151	67,249	(98,412)	1,133,988
Furniture and fixtures	57,145	1,806	-	58,951
Bond issuance costs	<u>333,933</u>	<u>56,972</u>	<u>-</u>	<u>390,905</u>
Total accumulated depreciation and amortization	<u>5,828,772</u>	<u>663,662</u>	<u>(114,452)</u>	<u>6,377,982</u>
Capital assets, net	<u>\$ 10,717,531</u>	<u>(551,023)</u>	<u>(3,207)</u>	<u>10,163,301</u>

(4) Cash Equivalents and Investments

The Agency's investment policies are governed by New York State statutes and the Agency's investment policy adopted August 6, 1993. Cash equivalents and investments at year-end were either fully insured by Federal Deposit Insurance Corporation (FDIC) and/or are collateralized with U.S. government obligations held in the Agency's custodial bank in the Agency's name. Coverage was less than 100% of the balances on deposit. Investments consist primarily of guaranteed investment contracts (GICs) purchased directly by the Agency. Cash equivalents and investments are categorized into these three categories of custodial risk:

- (1) Insured or registered, or investments held by the Agency, or the Agency's agent in the Agency's name.
- (2) Uninsured and unregistered, with the investments held by the financial institution's trust department or agent in the Agency's name.
- (3) Uninsured and unregistered, with investments held by the financial institution or its trust department or agent, but not in the Agency's name.

ULSTER COUNTY RESOURCE RECOVERY AGENCY
Notes to Financial Statements, Continued

(4) Cash Equivalents and Investments, Continued

At December 31, 2011, the Agency's cash equivalents and investment balances were as follows:

	<u>Category</u>			Reported amount/ <u>fair value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash and equivalents	\$ 2,101,454	2,253,915	-	4,355,369
Investments	<u>-</u>	<u>2,542,949</u>	<u>-</u>	<u>2,542,949</u>
Total	<u>\$ 2,101,454</u>	<u>4,796,864</u>	<u>-</u>	<u>6,898,318</u>

At December 31, 2010, the Agency's cash equivalents and investment balances were as follows:

	<u>Category</u>			Reported amount/ <u>fair value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash and equivalents	\$ 1,848,343	2,296,039	-	4,144,382
Investments	<u>-</u>	<u>2,542,949</u>	<u>-</u>	<u>2,542,949</u>
Total	<u>\$ 1,848,343</u>	<u>4,838,988</u>	<u>-</u>	<u>6,687,331</u>

(5) Retirement Plan

The Agency is a participant in the New York State Retirement System (the System). Employees had the option to buy past service credits with the retirement system at no cost to the Agency. This is a cost sharing multiple public employer cost-sharing retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12236.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(5) Retirement Plan, Continued

Funding Policy

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership and employees who joined on or after January 1, 2010 who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressed used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. Employer contribution rates were 15.8% and 12.7% of salaries for the year ended December 31, 2011 and 11.3% for year ended December 31, 2010. Contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows:

2011	\$ 353,215
2010	275,908
2009	199,007

(6) Long-Term Debt

Long-term debt at December 31, 2011 and 2010 consists of the following:

(a) Long-Term Debt

Serial bonds, term bonds, capital appreciation bonds, and long-term notes - The Agency borrows money in order to acquire or construct assets or to pay for landfill closure costs. This enables the cost of these capital assets to be borne by the present and future users, who will benefit from the capital assets. The assets of the Agency have been pledged as security for the outstanding debt.

(b) Changes

The changes in the Agency's indebtedness during the years ended December 31, 2011 and 2010 are summarized as follows:

	2011			Balances December 31
	Balances January 1	Additions	Payments	
Term notes	\$ 905,000	-	(120,000)	785,000
Term bonds	3,504,990	-	(660,000)	2,844,990
Serial bonds	13,420,000	-	(1,395,000)	12,025,000
Capital appreciation bonds	<u>5,448,755</u>	-	-	<u>5,448,755</u>
Total	<u>\$ 23,278,745</u>	<u>-</u>	<u>(2,175,000)</u>	<u>21,103,745</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY
Notes to Financial Statements, Continued

(6) Long-Term Debt, Continued

(b) Changes, Continued

	2010			Balances December 31
	Balances January 1	Additions	Payments	
Term notes	\$ 1,020,000	-	(115,000)	905,000
Term bonds	4,154,990	-	(650,000)	3,504,990
Serial bonds	15,015,000	-	(1,595,000)	13,420,000
Capital appreciation bonds	5,448,755	-	-	5,448,755
Capital leases	14,364	-	(14,364)	-
Total	\$ 25,653,109	-	(2,374,364)	23,278,745

(c) Maturity

The following is a summary of maturity of indebtedness as of December 31, 2011:

<u>Description of issue</u>	<u>Issue date</u>	<u>Final maturity</u>	<u>Interest rate</u>	<u>Outstanding at 12/31/11</u>
Term bonds	03/10/1999	03/01/2014	2.20%	\$ 1,319,990
Term bonds	12/30/1998	08/01/2016	2.23%	365,000
Term bonds	07/01/1999	03/01/2017	2.20%	1,160,000
Term note	05/01/2000	03/01/2017	2.82%	785,000
Serial bonds	12/18/2002	03/01/2018	3.75 - 5.25%	10,435,000
Serial bonds	07/21/2006	03/01/2021	4.50 - 5.00%	1,590,000
Capital appreciation bonds	12/18/2002	03/01/2025	4.96 - 5.29%	5,448,755
Total long-term debt				\$ 21,103,745

The maturities of these issues as of December 31, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,250,000	599,903	2,849,903
2013	2,320,000	524,153	2,844,153
2014	2,404,990	443,747	2,848,737
2015	2,030,000	363,806	2,393,806
2016	2,100,000	276,015	2,376,015
2017- 2021	6,836,475	3,374,022	10,210,497
2022 - 2026	3,162,280	6,252,719	9,414,999
	\$ 21,103,745	11,834,365	32,938,110

Interest payments are higher in later years. The capital appreciation bonds accrue interest but do not have scheduled payments.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(6) Long-Term Debt, Continued

(d) Advance Refunding of Debt

The Agency entered into agreements in prior years with M & T Bank (as escrow agent) for the advance refunding of bonds. The purpose of this advance refunding was to reduce aggregate debt service payments. M & T Bank is Trustee of the escrow funds paid to them by the Agency for the payment of the debt. The balances of the defeased bonds (2000 bond issue) not yet paid at December 31, 2011 amounted to \$3,645,000.

The escrow assets and liabilities for the defeased obligations are not included in the Agency's financial statements. Any differences between the cash flow requirements of the defeased debt and replacement debt are unknown.

(7) Unrestricted Deficit

The Agency's net unrestricted deficit as of December 31, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
General unrestricted	\$ 2,199,305	2,854,596
Insurance reserve	151,792	151,792
Related to outstanding debt	(21,103,445)	(23,278,745)
Landfill post-closure care costs	<u>(3,590,145)</u>	<u>(2,803,410)</u>
	<u>\$ (22,342,493)</u>	<u>(23,075,767)</u>

(8) Compensated Absences

Employees of the Agency are entitled to reimbursement of unused sick and vacation time at the time of retirement or other termination of service. The Agency's policy is to accrue the cost of compensated absences as earned and vested by the Agency's employees. This amount is included as a payable in the accompanying statements of net assets in the amount of \$419,329 and \$378,617 as of December 31, 2011 and 2010, respectively.

(9) Contingencies

Contingencies at December 31, 2011 consist of the following:

(a) Risk Financing and Related Insurance

The Agency maintains insurance policies with commercial insurers. It supplements this insurance coverage through the insurance reserve fund. The Agency's deductible for environmental liability insurance is \$100,000. Other deductibles for various policies range from \$1,000 to \$5,000 for each event. The Board of Directors authorize the amount that is in this insurance reserve fund to ensure that there are sufficient monies to pay deductibles.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(9) Contingencies, Continued

(a) Risk Financing and Related Insurance, Continued

The balances in the insurance reserve at December 31, 2011 and 2010 amounted to \$151,792. The reserved monies are maintained in a separate account. There were no claims paid out of this fund in 2011 or 2010.

The reserve's objectives are to formulate, develop, and administer a program of insurance to obtain lower costs for coverage, and to develop a comprehensive loss control program. If the insurance reserve's assets were to be exhausted, the Agency would be responsible for the insurance reserve's liabilities. The Agency uses insurance agreements to reduce its exposure to large losses on insured events.

Insurance permits recovery of a portion of losses from the insurer, although it does not discharge the liability of the insurance reserve as direct insurer of the risks insured. The insurance reserve establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The Agency has obtained an environmental impairment policy. Should this policy be discontinued for any reason, this will impact the insurance reserve's funding requirements. Liabilities for future claims of this nature are not reasonably estimated at this time.

(b) Landfill Closure and Post-Closure Care Costs

New York State and Federal laws required the Agency to place a final cover on its landfill sites when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Agency is currently in the post-closure phase at each of the landfills. The post-closure period goes throughout the year 2028. In 2010, the annual post-closure monitoring and maintenance cost for all three landfills was \$155,745. In 2010, a study was performed to analyze the projected costs. Current projections prepared by the Agency, of annual post-closure monitoring and maintenance costs for all three landfills, are \$211,185 for each of the remaining 17 years as follows:

	<u>Ulster landfill</u>	<u>New Paltz landfill</u>	<u>Lloyd landfill</u>	<u>Total</u>
Environmental monitoring	\$ 7,500	5,650	6,800	19,950
Leachate disposal	62,525	112,513	1,750	176,788
Facility maintenance	<u>8,495</u>	<u>2,508</u>	<u>3,444</u>	<u>14,447</u>
Total annual cost	\$ <u>78,520</u>	<u>120,671</u>	<u>11,994</u>	<u>211,185</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(9) Contingencies, Continued

(b) Landfill Closure and Post-Closure Care Costs, Continued

The liability for landfill post-closure care costs at December 31, 2011 consists of the following:

Total annual cost	\$ 211,185
Remaining years	<u>17</u>
Total liability	3,590,145
Less current portion	<u>(211,185)</u>
Landfill post-closure care costs, excluding current portion	\$ <u>3,378,960</u>

(c) Workers' Compensation Assessment

For the years 1999-2007, the Agency participated in a Workers' Compensation Trust that became inactive on December 31, 2008. The Trust has seen adverse claims development for the years in which the Agency was a member. Due to the continuation of these claims, the Trust's reserves were weakened and assessments have now been required. As a Member of the Trust, the Agency is legally obligated to meet this assessment demand as part of our joint & several liability agreements under the NYS Workers' Compensation Law, the Trust Agreement, and the Indemnity Agreement the Agency executed upon joining the Trust. The Agency's membership obligations exist until all claims of the Trust are liquidated or transferred to an insurance carrier. Agency obligations amounted to \$51,360 and \$46,400 as of December 31, 2010 and 2011, respectively.

(d) Litigation

In the normal course of business, it is not uncommon for the Agency to incur litigation surrounding certain events. There are outstanding lawsuits involving amounts that have been filed against the Agency. Based on the facts presently known, management and in-house legal counsel do not expect these matters to have a material adverse effect on the Agency's financial condition or results of operations.

(10) Concentrations of Credit Risk

The Agency has a credit risk with respect to receivables, due to its concentration of customers within a single industry and the possible affect of economic factors in a single geographic area.

(11) Related Party Transactions

As part of the agreement between the County and the Agency, the County will provide the Agency each year with net service funds to assist with operating expenses incurred by the Agency. County net service fees amounted to \$1,366,153 and \$1,382,894 for the years ended December 31, 2011 and 2010, respectively. The amount due from Ulster County amounted to \$1,366,153 and \$1,382,894 at December 31, 2011 and 2010, respectively.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(12) Deferred Revenue

As of December 31, 2011 and 2010, the Agency had deferred revenue amounting to \$817,260 and \$374,777, respectively. This balance consisted of a deposit from a customer as part of an agreement to dispose of municipal solid waste, including construction and demolition debris, at the Agency's transfer stations. The Agency has agreed to accept a maximum of 300 tons of trailer transported waste, plus a minimum of 250 tons of non-trailer transported waste per week.

The original agreement, covered the period January 1, 2004 through December 31, 2006 and was amended and extended to cover the period January 1, 2007, through December 31, 2009. A second amendment and extension covers the period January 1, 2010, through December 31, 2012.

The customer was required to place an initial deposit of \$671,000 with the Agency which was reduced each week for the cost of the waste disposed during that week. As part of the agreement, the customer was not to exceed the cost of the remaining balance and was required to replenish the deposit amount with an amount equal to the disposal cost of 11,000 tons of solid waste within ten business days of the remaining deposit balance reaching \$40,000.

The first agreement extension set new rates for municipal solid waste and added non-compacted roll-off solid waste as a separate type of waste covered by the prepaid arrangement. Under the modified agreement, the customer was required to submit an initial deposit of \$930,000 with the Agency. Thereafter, the customer was required to deposit with the Agency sufficient funds to cover the disposal cost of 15,000 tons of solid waste computed at the rate of disposal for trailer transported solid waste. The customer was also required to place an additional deposit sufficient to cover the disposal cost of 4,000 tons of non-compacted roll-off solid waste with an initial deposit of \$308,000. The deposit would be reduced each week for the cost of roll-off solid waste disposed during that week. As part of the agreement, the customer was not to exceed the cost of the remaining balance and was required to replenish the deposit with an amount equal to the disposal cost of 4,000 tons of non-compacted roll-off solid waste within ten business days of the deposit balance reaching \$15,000.

Under the second modified agreement, the customer is required to submit an initial deposit of \$967,500 with the Agency. As part of the agreement, the customer is not to exceed the cost of the remaining balance and is required to replenish the deposit amount with an amount equal to the disposal cost of 15,000 tons of solid waste within ten business days of the remaining deposit balance reaching \$200,000. The customer will also be required to place an additional deposit sufficient to cover the disposal cost of 4,000 tons of non-compacted roll-off solid waste with an initial deposit of \$298,000. All other parts of the prior agreement remain in effect.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(13) Grant Revenue

The Agency received grant revenue from two different sources for programs as follows:

(a) Municipal Waste Reduction and Recycling Program

This program is funded by the New York State Department of Environmental Conservation's Environmental Protection Fund. In accordance with Ulster County's Mandatory Source Separation and Recycling Law, the Agency continues to develop its programs with regards to waste reduction and recycling education. Grant revenue received represents a 50% reimbursement of Agency disbursements with regards to operating this program. No funds were received for this program during the year ended December 31, 2011. The Agency received \$147,531 for this program during the year ended December 31, 2010.

(b) Household Hazardous Waste State Assistance Program

This program is funded by the New York State Department of Environmental Conservation's Environmental Protection Fund. The Agency administers household hazardous waste events several times per year. This collection provides a safe disposal alternative for electronics, hazardous pesticides, solvents and other household chemicals to the residents of Ulster County. Grant revenue received represents a 50% reimbursement of Agency disbursements with regards to operating these events. The Agency received \$30,024 and \$20,253 for this program during the year ended December 31, 2011 and 2010, respectively.